

## The Report of the Audit Committee

The Audit Committee met on 24 September 2015. Present:- County Councillor Mike Jordan (in the Chair); County Councillors Margaret Atkinson, Robert Baker, Eric Broadbent, Jim Clark, John Fort BEM and Helen Grant. In attendance:- Mr David Marsh and Mr David Portlock (External Members of the Committee) and County Councillor Carl Les (Leader of the Council) and County Councillor Gareth Dadd (Executive Member for Central Services, specifically Finance and HR issues).

**1. Annual Report:** The Audit Committee considered, and approved, its Annual Report for the year ended 30 September 2015. 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.

MIKE JORDAN  
Chairman

County Hall,  
NORTHALLERTON.  
2 November 2015

### 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 2015. 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<sup>1</sup>. 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 2015, 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, the internal auditors, Veritau and the external auditors, Deloitte. The Committee has sought assurance that action has been taken, or is otherwise planned, by management to address any risk related issues that have been identified by the auditors during this period. The Committee has also sought to ensure that effective relationships continue to be maintained between the internal and external auditors, and between the auditors and management.

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 2013/14 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

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<sup>1</sup> 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. The Committee was also pleased to note that Deloitte's had found the financial controls and procedures were working well and had commented on the high level of support they had received from finance staff during their audit;

- 2 Received and considered Deloitte's planning reports for the audit of the County Council and the North Yorkshire Pension Fund's 2014/15 financial statements. The report highlighted the audit risks that Deloitte's would address and provided details of the timetable and fees for undertaking the work. The Committee noted that KPMG had been appointed as the County Council's external auditors for 2015/16 onwards and therefore this would be Deloitte's last year in the role;
- 3 Received and considered the external auditor's report on the 2014/15 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;

#### Internal Audit

- 4 Continued to oversee the internal audit arrangements for the County Council and North Yorkshire Pension Fund. This has included approval of changes to the Internal Audit Charter and consideration of the audit implications for the new Pension Board.
- 5 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;
- 6 Received and considered the Internal Audit Plan for 2015/16. The plan reflected recent changes in legislation and other external factors;
- 7 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;
- 8 Considered the County Council's overall counter fraud arrangements in the light of emerging risks (both national and local). Approved a new Prosecution and Loss Recovery Policy and changes to the County Council's Counter Fraud Strategy to reflect the new CIPFA Code of Practice on managing the risks of fraud and corruption;
- 9 Received and considered the outcome of the annual 2014/15 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 framework of governance, risk management and control 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 implementation of the new adult social care case management system and the highways maintenance contract;

- 11 Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2014/15, and considered the performance targets for 2015/16. 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 established professional standards. 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

- 12 Continued to oversee the County Council's risk management arrangements and strategy. Considered changes to the Corporate Risk Management Policy;
- 13 Reviewed the progress made by the County Council to identify and address corporate risks. This included consideration of the updated Corporate Risk Register;
- 14 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;
- 15 Noted the adoption of specific risk registers for a number of major projects, including the Bedale, Aiskew and Leeming Bar bypass (BALB), Developing Stronger Families initiative, extra care housing programme and the Tour de Yorkshire cycling event;
- 16 Considered the outcome of the recent tender exercises for casualty (public, employers' and professional indemnity) insurance cover and the claims handling service;

#### Corporate Governance

- 17 Considered and approved the Annual Governance Statement for 2014/15 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 2013/14 Annual Governance Statement;
- 18 Considered some limited changes to the Local Code of Corporate Governance prior to referral to the Executive for approval by the County Council;

- 19 Considered a number of recent developments to strengthen and improve corporate governance arrangements as well as future plans;
- 20 Considered the annual report on 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 remains effective and the existing arrangements are proportionate and commensurate to the risks;
- 21 Received reports on the progress made to update strategic plans and develop policies and procedures to reflect latest guidance and best practice on corporate governance, particularly in respect of procurement and contract management;
- 22 Received a report outlining the progress made to implement improved business continuity arrangements across the County Council. The Committee was pleased to note that good progress has been made to address the issues previously identified by internal audit;

#### Value for Money

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

#### Financial Statements

- 24 Considered and approved the Statement of Accounts for 2014/15 of the County Council (which incorporate the Statement of Accounts for the North Yorkshire Pension Fund);
- 25 Received and considered proposed changes to the County Council's Accounting Policies. The only change which had occurred resulted from the updated Code of Practice on Local Authority Accounting issued by CIPFA in April 2014. The change related to the preparation of the group accounts and involved new rules on the identification and classification of potential group entities. The Committee also noted that future changes relating to the treatment of transport infrastructure assets and the fair value measurement of assets are expected;

#### 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;
- 27 Continued to scrutinise the County Council's treasury management arrangements. This included reviewing the Annual Treasury Management and Investment Strategy for 2015/16 which incorporated a minimum revenue provision policy and a policy to cap capital financing costs as a proportion of the annual net revenue budget.

- 28 Received briefings from officers on issues and new developments facing the County Council including the 2020 North Yorkshire programme and changes in health and social care arising from the Care Act and other government initiatives;
- 29 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee;
- 30 Met with both the outgoing external auditors, Deloitte and the newly appointed auditors, KPMG. The Committee offered a vote of thanks to Deloitte for the professional and constructive approach to their audit work;
- 31 Following a recruitment exercise, appointed two non-voting external members to the Committee, to serve for the remaining life of the County Council plus a further 12 months. The external members help bring a different perspective to the working of the Committee through their considerable business and financial experience.
- 32 Reviewed the Terms of Reference for the Committee in December 2014.

Councillor Mike Jordan  
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.
- 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).