

The Report of the Audit Committee

The Audit Committee met on 25 September 2014. Present:- County Councillor Andrew Backhouse (in the Chair); County Councillors Margaret Atkinson, Eric Broadbent, David Chance, Helen Grant, Bill Houlton and Mike Jordan. In attendance:- Mr David Portlock (Independent Observer) and County Councillor Carl Les (Executive Member for Central and Financial Services including assets, IT and procurement).

1. Annual Report: The Audit Committee has considered a draft of its Annual Report for the year ended 30 September 2014. The Committee, in approving the draft for submission to the County Council, paid tribute to the work undertaken during the year by Veritau Ltd and thanked, in particular, Max Thomas (Head of Internal Audit). The Annual Report is appended.

The Audit Committee RECOMMENDS:

That the Annual Report of the Audit Committee, as set out in Appendix 1, be noted.

ANDREW BACKHOUSE
Chairman

County Hall,
NORTHALLERTON.
4 November 2014

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 2014. 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 effectively¹. 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 2014, 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:

External Audit

- 1 Received and considered the annual audit letter for 2012/13 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

¹ CIPFA – Practical Guidance for Local Authorities and Police, 2013

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 and an unqualified opinion on the Whole of Government Accounts return;

- 2 Received and considered Deloitte's annual report on the certification of grants and returns for 2012/13. 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 due to a minor disclosure error. The auditors had undertaken further testing and concluded that it was an isolated problem. The Committee was satisfied with the explanation provided;
- 3 Received and considered Deloitte's planning reports for the audit of the County Council and the North Yorkshire Pension Fund's 2013/14 financial statements;
- 4 Received and considered the external auditor's report on the 2013/14 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 2014/15 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 2014/15. The Committee noted that the Audit Commission would be appointing new external auditors for both the County Council and the Pension Fund audits for 2015/16 onwards;

Internal Audit

- 6 Considered the changes to internal audit arrangements arising from the introduction of the new Public Sector Internal Audit Standards in April 2013. Approved the Internal Audit Charter.
- 7 Received and considered the results of internal audit work performed in respect of each Directorate and across different thematic areas. Monitored the progress made by management during the period to address identified control weaknesses;
- 8 Received and considered the Internal Audit Plan for 2014/15;
- 9 Monitored the delivery of the annual Internal Audit Plans through regular update reports presented by the Head of Internal Audit. Reviewed variations to the Audit Plans which were considered necessary to reflect new or changed County Council priorities;
- 10 Approved changes to the County Council's Whistleblowing Policy and the related Whistleblowing Policy for Schools to reflect new requirements introduced by the Enterprise and Regulatory Reform Act 2013 including changes to the definition of a 'qualifying disclosure';
- 11 Received and considered the outcome of the annual 2013/14 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;

- 12 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, service continuity planning and the highways maintenance contract;
- 13 Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2013/14, and considered the performance targets for 2014/15. The Committee also considered the outcome of the internal audit quality assurance and improvement programme (QAIP). The QAIP is an ongoing process which helps to ensure internal audit work is conducted in accordance with required professional standards. The QAIP included the results of the external review of internal audit working practices carried out in April 2014 by the South West Audit Partnership. The Committee was pleased that internal audit practices met the required standards and therefore continued reliance could be placed on the arrangements operating within the County Council;

Risk Management

- 14 Reviewed the progress made by the County Council to identify and address corporate risks. This included consideration of the updated Corporate Risk Register;
- 15 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. The Committee also considered the risks identified in the Directorate Risk Registers and how these linked to the Corporate Risk Register;

Corporate Governance

- 16 Considered and approved the Annual Governance Statement for 2013/14 of the County Council. The Committee also noted the issues identified in the annual Statements of Assurance prepared by Management Board, the Chief Executive and each Corporate Director, which inform the preparation of the Annual Governance Statement. The Committee also reviewed the progress made by management to address significant issues identified in the 2012/13 Annual Governance Statement;
- 17 Considered changes to the Local Code of Corporate Governance prior to referral to the Executive for approval by the County Council;
- 18 Considered the effectiveness of the governance arrangements for the North Yorkshire Pension Fund (NYPF) for 2013/14;

- 19 Considered the annual report of partnership governance. The report included details of the County Council's current partnerships, changes which had occurred in the year and the arrangements in place to monitor the management and performance of key partnerships. The Committee consider that partnership governance is effective and the existing arrangements are proportionate and commensurate to the risks;
- 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;
- 21 Received a report outlining the progress made to implement revised business continuity arrangements across the County Council. Good progress has been made but there was still a need to improve consistency and ensure plans were properly tested. Consideration was also given to the business continuity plans in place to support the Tour de France;

Value for Money

- 22 Considered the arrangements adopted by the County Council to achieve value for money;

Financial Statements

- 23 Considered and approved the Statement of Accounts for 2013/14 of the County Council;
- 24 Considered the annual report of the North Yorkshire Pension Fund for 2013/14 (which had previously been approved by the Pension Fund Committee);
- 25 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 April 2013. The main changes related to the definition of employee pension benefits and the localisation of business rates. The Committee also noted that further changes might be required to the Code of Practice as a result of recent proposals published by CIPFA;

Other

- 26 Received and considered proposed changes to the Contract, Property and Financial Procedure Rules prior to referral to the Executive and approval by the County Council. The need for changes had arisen due to a number of factors including changes in legislation or regulation, issues identified during the course of internal audit work and/or developments in business practice. The Committee was satisfied that the proposed amendments were appropriate and would help the County Council to maintain sound internal control and achieve Value for Money. The proposed changes were therefore agreed;

- 27 Received briefings from officers on issues and new developments facing the County Council including governance arrangements for the Statement of accounts, proposed changes to the finance function arising from 2020 North Yorkshire programme and an update on the IT Strategy;
- 28 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee, including treasury management, the appointment of co-opted members to the Committee and proposed changes to the timetable for approving the Statement of Accounts;
- 29 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.
 - 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 review 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. In respect of **Value for Money**
 - to have oversight of the arrangements across the County Council in securing Value for Money.
10. To meet not less than four times a year on normal business and review its Terms of Reference on an annual basis.
11. 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.
12. 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).