

The Report of the Audit Committee

The Audit Committee met on 30 June, 2011. Present:- County Councillor Roger Harrison-Topham (Chairman); County Councillors Margaret-Ann de Coursey-Bayley, Mike Jordan, Robert Heseltine and Patrick Mulligan; and External Members of the Committee: Mr James Daghish and Mr David Portlock.

The Audit Committee met again on 29 September, 2011. Present:- County Councillor Patrick Mulligan (Chairman); County Councillors Karl Arthur, Bernard Bateman MBE (as Substitute for Mike Jordan), Bill Chatt, Margaret-Ann de Coursey-Bayley, Roger Harrison-Topham, Robert Heseltine and Peter Sowray (as Substitute for Chris Pearson); and External Members of the Committee: Mr Henry Cronin and Mr James Daghish.

1. Local Code of Corporate Governance: Various revisions to the County Council's Local Code of Corporate Governance have been considered by the Audit Committee. In particular, references to the Management Board Role and Protocol are proposed for inclusion, together with text to reflect the pending impact of the Localism Bill when it becomes legislation. The revised Local Code is set out at Appendix 1.

The Audit Committee RECOMMENDS:

That the revised Local Code of Corporate Governance, as set out at Appendix 1, be approved.

2. Annual Report of the Audit Committee: A copy of the annual report of the Audit Committee is set out at Appendix 2. 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. The Committee, in adopting the appended annual report, requested that its gratitude be recorded to the Committee's three External Members for the excellent contribution they have each made, during the year, to the work of the Committee. A copy of the Audit Committee's terms of reference is attached at Appendix A to Appendix 2 for information.

The Audit Committee RECOMMENDS:

That the annual report of the Audit Committee, as set out at Appendix 2, be noted.

ROGER HARRISON-TOPHAM
Chairman as at 30 June 2011

PATRICK MULLIGAN
Chairman as at 29 September 2011

County Hall
NORTHALLERTON

4 October 2011

Local Code of Corporate Governance

Approved by Audit Committee 30 June 2011

Adopted by County Council 12 October 2011

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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 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 focus and a commitment to partnership working, and it 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 These principles reflected in this Policy will also be applied to the North Yorkshire Pension Fund and any company in which the County Council has a substantive equity holding.

3.0 THE SIX PRINCIPLES OF CORPORATE GOVERNANCE

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

- focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- developing the capacity and capability of Members and Officers to be effective
- engaging with local people and other stakeholders to ensure robust public accountability

3.2 This Code addresses these six 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* (2010)

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* (2010).

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 1 : Focussing on the purpose of the County Council and on outcomes for the community, and creating and implementing a vision for the local area

- 4.1 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. The County Council will publish annually -
- a Council Plan
 - a Sustainable Community Strategy in conjunction with local partners
 - a Statement of Final Accounts together with the Annual Governance Statement
- 4.2 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.
- 4.3 In 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.
- 4.4 In 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 authority meets its policy and service objectives and provides effective stewardship of public money in its use
 - ensure that the authority 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
- 4.5 The County Council will also seek to address any concerns or failings in service delivery by adhering to and promoting its Complaints Procedure.

Core Principle 2 : Members and Officers working together to achieve a common purpose with clearly defined functions and roles

- 4.6 To ensure accountability the Constitution of the County Council defines the roles and responsibilities of both the Council's executive and non-executive functions. In particular, the Constitution -
- clearly defines the role of the Executive and Executive Members
 - also defines the respective roles of other Members, Members generally and of Senior Officers
 - defines the statutory roles of the Head of Paid Service, Section 151 Officer and the Monitoring Officer
 - sets out a Protocol to address the working relationship between the Leader and the Chief Executive which enables each to fulfil their respective roles
 - sets out a Protocol on Member / Officer relations which is the framework for effective working together
 - includes Schemes of Delegation for both Members and Officers
 - includes Procedure Rules in relation to staff employment, contracts / procurement, finance and property that are reviewed annually
 - empowers an Independent Remuneration Panel that considers Members' allowances
 - requires appropriate governance arrangements for partnerships
 - the Constitution is kept under regular review
- 4.7 To demonstrate compliance with the CIPFA Statement on the *Role of the Chief Financial Officer* the County Council will -
- ensure that the Chief Financial Officer (CFO) * reports directly to the Chief Executive and is a member of the Management Board with a status at least equivalent to other members
 - ensure that the authority's governance arrangements allow the CFO direct access to the Chief Executive and to other Management Board members
 - appoint a professionally qualified CFO whose core responsibilities include those set out in the Statement on the *Role of the Chief Financial Officer* and ensure that they are properly understood throughout the authority

* the Corporate Director – Finance and Central Services fulfils the role of CFO as defined in the CIPFA Statement.

- ensure that the CFO :
 - leads the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and use appropriately, economically, efficiently and effectively
 - has a line of professional accountability for finance staff throughout the organisation
- ensure that budget calculations are robust and reserves adequate, in line with CIPFA's guidance
- ensure that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including partnership arrangements, outsourcing or where the authority is acting in an enabling role
- establish a medium term business and financial planning process to deliver strategic objectives including:
 - a medium term financial strategy to ensure sustainable finances
 - a robust annual budget process that ensures financial balance
 - a monitoring process that enables this to be delivered
- ensure that these are subject to regular review to confirm the continuing relevance of assumptions used

Core Principle 3 : Promoting values for the County Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour

4.8 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 -

- Member Code of Conduct and Complaints procedure *
- Guidance Protocol re Members' Code of Conduct *
- Officer Code of Conduct
- Local / National Teachers' Code of Conduct

* The Localism Bill will change the requirements on local authorities in relation to the ethical framework and requirements to have a statutory Code of Conduct. However, local arrangements are being developed to ensure the County Council fulfills its new responsibility under the proposed legislation to promote high standards of ethical conduct, and this will include the adoption of a new local Code of Conduct.

- Protocol on Officer/Member Relations
- Code of Conduct for Planning
- Ethical Behaviour Statements
 - Leader
 - Chief Executive
- Staff and Member Registers of Interest
- ICT Code of Practice and Protocols on ICT use for Members and Officers
- Whistleblowing policy
- Counter Fraud Strategy
- Anti-Money Laundering Policy
- Officers' Register of Gifts & Hospitality
- Equality Policy Statement
- Communication Strategy
- Partnership Protocol
- Procurement Strategy

In addition a statement regarding the Management Board Role and Protocol is under consideration for formal adoption in 2011/12.

- 4.9 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.
- 4.10 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.
- 4.11 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 regularly, develops initiatives to promote high ethical standards, is involved in ensuring the training of all Members on standards, and monitors compliance against the national Code of Conduct for Councillors. The Committee is also responsible for the handling of complaints that Members may have breached the Code. These provisions will be reviewed in 2011/12 in view of the changes to be brought about by the Localism legislation once it is enacted.
- 4.12 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 4 : Taking informed transparent decisions which are subject to effective scrutiny and managing risk

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

- all meetings of the Council and its Committees are open to the public
- having a formal Constitution which details the decision making process and the procedures required to support the transparency and accountability of decisions made
- an effective scrutiny function
- comprehensive recording of all decisions taken and the reasons for those decisions
- maintenance of registers to record potential conflicts of interest, attendance etc
- an independent Audit Committee
- a properly constituted Standards Committee
- a transparent complaints procedure
- Area Committees that have the flexibility to co-opt local representatives
- Member development programme
- provision of timely and relevant information to all interested parties
- involvement of legal, financial or other specific service expertise to inform decision-making
- an embedded risk management culture
- effective whistleblowing and counter fraud procedures
- implementation of all specific legislative requirements placed upon the County Council
- a comprehensive Information Governance Framework in compliance with accredited standards; this Framework will include the protection of sensitive and commercial data

4.14 In relation to its financial management arrangements, the County Council will -

- ensure an effective internal audit function is resourced and maintained
- ensure that its governance arrangements allow the CFO direct access to the Audit Committee and External Auditor
- ensure 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
- ensure the authority'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

- ensure the authority's arrangements for financial and internal control and for managing risk are addressed in annual governance reports
 - ensure the authority 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
- 4.15 Based on the above, in terms of policy and decision making, the Executive is supported at all times by professional advice that addresses all relevant legal, financial and resourcing issues. At the same time, risk management processes operate so as to ensure that the risk and impact of decisions are fully assessed.
- 4.16 The Council operates a scrutiny framework, supported by a separate officer group, that enables decisions by the Executive to be challenged or influenced by the rest of the County Council's Members.

Core Principle 5 : Developing the capacity and capability of Members and Officers to be effective

- 4.17 The County Council is continually seeking to develop the capacity and capability of 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.
- 4.18 The County Council aims to achieve this by -
- organising Member and employee induction programmes
 - a Workforce Plan that addresses issues such as recruitment, succession planning, flexible working and other people management issues
 - providing career structures to encourage staff development
 - regularly reviewing job descriptions and person specifications and using these as the basis for recruitment
 - implementing a Development Programme including individual training and development plans
 - maintaining an effective performance management system
 - encouraging a wide variety of individuals and organisations to participate in the work of the County Council
- 4.19 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 their 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 councillors' 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 6 : Engaging with local people and other stakeholders to ensure robust public accountability

4.20 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 that is 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
- 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
- introducing a consultation policy which will outline how staff and their representatives are consulted and involved in decision-making
- 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
- developing a Sustainable Community Strategy in conjunction with local partners
- maintaining a Citizens' Panel of around 2000 residents who are consulted four times a year on a wider 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 1998
- maintaining a County Council website that provides access to information and services and opportunities for public engagement

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 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 powers and responsibilities in relation to audit, information governance, counter fraud, risk management, procedure rules, as well as overall corporate governance that are detailed in the Constitution. This Committee is tasked with ensuring that an effective system of internal control operates throughout the organisation. The Committee meets a minimum of five times a year and includes three External Members.

5.3 The Standards Committee currently meets four times per annum 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. The Committee regularly monitors statistics in a range of areas (for example the numbers of whistleblowing incidents reported, challenges to procurements, Freedom of Information Act requests and employment tribunal claims) which help give an indication of the health of the Council in relation to standards and ethics. Additionally, Standards Committee Members participate in training sessions and in sub-committees dealing with complaints of alleged breaches of the Code. The Committee is currently responsible for receiving, assessing and, where appropriate, investigating and determining complaints that Members may have breached the Code of Conduct. The Committee includes external, as well as County Council Members; one of the external Members is to chair this Committee. The role and composition of the Standards Committee will be reviewed in 2011/12 in view of the changes to be brought about by the Localism legislation once it is enacted.

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 – Finance and Central Services, 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 – Finance and Central Services. This Group addresses the various challenges of Information Governance including the development 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 *. 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 undertaken 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 on the effectiveness of internal controls from the Head of Internal Audit. In addition, the effectiveness of the Internal Audit Service (as provided by Veritau Ltd since 1 April 2009) and the Audit Committee itself are reviewed annually.

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

5.7 Finally, annual reports are produced and published by

- the Standards Committee Chairman
- the Scrutiny Chairs
- the Audit Committee Chairman

* As required by Regulation 4 of the Accounts and Audit Regulations 2011.

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 an Action Plan 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 on this Action Plan.

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 Council's website www.northyorks.gov.uk or by contacting the Corporate Director – Finance and Central Services (**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.

* As required by Regulation 4 of the Accounts and Audit Regulations (2011)

(i) **Chief Executive (Head of Paid Service)**

Richard Flinton
North Yorkshire County Council
County Hall
Northallerton
North Yorkshire DL7 8AL
Telephone: 01609 532444 E-mail: richard.flinton@northyorks.gov.uk

(ii) **Corporate Director – Finance and Central Services (Section 151 Officer)**

John Moore
Corporate Director – Finance and Central Services
North Yorkshire County Council
Racecourse Lane
Northallerton
North Yorkshire DL7 8AL
Tel 01609 532114 E-mail john.moore@northyorks.gov.uk

(iii) **Assistant Chief Executive (Legal and Democratic Services)
(Monitoring Officer)**

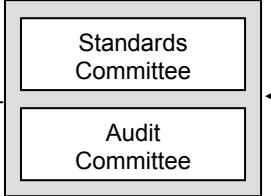
Carole Dunn
Legal and Democratic Services
North Yorkshire County Council
Racecourse Lane
Northallerton DL7 8AL
Tel 01609 532173 E-mail carole.dunn@northyorks.gov.uk

CORPORATE GOVERNANCE

LOCAL CODE OF CORPORATE GOVERNANCE

ANNUAL GOVERNANCE STATEMENT

Ongoing Monitoring and Annual Review



Corporate Governance Officer Group

Principle 1 Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

- Purpose and vision
- Communicating vision to partners
- Annual report on activities
- Measuring service quality
- Arrangements to deal with failure in service delivery
- Measuring VfM and the information supporting that
- Environmental impact

Principle 2 Members and officers working together to achieve a common purpose with clearly defined functions and roles.

- Statement on roles and responsibilities of Executive
- Statement on roles and responsibilities of other Members and senior officers
- Scheme of delegation and powers
- Responsibilities of Chief Exec
- Protocol between Chief Exec and Leader
- 151 Officer responsibilities
- Monitoring officer responsibilities
- Member/officer protocols
- Remuneration of members and officers
- Effective mechanisms for monitoring service delivery
- Mechanisms for development of vision / strategies / plan and consultation / communication with community
- Roles / responsibilities in partnership working are clear
- Clarity on legal status of partnerships and understanding of authority of individual partners to bind their organisations

Principle 3 Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- Leadership climate of openness, support and respect
- Officers code of conduct, Members code of conduct
- Conflict of interest, declarations of interest etc
- Shared values, leadership values communicated
- Systems and processes are designed with appropriate ethical standards
- Effective Standards Committee
- Values are guide for decision making and are basis for positive and trusting relationships within authority
- Partnerships have agreed set of values against which decision making can be judged – partners behaviour

Principle 4 Taking informed and transparent decisions which are subject to effective scrutiny and managing of risk

- Effective Scrutiny function
- Mechanisms for documenting evidence for decisions / criteria / rationale / considerations
- Arrangements to safeguard against conflicts of interest
- Audit Committee independent of the Executive and Scrutiny arrangements
- Process to deal with complaints
- Information for decisions is fit for purpose
- Embedded risk management arrangements
- Effective whistle-blowing
- Powers are used lawfully and to full benefit of communities
- Specific legislation and statutory responsibilities are observed.
- Incorporating key principles of good administrative law into procedures and decision making processes.

Principle 5 Developing the capacity and capability of members and officers to be effective

- Induction programmes and updates for Members and officers
- Statutory officers have skills, resources and support to be effective and their roles are understood
- Skills assessment and development for officers and members
- Develop skills on a continuing basis and use outside experts when needed
- Arrangements for reviewing the performance of the Executive and of individual members with action plan
- Arrangements for encouraging the community to engage and contribute
- Career structures for members and officers

Principle 6 Engaging with local people and other stakeholders to ensure robust public accountability

- Clarity of accountability
- Effective relationships with institutional stakeholders
- An annual report on the scrutiny function
- Clear communication with the community and other stakeholders with monitoring arrangements
- Public meetings except for confidentiality
- Community engagement arrangements
- Policy on issues for consultation and feedback mechanisms
- Annual performance plan and outcomes
- Open and accessible Council
- Staff consultation and involvement in decision making.

PURPOSE OF THE REPORT

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

BACKGROUND

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

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

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

WORK UNDERTAKEN AND OPINION

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

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

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

- 1 Received and considered the Annual Audit Letter for 2009/10 produced by the external auditor, Deloitte which detailed the outcome of the audit of the accounts and their value for money conclusion. The Committee was pleased to note that the external auditors had issued an unqualified audit opinion and had not identified any material weaknesses in the financial reporting systems or any significant control issues;
- 2 Received and considered Deloitte's planning reports for the audit of the County Council and the North Yorkshire Pension Fund's 2010/11 financial statements;

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

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

achievement in being one of only ten local authorities in the UK to have received certification to ISO IEC 27001;

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

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

EXTERNAL MEMBERS OF THE COMMITTEE

The Committee, in adopting this report, requested that its gratitude be recorded to the Committee's three External Members for the excellent contribution they have each made, during the year, to the work of the Committee.

Chairman of the Audit Committee

AUDIT COMMITTEE

TERMS OF REFERENCE

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

For both the County Council and the North Yorkshire Pension Fund

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

- to oversee the implementation of Information Governance policies and procedures throughout the County Council.
8. In respect of **Treasury Management**
 - to be responsible for ensuring effective scrutiny of the County Council's Treasury Management strategy and policies as required by the CIPFA Treasury Management Code of Practice.
 - To review these Treasury Management strategies, policies and arrangements and make appropriate recommendations to the Executive.
 9. To meet not less than four times a year on normal business and review its Terms of Reference on an annual basis.
 10. 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.