

The Report of the Audit Committee

The Audit Committee met on 27 September, 2012. Present:- County Patrick Mulligan (Chairman); County Councillors Bill Chatt, Margaret-Ann de Courcey-Bayley, Mike Jordan, Robert Heseltine, Chris Pearson and Joe Plant; and External Members of the Committee: Mr James Daghish and Mr David Portlock.

1. Annual Report of the Audit Committee: A copy of the annual report of the Audit Committee is set out 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. The Committee agreed that an additional item be added to the Annual Report noting the changes that were to be implemented in respect of the Corporate Director – Finance and Central Services and that the Committee would continue to monitor the effectiveness of those changes. A copy of the Audit Committee's terms of reference is attached at Appendix A to Appendix 1 for information.

The Audit Committee RECOMMENDS:

That the annual report of the Audit Committee, with the additional issue as requested by the Committee, detailed above, as set out at Appendix 1, be noted.

PATRICK MULLIGAN
Chairman

County Hall
NORTHALLERTON

2 October 2012

PURPOSE OF THE REPORT

To provide Members of the County Council with details of the work carried out by the Audit Committee during the year ended 30 September 2012. 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 six occasions in the year to 30 September 2012, 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 2010/11 produced by the external auditor, Deloitte which detailed the outcome of the audit of the County Council and North Yorkshire Pension Fund accounts and their value for money conclusion. The Committee was pleased to note that the external auditors issued an unqualified audit opinion and had not identified any material weaknesses in the financial reporting systems or any significant control issues for either the County Council or the North Yorkshire Pension Fund;
- 2 Received and considered Deloitte's annual report on the certification of grants and returns for 2010/11. The audit certification covered those grants with a lifetime value

over £125,000. The Committee noted that no adjustments were required for four of the grants but that Deloitte had issued a qualification letter in respect of the York and North Yorkshire Partnership Unit grant due to a small misallocation of expenditure between revenue and capital. The Committee was satisfied that this was a one-off issue;

- 3 Received and considered Deloitte's planning reports for the audit of the County Council and the North Yorkshire Pension Fund's 2011/12 financial statements;
- 4 Received and considered the external auditor's report on the 2012 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;
- 5 Received and considered Deloitte's fee letter for the audit of the County Council's 2012/13 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 2012/13;
- 6 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;
- 7 Received and approved the Internal Audit Plan for 2012/13;
- 8 Monitored the delivery of the 2011/12 and 2012/13 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;
- 9 Received and considered the outcome of the annual 2011/12 Fraud and Loss Risk Assessment. The Committee also reviewed the work of Internal Audit in respect of suspected fraud including the results of investigations into matters reported via the County Council's whistleblowing facilities or directly by management. In addition, the Committee approved changes to the Counter Fraud Strategy prior to its approval by the Executive;
- 10 Received and considered the Annual Report of the Head of Internal Audit which provided an overall opinion on the County Council's control environment. The Committee noted that the work of internal audit is primarily focused on those areas which represent the highest risk for the County Council. The Committee also considered the breaches of the Council's Finance, Contract and Property Procedure Rules which had been identified during audit work. The Head of Internal Audit confirmed that the Council's internal controls provided substantial assurance. In forming this opinion, the Head of Internal Audit had considered the progress made by management during the year to address identified control weaknesses. The Head of Internal Audit also drew the Committee's attention to a number of significant control weaknesses identified through audit work including issues related to information security, the processing of travel claims, delays and errors in charging for adult social care and the operation of a number of directorate / service IT applications;
- 11 Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2011/12, and considered the performance targets

for 2012/13. The Committee also considered the outcome of the review of the effectiveness of the County Council's 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;

- 12 Assessed the adequacy and effectiveness of each Directorate's risk management arrangements through consideration of the progress made to address issues identified in the annual Statements of Assurance prepared by the Chief Executive and each Corporate Director, together with the latest Directorate Risk Registers;
- 13 Reviewed the progress made by the County Council to identify and address corporate risks. This included consideration of the updated Corporate Risk Register and the results of the risk governance self assessment. 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. In addition, the Committee considered a revised Corporate Risk Management Policy prior to its referral to the Executive and approval by the County Council. The Committee was pleased to note the continuing strong risk management arrangements in place across the County Council;
- 14 Considered and approved the Statement of Accounts for 2011/12 of the County Council and the North Yorkshire Pension Fund;
- 15 Considered and approved the Annual Governance Statement for 2011/12 of the County Council. The Committee also reviewed the progress made by management to address issues identified in the 2010/11 Annual Governance Statement;
- 16 Considered the effectiveness of the governance arrangements for the North Yorkshire Pension Fund (NYPF) for 2011/12. The Committee noted that an independent review of the Pension Fund's governance arrangements had been undertaken by the Independent Professional Observer appointed by the Fund. The Committee was pleased to note that the Independent Observer's report indicated that the Pension Fund continued to demonstrate a high standard of governance and should be regarded as an excellent example of good practice for other LGPS funds. The Committee noted that the Independent Professional Observer had also highlighted a number of national developments which the Pension Fund would need to consider in the coming year;
- 17 Considered the annual report of partnership governance and 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 also considered the ongoing work of the Corporate Information Governance Group (CIGG2) which is responsible for developing the corporate information policy framework, identifying new or emerging risks, sharing best practice and monitoring compliance with corporate information governance standards. The Committee noted the good progress which continues to be made in this area, including the completion of directorate information asset registers, the implementation of a revised e-learning training package and the

establishment of improved reporting methods for information security breaches. The Committee was also pleased to note that the County Records Office had been approved as a four-star office by the National Archives, thereby placing it in the top 6 nationally for the provision of archival services;

- 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 actions taken to ensure that the County Council complied with the Code of Recommended Practice for Local Authorities on Data Transparency;
- 20 Considered and agreed minor changes to the Local Code of Corporate Governance with a recommendation that the revised Code be referred to the Executive prior to approval by the County Council;
- 21 Monitored progress to establish a less bureaucratic but effective service continuity planning process and the development of a major incident plan for 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;
- 22 Undertaken scrutiny of the County Council's treasury management strategy and policies. The Committee has also received details of treasury management performance and updates on national and economic developments. In addition, the Committee considered the results of the CIPFA treasury management self assessment which identified the need for additional member training in this area.
- 23 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 a new clause to deal with the disposal of assets where grant funding was involved. A number of changes were also proposed to the Contract Procedure Rules. These included the requirement to record the reason for waivers being granted and the maintenance of a formal register for such waivers. The section relating to the notification of certain procurement activities was also re-worded. The proposed changes to the Property Procedure Rules related to clarification of the staff authorised to sign documents on behalf of the Assistant Chief Executive (Legal and Democratic Services) and a new clause to deal with the disposal of assets where grant funding was involved. The proposed changes to the Finance, Contract and Property Procedure Rules were agreed;
- 24 Received and considered proposed changes to the County Council's Accounting Policies. The only changes during the year were relatively minor in nature and arose due to CIPFA issuing an updated IFRS based Code of Practice on Local Authority Accounting in January 2011. The changes related to heritage assets and the carbon reduction commitment scheme. The changes were approved. The Committee also noted a number of further changes which are likely to be required in future years;
- 25 Considered a number of emerging issues, including new fraud risks highlighted by the National Fraud Authority in their public sector strategic planning document *Fighting Fraud Together* and the Audit Commission in their annual report *Protecting the Public Purse 2011*;
- 26 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee, including the rationalisation of ICT systems and

the possible implications on governance arrangements of the One Council programme. The Committee also considered a number of emerging issues, including the proposals for the future of public audit;

- 27 Considered the implications for the County Council of the proposed expansion of Veritau to enable the company to provide internal audit services to five of the North Yorkshire district councils;
- 28 Met with both the External Auditor and the Head of Internal Audit on a one to one basis.
- 29 Noted the changes that were to be implemented in respect of the Corporate Director – Finance and Central Services and continuing to monitor the effectiveness of those changes

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.
 11. To exercise all functions in relation to the making and changing of policy relating to such audit and counter-fraud matters which fall within the remit of the Committee (save as may be delegated otherwise).