

The Report of the Audit Committee

The Audit Committee met on 26 September 2013. Present:- County Councillor Andrew Backhouse (in the Chair); County Councillors Eric Broadbent, Jim Clark, John Fort BEM (as Substitute for Margaret Atkinson), Bill Houlton, Patrick Mulligan and Stuart Parsons; Mr James Daghish and Mr David Portlock (External Members).

1. Annual Report: The report of the Chairman of the Audit Committee invited Members to consider, prior to its submission to the County Council, the draft Annual Report of the Audit Committee for the year ended 30 September 2013. The draft Annual Report is appended to this report.

County Councillor Andrew Backhouse, in introducing the report, highlighted that the Committee had been chaired, for part of the year to which the report related, by County Councillor Patrick Mulligan and that they were both satisfied with the content of the report.

In response to a question from County Councillor Patrick Mulligan, the Corporate Director - Strategic Resources confirmed that paragraph 22 of the draft report, which related to a revised methodology for service continuity, was consistent with the work in which Veritau was currently engaged. County Councillor Patrick Mulligan responded that he was happy with that explanation.

In response to a question from Mr David Portlock, the Corporate Director - Strategic Resources confirmed that a review of the Contract Procedure Rules would be submitted to a future meeting of the Committee.

The Audit Committee RECOMMENDS:

That the draft Annual Report of the Audit Committee, as appended to the report of the Committee's Chairman, be approved.

ANDREW BACKHOUSE
Chairman

County Hall,
NORTHALLERTON.

5 November, 2013

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

26 SEPTEMBER 2013

ANNUAL REPORT OF THE AUDIT COMMITTEE

Report of the Chair of the Audit Committee

1.0 PURPOSE OF THE REPORT

- 1.1 To enable Members to consider the draft annual report of the Audit Committee for the year ended 30 September 2013, prior to its submission to County Council.

2.0 ANNUAL REPORT

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that audit committees operate effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities. A copy of the draft annual report of this Audit Committee is attached at **Appendix 1**. A copy of the Audit Committee's Terms of Reference is attached to the report as **Appendix A**, for information.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members:

- (i) note this report; and
- (ii) consider and approve the draft annual report of the Audit Committee prior to its submission to the County Council.

CHAIRMAN OF THE AUDIT COMMITTEE

BACKGROUND DOCUMENTS

Relevant public reports presented to the Audit Committee and minutes of the meetings of the Audit Committee

Report prepared by Max Thomas, Head of Internal Audit and presented by Cllr Andrew Backhouse, Chair of the Audit Committee

County Hall
Northallerton

4 September 2013

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 2013. The report also details how the Audit Committee has fulfilled its Terms of Reference during this period.

BACKGROUND

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

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

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities to help ensure that Audit Committees are operating 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 2013, in accordance with its Programme of Work. The membership and chairmanship of the Committee has changed during this period following the County Council elections in May 2013. This report therefore draws upon the Committee's work both prior to and following the election.

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 2011/12 produced by the external auditor, Deloitte which detailed the outcome of the audit of the County Council and North Yorkshire Pension Fund accounts. The Committee was pleased to note that the external auditors had issued unqualified audit opinions for both the

County Council and the North Yorkshire Pension Fund. Deloitte had also issued an unqualified value for money conclusion;

- 2 Received and considered Deloitte's annual report on the certification of grants and returns for 2011/12. The audit certification covered those grants with a lifetime value over £125,000. The only grant that required certification during the year was the teachers' pension return. The Committee noted that Deloitte had issued a qualification letter in respect of the grant due to the fact that salary details on the return were not fully supported by payroll reports due to adjustments being made for schools using other (non-NYCC) payroll providers and Academies. The Committee was satisfied that this was a one-off issue and revised procedures had been adopted to prevent a recurrence of the problem;
- 3 Received and considered Deloitte's planning reports for the audit of the County Council and the North Yorkshire Pension Fund's 2012/13 financial statements;
- 4 Received and considered the external auditor's report on the 2012/13 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 2013/14 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 2013/14;
- 6 Received and considered the results of internal audit work performed in respect of each Directorate and across different themed areas, including corporate arrangements, contract matters and IT. Monitored the progress made by management during the period to address identified control weaknesses;
- 7 Received and approved the Internal Audit Plan for 2013/14;
- 8 Monitored the delivery of the 2012/13 and 2013/14 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 County Council priorities;
- 9 Received and considered the outcome of the annual 2012/13 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;
- 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, weaknesses in payment controls for adult social care and problems with contract letting and monitoring;

- 11 Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2012/13, and considered the performance targets for 2013/14. 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. 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 Management Board, 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. 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 noted that additional workshops had been arranged to address the risks associated with specific projects or initiatives including the Bedale, Aiskew and Leeming Bar bypass, the waste strategy, the public health transition and the Tour de France;
- 14 Considered and approved the Statement of Accounts for 2012/13 of the County Council.
- 15 Considered the annual report of the North Yorkshire Pension Fund for 2012/13 (which had previously been approved by the Pension Fund Committee);
- 16 Considered and approved the Annual Governance Statement for 2012/13 of the County Council. The Committee also reviewed the progress made by management to address issues identified in the 2011/12 Annual Governance Statement;
- 17 Considered the arrangements adopted by the County Council to achieve value for money and the Committee's role in obtaining assurance about these arrangements. The Committee noted that value for money was a combination of economy, effectiveness and efficiency. The Committee accepted that it was not appropriate or practical for the County Council to have a single value for money strategy or plan. Instead value for money had to be embedded across the organisation. The Committee asked the Corporate Director – Strategic Resources to consider whether the terms of reference needed to be updated to reflect the Committee's responsibilities in respect of value for money;
- 18 Considered the effectiveness of the governance arrangements for the North Yorkshire Pension Fund (NYPF) for 2012/13. The Committee reviewed various Pension Fund governance documents including the Statement of Investment Principles, the Governance Compliance Statement and the latest risk register. 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. The Pension Fund also continued to make changes and improvements both to strengthen governance and to adopt industry-wide developments. The Committee also noted that the Pension Fund was considering the likely impact of the Public Service Pensions Act 2013 and had commissioned a governance review in anticipation of the expected changes;

- 19 Considered the annual report of partnership governance and monitored the effectiveness of partnership governance arrangements through regular update reports;
- 20 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 considered the ongoing work of the Corporate Information Governance Group (CIGG) 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 also received details of the data security incidents which had occurred within the County Council since April 2012. The Committee noted that continuing progress is being made to address the risks 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;
- 21 Considered and reviewed the updated Corporate Governance Self Assessment Checklist. Considered and agreed minor changes to the Local Code of Corporate Governance with a recommendation that the revised Code be approved by the County Council;
- 22 Monitored progress to implement a revised methodology for service continuity. The aim is to establish a less bureaucratic system which puts the needs of directorates first. The revised methodology is now being rolled out across the County Council. The Committee noted that an audit is planned to be undertaken in 2013/14 to assess the progress made;
- 23 Undertaken ongoing 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.
- 24 Considered the revised Treasury Management Practices procedural document. The Committee approved the procedure document subject to clarifying the investment limits for different types of bank and the role of the internal auditors in respect of this area. The Committee also asked officers to consider the resources dedicated to carrying out the function, the controls associated with emergency payments and the risk of fraud.
- 25 Received and considered proposed changes to the Contract Procedure Rules prior to referral to the Executive and approval by the County Council. The Contract Procedure Rules had been simplified and made clearer. Other proposed changes were an increase in the thresholds for tenders and quotations, deletion of the

requirement to obtain approval where less than three quotations had been received and the removal of the requirement to complete a risk assessment. It was noted that the County Council's Gateway Process now provided an appropriate control framework in these areas. The proposed changes to the Contract Procedure Rules were agreed;

- 26 Received and considered proposed changes to the County Council's Accounting Policies. The only changes during the year had arisen as a result of CIPFA issuing an updated Code of Practice on Local Authority Accounting in January 2012. The changes related solely to the carbon reduction commitment scheme and were approved. The Committee also noted that further changes might be required to the Code of Practice as a result of recent proposals published by CIPFA;
- 27 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;
- 28 Met with both the External Auditor and the Head of Internal Audit on a one to one basis.

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).