



**North Yorkshire
County Council**

Agenda

Meeting: Audit Committee

**Venue: Brierley Room, County Hall,
Northallerton**

Date: Thursday 7 September 2017 at 1.30pm

**Note: Members are invited to attend a
seminar concerning Cyber Security at
1.00 pm in the Brierley Room.**

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Business

1. **Minutes of the meeting held on 22 June 2017**

(Pages 5 to 15)

2. **Any Declarations of Interest**

3. Public Questions or Statements

Members of the public may ask questions or make statements at this meeting if they have given notice (including the text of the question/statement) to Ruth Gladstone of Democratic Services (*contact details below*) by midday on Monday 4 September 2017 (*insert date*). Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-

- at this point in the meeting if their questions/statements relate to matters which are not otherwise on the Agenda (subject to an overall time limit of 30 minutes);
- when the relevant Agenda item is being considered if they wish to speak on a matter which is on the Agenda for this meeting.

If you are exercising your right to speak at this meeting, but do not wish to be recorded, please inform the Chairman who will instruct those taking a recording to cease while you speak.

4. **Internal Audit Report on Information Technology, Corporate Themes and Contracts**
- Report of the Head of Internal Audit
(Pages 16 to 30)
5. **Progress on Issues Raised by the Committee** – Joint report of the Corporate Director – Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services)
(Pages 31 to 33)
6. **External Audit Report 2016/17 on North Yorkshire County Council and North Yorkshire Pension Fund** – Report of KPMG
(Pages 34 to 62)
7. **Report following the detailed review of the draft Statement of Final Accounts (incorporating Annual Governance Statement) for 2016/17** - Report of Mr David Portlock (External Member of the Audit Committee)
(Pages 63 to 64)
8. **Statement of Final Accounts for 2016/17 including Letter of Representation** - Report of the Corporate Director – Strategic Resources
(Pages 65 to 80)
(Statement of Final Accounts booklet collated separately)
9. **Annual Report of the Audit Committee** - Report of the Chair of the Audit Committee
(Pages 81 to 89)
10. **Children and Young People’s Services Directorate:-**
 - (a) **Internal Audit Work** - Report of the Head of Internal Audit
(Pages 90 to 99)
 - (b) **Internal Control Matters** - Report of the Corporate Director – Children and Young People’s Services
(Pages 100 to 119)

11. **Progress on 2017/18 Internal Audit Plan** - Report of the Head of Internal Audit
(Pages 120 to 124)
12. **Programme of Work 2017/18** – Report of the Corporate Director – Strategic Resources
(Page 125)
13. **Other business which the Chairman agrees should be considered as a matter of urgency because of special circumstances**

Barry Khan
Assistant Chief Executive (Legal and Democratic Services)

County Hall
Northallerton

Notes:

Emergency Procedures for Meetings

Fire

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Persons should not re-enter the building until authorised to do so by the Fire and Rescue Service or the Emergency Co-ordinator.

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Accident or Illness

First Aid treatment can be obtained by telephoning Extension 7575.

AUDIT COMMITTEE

1. Membership

County Councillors (8)					
	<i>Councillors Names</i>			<i>Political Group</i>	
1	ARTHUR, Karl			Conservative	
2	ATKINSON, Margaret	Vice-Chairman		Conservative	
3	BAKER, Robert			Conservative	
4	CLARK, Jim			Conservative	
5	HUGILL, David			Conservative	
6	LUNN, Cliff	Chairman		Conservative	
7	MACKAY, Don			NY Independents	
8	WEBBER, Geoff			Liberal Democrat	
Members other than County Councillors (Non-voting) (3)					
1	PORTLOCK, David				
2	MARSH, David				
3	Vacancy				
Total Membership – (11)				Quorum – (3) County Councillors	
Con	Lib Dem	NY Ind	Labour	Ind	Total
6	1	1	0	0	8

2. Substitute Members

Conservative		Liberal Democrat	
	<i>Councillors Names</i>		<i>Councillors Names</i>
1	BACKHOUSE, Andrew	1	
2	CLARK, Jim	2	
3		3	
4		4	
5		5	
NY Independent			
	<i>Councillors Names</i>		
1			
2			
3			
4			
5			

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 22 June 2017 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillors Karl Arthur, Margaret Atkinson, Robert Baker, Richard Cooper, David Hugill, Cliff Lunn, Don Mackay and Geoff Webber

External Members of the Committee:-

Mr David Marsh and Mr David Portlock

In Attendance:-

County Councillor Carl Les (Leader of the Council)

KPMG Officer: Alastair Newall

Veritau Ltd Officer: Max Thomas (Head of Internal Audit)

County Council Officers: Kevin Draisey (Head of Procurement and Contract Management), Gary Fielding (Corporate Director – Strategic Resources), Ruth Gladstone (Principal Democratic Services Officer), Neil Irving (Assistant Director – Policy and Partnerships), Karen Iveson (Assistant Director – Strategic Resources), John Raine (Head of Technical Finance) and Fiona Sowerby (Corporate Risk and Insurance Manager)

Copies of all documents considered are in the Minute Book

1. Election of Chairman

Resolved –

That County Councillor Cliff Lunn be elected Chairman, to serve until the first meeting of the Committee to be held following the County Council elections in 2021.

County Councillor Cliff Lunn in the Chair

2. Minutes

Resolved –

That the Minutes of the meeting held on 2 March 2017, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

3. Election of Vice-Chairman

Resolved –

That County Councillor Margaret Atkinson be elected Vice-Chairman, to serve until the first meeting of the Committee to be held following the County Council elections in 2021.

4. Declarations of Interest

There were no declarations of interest.

5. Public Questions or Statements

There were no questions or statements from members of the public.

6. Progress on Issues Raised by the Committee

Considered -

The joint report of the Corporate Director - Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services) which advised of progress on issues which the Committee had raised at previous meetings, together with Treasury Management issues which had arisen since the last meeting.

With regard to Treasury Management, it was highlighted that the Executive was due to consider opportunities to generate more commercial returns on cash and that the matter would also be reported to the Audit Committee.

During discussion, Members highlighted that Capita Asset Services provided the County Council with specialist advice regarding Treasury Management.

Resolved -

- (a) That the report be noted.
- (b) That consideration of arrangements for the Committee to discuss governance of the Health and Wellbeing Board and the Integrated Commissioning Board be deferred to the Work Programme item of business at the end of this meeting.
- (c) That the Corporate Director - Strategic Resources check whether Members have been supplied with the information to which the second and fourth bullet points at Minute 234 refer. (Note: The second bullet point referred to a list of 12 Treasury Management Practices. The fourth bullet point referred to a report back concerning the figures within the section "Global Economy – Eurozone" within the updated Annual Treasury Management Strategy for 2017/18.)

7. North Yorkshire County Council and North Yorkshire Pension Fund - Audit of Accounts 2016/17 - Audit Progress

Considered -

The letter from KPMG (External Audit) dated 25 April 2017 which advised of the progress of, and findings from, the planning and control evaluation phases of the external audit of the 2016/17 accounts.

Alastair Newall (KPMG), in introducing the report, highlighted that there were no significant issues which KPMG needed to bring to the Committee's attention arising from their audit work on the financial statements and that there were no significant risks to KPMG's VFM conclusion for 2016/17.

Resolved -

That the letter be noted.

8. Statement of Final Accounts 2016/17 - North Yorkshire Pension Fund

Considered -

The report of the Corporate Director – Strategic Resources which invited the Committee to consider the draft Statement of Final Accounts of the North Yorkshire Pension Fund for the financial year 2016/17.

The Corporate Director – Strategic Resources, in introducing the report, highlighted that the Pension Fund's draft Statement of Final Accounts was included within the County Council's draft Statement of Accounts. Any questions which the Audit Committee raised would be reported to the Pension Fund Committee when it considered its draft Statement of Final Accounts on 6 July 2017.

With reference to paragraph 3.2 of the report, it was clarified that the Audit Committee, rather than the Pension Fund Committee, was responsible for approving the Pension Fund's accounts, although the Pension Fund Committee was expected to sign off the Pension Fund Annual Report which would include the Pension Fund's Final Accounts.

Resolved -

That the draft Statement of Final Accounts of North Yorkshire Pension Fund for 2016/17 be noted.

9. Draft Statement of Accounts 2016/17 - North Yorkshire County Council

Considered -

The report of the Corporate Director – Strategic Resources which invited the Committee to comment on the draft Statement of Final Accounts of North Yorkshire County Council for the financial year 2016/17.

The Corporate Director - Strategic Resources, in introducing the report, highlighted that the County Council was currently working to a revised timetable for the 2016/17 closure of accounts process which was in line with the new statutory deadlines set for the following year. The accounts were scheduled to be audited by KPMG during July and August 2017 and re-submitted to the Audit Committee for formal approval on 7 September 2017. The External Auditor was required to sign off the County Council's 2016/17 accounts by 7 September 2017. The External Auditor would report to the Committee's meeting on 7 September 2017 when the Committee would be asked to approve the final Statement of Final Accounts prior to it being formally signed off by the External Auditor. A reserve date of 28 September 2017 had been set aside for a meeting of the Audit Committee, should it be required.

The Corporate Director - Strategic Resources highlighted that Audit Committee Members had opportunity to ask questions about the accounts at today's meeting and

up until the Committee's meeting on 7 September 2017. He added that, as in previous years, Mr David Portlock (External Member), over the forthcoming months, would be asking questions about the accounts and identifying possible problems.

John Raine (Head of Technical Finance) and his team were congratulated on the earlier preparation of the accounts.

In response to a Member's question, the Corporate Director - Strategic Resources, advised that there were no areas of outturn which had given cause for concern.

Resolved -

That the report be noted.

10. Corporate Governance

Considered -

The report of the Corporate Director - Strategic Resources which invited the Committee to review the updated Local Code of Corporate Governance and recommend it for collective approval by the Chief Executive, the Leader of the Council, the Executive Member for Central Services, the Corporate Director - Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services). The report also invited the Committee to note the progress on other Corporate Governance related matters.

Fiona Sowerby (Corporate Risk and Insurance Manager), in introducing the report, highlighted the principles of the "Delivering Good Governance in Local Government Framework 2016" and two consequential changes made to the Local Code to reflect the new principles. She advised that the new Local Code was not hugely different to the previous version and that Mr David Portlock (External Member) had been providing challenge as part of this work.

Mr David Portlock advised that he was content that the version of the updated Local Code of Corporate Governance, as now presented, could be recommended for adoption.

In response to Members' questions, the Corporate Director - Strategic Resources, confirmed that evidence existed to support the Local Code and explained that the suggestions about creating a shareholder group, training directors of companies etc were considered necessary due to the creation of additional companies during the previous year.

With regard to approval of the updated Local Code, the Corporate Director - Strategic Resources clarified that, as significant changes were not being proposed, the changes would be approved by officers using their delegated powers. He added that, if major changes were being recommended, they would be referred to full Council for decision.

Resolved -

- (a) That the updated Local Code of Corporate Governance, as set out at Appendix A to the report, be recommended for collective approval by the Chief Executive, the Leader of the Council, the Executive Member for Central Services, the Corporate Director - Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services).
- (b) That the improvements that have been, and are to be, made in Corporate Governance, as set out at Appendix B to the report, be noted.

11. Annual Report of the Head of Internal Audit

Considered -

The annual report of the Head of Internal Audit which advised of:-

- internal audit work performed during the year ended 31 March 2017 and the opinion of the Head of Internal Audit in respect of the overall framework of governance, risk management and control in place within the County Council;
- breaches of Finance, Contract and Property Procedure Rules identified during 2016/17 audit work;
- Internal Audit performance outturn for 2016/17 and Veritau's 2017/18 performance targets;
- Veritau's conformance to professional standards and the conclusions arising from the Quality Assurance and Improvement Programme; and
- changes to the County Council's Audit Charter.

The report was introduced by Max Thomas (Head of Internal Audit (Veritau)). The Head of Internal Audit responded to Members' questions, during which the following information was clarified:-

- schools had been using the former Data Centre located at Highfield House in Ripon but their data had not been compromised;
- the Head of Internal Audit considered that the performance targets set for Veritau were challenging, in particular the target relating to answering FOI requests;
- the Head of Internal Audit undertook to provide information to Mr David Portlock concerning the aggregate total of the contracts where there had been five breaches relating to inadequate contract monitoring and two significant breaches relating to cost variation forms not completed;
- Veritau recognised that it was important to encourage the County Council's senior managers to respond to Veritau's customer survey and the necessary actions were being taken;
- all additional work undertaken by Veritau during 2016/17 had been dealt with as variations to the Internal Audit Plan. The Head of Internal Audit could not recall any additional consultancy projects undertaken during 2016/17;
- the Head of Internal Audit undertook to contact Mr David Marsh with a response to his question about the level at which contracts which were rolling forward could be signed off;
- in relation to information security, despite e-learning packages for staff, regular sweeps to identify unsecured sensitive information, and messages within Directorates, individuals continued to take action which they knew was incorrect. Further training was therefore required;
- when minor breaches of the Financial Procedure Rules were identified by Veritau, Veritau reported to management to require training to be undertaken, processes to be changed or some other appropriate action.

Resolved -

- (a) That the overall “Substantial Assurance” opinion of the Head of Internal Audit regarding the overall framework of governance, risk management and control operating within the County Council be noted.
- (b) That the outcome of the quality assurance and improvement programme and the confirmation that the internal audit service conforms with the Public Sector Internal Audit Standards be noted.
- (c) That the breaches to Contract and Finance Procedure Rules and the actions taken to address such matters be noted.
- (d) That the performance outturn for 2016/17 and the corresponding performance targets for Veritau for 2017/18 be noted.
- (e) That the proposed changes to the Internal Audit Charter, as set out at Appendix 1 to the report, be approved.
- (f) That the Head of Internal Audit provide information to Mr David Portlock concerning the aggregate total of the contracts where there had been five breaches relating to inadequate contract monitoring and two significant breaches relating to cost variation forms not completed.
- (g) That the Head of Internal Audit contact Mr David Marsh with a response to his question about the level at which contracts which are rolling forward can be signed off.

12. Internal Audit Plan for 2017/18

Considered

The report of the Head of Internal Audit which sought approval for the planned programme of internal audit work to be undertaken in 2017/18.

The Head of Internal Audit, in introducing the report, highlighted that comments provided by Audit Committee Members earlier in the year had been reflected in the Plan now submitted for approval.

In response to Members’ questions, the Head of Internal Audit clarified the following:-

- the number of audit days within the Plan was based on best estimates and assumptions of work required. Variations to the Plan were agreed during the year as necessary;
- 20 audit days was considered appropriate to review the effectiveness of the strategy and delivery of smoking cessation services. The Head of Internal Audit highlighted that contracts needed to be put in place and checks needed to be made to ensure that those contracts were delivered;
- a review of the arrangements which were in place to manage the potential risks of market failure in the care market was necessary because many providers were struggling and therefore there were risks of supply. The review would look at whether contingency plans were in place to manage those risk;
- Mr David Portlock highlighted that a number of areas of work had been dropped from the draft programme. He asked the Head of Internal Audit whether Veritau

had been “lent on” to make reductions and at what point would the quantity of Veritau’s work render the Head of Internal Audit’s opinion less reliable. The Head of Internal Audit confirmed that some work had been dropped from the draft Plan and this had been done on the basis of prioritising. He highlighted that the same situation occurred every year and that this year had been no different. He advised, however, that he had been more open this year by bringing the Plan to the Audit Committee at an earlier stage in draft form. The Head of Internal Audit reported that he and the Corporate Director - Strategic Resources had had a frank conversation about reductions and that he had highlighted that any further reductions would be more difficult. The Corporate Director - Strategic Resources confirmed that a frank conversation had taken place and that the Head of Internal Audit had “fought his corner” in terms of what he thought was an adequate provision. The Corporate Director - Strategic Resources advised that these were unpredictable times and that, if the County Council required more audit days, he would find the necessary funding on a non-recurring basis;

- a report was scheduled to be submitted to the next meeting of the Pension Board concerning future Pension Fund audits;
- the Head of Internal Audit confirmed that Veritau’s forthcoming work would include looking at the preparations which the County Council would be making to ensure that it would comply with the requirements of the General Data Protection Regulations which would apply from 25 May 2018;
- the Corporate Director - Strategic Resources advised that he was comfortable with the reduction from 85 audit days in 2016/17 to 60 audit days for 2017/18 in relation to procurement and contract audit. The Head of Internal Audit advised that some audits within individual services related to procurement.

Resolved -

That the Internal Audit Plan for 2017/18, as set out at Appendix 1 to the report, be approved.

13. Review of the Effectiveness of the Audit Committee

Considered -

The report of the Head of Internal Audit which advised of the results of the effectiveness questionnaire issued to all Members of the Audit Committee in March 2017, together with a similar questionnaire sent to officers who regularly attended the Committee’s meetings and the External Auditors. Respondents had been asked to rate the Committee’s effectiveness across its areas of responsibility and in the way it operated. Paragraph 3.2 of the report listed the areas which did not score as highly as others. The Committee was asked whether a review of its effectiveness should be undertaken.

Resolved -

- (a) That the report be noted.
- (b) That the Committee be asked, in six months’ time, whether it wished to proceed with a review of the Committee’s effectiveness and the form and scope of any such review.
- (c) That the results of the questionnaire issued to all Members of the Audit Committee in March be circulated to Audit Committee Members.

14. Partnership Governance 2016/17 - Annual Report

Considered -

The report of the Assistant Director (Policy and Partnerships) concerning governance of partnerships involving the County Council for the financial year 2016/17.

Neil Irving (Assistant Director (Policy and Partnerships)), in introducing the report, highlighted that, as at 31 March 2017, there were 54 partnerships within the scope of this Annual Review. During the year, one partnership namely the Scarborough Whitby Filey Opportunity Area (CYPS) had been added. Two other partnerships which had been subsumed or ended had been removed. The Assistant Director (Policy and Partnerships) also highlighted that no partnership had been identified as having a high overall risk rating. 19 partnerships had a medium overall risk rating. Two partnerships' overall risk rating had increased from low to medium. One partnership (the Board of Rail North Ltd) had had a governance failure during 2016/17 and action was being taken to reduce the risk of this occurring again in future years.

It was noted that there was a clear national agenda for closer working between the NHS and Social Care. This manifested itself in various ways including the Better Care Fund, Integration Plans, and the Health and Wellbeing Board. There were also numerous areas of activity at the more local level where the County Council was seeking to develop better working arrangements with various parts of the NHS. There were numerous cultural and operational issues that needed to be addressed as part of that closer working agenda and it was highly likely that there would be further legislation and direction from Government that would also necessitate change. It was not possible to capture these issues in a single entry in the list of partnerships. However, an assurance was given that any partnerships which materialised in future would be included within the list as part of future Annual Reports.

Members questioned the Assistant Director (Policy and Partnerships) and asked, in particular, why the County Council's Finance Officers were not involved in the HAS Involvement Forums when the County Council was making a £170k budget contribution to those Forums in addition to officer time. The Assistant Director (Policy and Partnerships) undertook to pick-up that issue.

Resolved -

- (a) That the 2016/17 annual report on partnership governance be noted.
- (b) That the arrangements in place to ensure good governance and reporting of partnership activity be noted.
- (c) That the contents of the schedule of partnerships that were within the scope as at 31 March 2017, as set out in Appendix 1 to the report, be noted.
- (h) That the Assistant Director (Policy and Partnerships) pick-up the issue that the County Council's Finance Officers are not involved in the HAS Involvement Forums although the County Council is making a £170k budget contribution to those Forums in addition to officer time.

15. Business Continuity Update

Considered -

The report of the Resilience and Emergencies Manager which provided an overview of the County Council's current business continuity arrangements and advised of the

continued high assurance for the management of risk within Directorates and Service areas.

The Assistant Director (Policy and Partnerships), in introducing the report, highlighted that Veritau, in March 2017, had stated that the current arrangements for business continuity within the County Council were deemed to provide “Substantial Assurance”. He also highlighted that the Corporate Director - Strategic Resources had overall responsibility for business continuity within the County Council, with the function co-ordinated and supported by the County Council’s Resilience and Emergencies Team. The Leader of the Council held the Executive portfolio for resilience, emergency planning and business continuity. Each Directorate worked with the Resilience and Emergencies Team to ensure that staff knew what to do and when to do it during any disruptive incident. Directorates were required to provide a business continuity red/amber/green status update every quarter to the Corporate Risk Management Group.

The Corporate Director - Strategic Resources highlighted that the County Council’s Corporate Business Continuity Plan was now in place and had recently been used to good effect during recent fracking protests, cyber-attacks and flooding incidents which had impacted on the County Council. The provision of a structured framework for communication and management of information across all Directorates during any disruption allowed informed strategic management decisions to be made across the organisation to identify priorities in the restoration of critical services. It was acknowledged that business continuity planning was an on-going process. The Resilience and Emergencies Team and Directorates would continue to work together within the identified structures to ensure robust well-planned and exercised business continuity arrangements were in place to provide the required assurance across the organisation.

Members questioned the officers about the threat of cyber-attacks. The Corporate Director – Strategic Resources undertook to find out, for information purposes, whether the County Council made back-ups anywhere other than in Councils’ buildings.

Resolved -

- (a) That the current business continuity, planning and resilience arrangements within North Yorkshire County Council, and the Management Board endorsement of the County Council’s Corporate Business Continuity Plan, be noted.
- (b) That the Corporate Director – Strategic Resources find out, for information purposes, whether the County Council makes back-ups anywhere other than in Councils’ buildings.

16. Corporate Procurement Strategy Update

Considered -

The report of the Corporate Director - Strategic Resources which provided an update on progress in delivering the Corporate Procurement Strategy, including the Strategy Action Plan, and recent activity and next steps.

The Head of Procurement and Contract Management referred to the Committee’s previous request for information about the number of local suppliers subsequent to the recent change in Contract Procedure Rules. He reported orally that there had been a small increase in the Council’s spend with local suppliers since the change in Contract Procedure Rules.

The Head of Procurement and Contract Management, in introducing the report, highlighted the work undertaken to increase involvement at the pre-procurement “discovery” stage, the new contract management structures, changes to the way in which savings were recorded, and the plan to update the Procurement Strategy by 31 December 2017.

In response to Members’ questions, the Head of Procurement and Contract Management advised as follows:-

- The Head of Procurement and Contract Management undertook to provide Mr David Marsh with information about the increase in the number of local businesses which were now supplying the County Council.
- All contract roll-overs now went through the Procurement and Contract Management Team as a consequence of amendment of 18.2 and 18.3 of the Contract Procedure Rules.

Members asked about the County Council’s actions subsequent to the recent horrific fire at Grenfell Tower in London. The Head of Procurement and Contract Management advised that savings targets would drive behaviour but good professional procurement would result in a good understanding being obtained of required standards including statutory requirements. The Corporate Director – Strategic Resources reported that, subsequent to the fire, DCLG had requested information regarding all Councils’ buildings which were over 18m or six floors in height and were residential in nature and had aluminium composite material in any cladding. The County Council had provided a “nil” return on the basis that it had only two buildings that were potentially above 18m but were 18m only if chimney stacks were counted as part of that 18m height measurement. The County Council had two Special Schools with residential facilities but neither had cladding. The Corporate Director – Strategic Resources advised that, to the best of his knowledge, the County Council had not used a contractor which had carried out cladding work at Grenfell Tower. He could not say for definite that such contractors were not used as part of some supply chain. The Corporate Director – Strategic Resources reported that the County Council had a number of buildings, largely schools, which had external cladding and, to the best of his recollection, there was only one which had used aluminium composite material, this being a 1m high panel running at high level around the building. The panel had been certified as being in accordance with Building Regulations. The County Council was looking at fire safety issues in its buildings to ensure that all necessary procedures were in place. It was, however, emphasised that all the County Council’s buildings fell below the Government’s threshold of risk.

Resolved -

- (a) That the progress on delivering the Procurement Strategy be noted.
- (b) That the Head of Procurement and Contract Management provide Mr David Marsh with information about the increase in the number of local businesses which are now supplying the County Council.

17. Risk Management Progress

Considered -

The report of the Corporate Director - Strategic Resources which provided information about the updated Corporate Risk Register and progress on other Risk Management related matters.

The Corporate Risk and Insurance Manager, in introducing the report, highlighted that a six monthly update of the Corporate Risk Register had been carried out in April 2017 when no changes had been made to the risks listed within the Register, although significant amendments had been made to six of those risks. The Corporate Risk and Insurance Manager also highlighted that workshops were carried out when necessary to develop risk registers for specific areas. At the present time, workshops were being carried out in respect of the North Yorkshire Development Company, the increase in Basic Need (Additional School Places), Harrogate Rail Line Development, and Tour de Yorkshire.

It was noted that Veritau had undertaken an audit of the County Council's risk management and had provided an overall opinion of "High Assurance" in respect of the procedures and controls within the system.

Resolved -

- (a) That the updated Corporate Risk Register, as set out in Appendix 1 to the report, be noted.
- (b) That the position on other Risk Management related matters be noted.

18. Audit Committee Work Programme

Considered -

The report of the Corporate Director - Strategic Resources which advised of dates of meetings of the Committee to be held during the remainder of 2017.

The Corporate Director - Strategic Resources, in introducing the report, highlighted that a review of Internal Audit work in respect of the Children and Young People's Service Directorate had been rescheduled for the September 2017 meeting of the Committee when the new Corporate Director for that area would be in place.

Veritau had arranged training for Audit Committee Members to be held on 4 July 2017 in York and KPMG was welcome to attend.

Resolved -

- (a) That the report be noted.
- (b) That the Committee's meeting previously scheduled for 13 July 2017 be cancelled for the reasons set out at paragraph 1.2 of the report.
- (c) That Members be requested to keep in their diaries the meetings of the Audit Committee on both 7 September 2017 and 28 September 2017 and that it be noted that a decision will be made mid/late August concerning which of those meetings shall be cancelled.
- (d) That County Councillor Jim Clark (Chairman of the Scrutiny of Health Committee) and Richard Webb (Corporate Director – Health and Adult Services) be invited to give a 30 minute presentation at a seminar to be held on the date of the Committee's meeting in September 2017 in respect of governance issues relating to Health.

The meeting concluded at 3.40pm

RAG/JR

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 SEPTEMBER 2017

INTERNAL AUDIT REPORT ON INFORMATION TECHNOLOGY, CORPORATE THEMES AND CONTRACTS

Report of the Head of Internal Audit

1.0 PURPOSE OF THE REPORT

- 1.1 To inform Members of the **internal audit work** completed during the year to 31 August 2017 in respect of information technology (IT), corporate themes and contracts and to give an opinion on the systems of internal control in respect of these areas.

2.0 BACKGROUND

- 2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to IT, corporate themes and contracts, the Committee receives assurance through the work of internal audit (provided by Veritau) as well as receiving copies of relevant corporate and directorate risk registers. Veritau engages a specialist contractor to support the provision of IT audit services. Since 1 April 2013, that service has been provided by Audit North.
- 2.2 This report considers the work carried out by Veritau and Audit North during the period to 31 August 2017. It should be noted the internal audit work referred to in this report tends to be cross cutting in nature and therefore there are no corresponding directorate risk registers to consider.
- 2.3 The Corporate Risk Register (CRR) is fully reviewed every year and updated by the Chief Executive and Management Board in September / October. A six monthly review is then carried out in April / May. The latest updated Corporate Risk Register was presented to the Committee in June 2017. There have been no significant changes in the County Council's risk profile since that date.

3.0 WORK CARRIED OUT DURING THE YEAR TO 31 AUGUST 2017

- 3.1 Summaries of the internal audit work undertaken and the reports issued in the period are attached as follows:

IT audit assurance and related work	Appendix 1
Corporate assurance	Appendix 2
Contracts and procurement	Appendix 3

- 3.2 Internal Audit has also been involved in a number of related areas, including:

- providing advice on corporate governance arrangements and IT related controls;
- providing advice and support to assist various project groups;
- providing advice and guidance to directorates and schools on ad hoc contract queries and on matters of compliance with the County Council's Contract and LMS Procedure Rules;
- attending meetings of the Corporate Information Governance Group (CIGG);
- contributing to the development and roll-out of the procurement strategic action plan, including participation in a number of delivery areas;
- contributing to the annual review and update of the County Council's Financial, Contract and Property Procedure Rules;
- carrying out a number of investigations into data security incidents and corporate or contract related matters that have either been communicated via the whistleblowers' hotline or have arisen from issues and concerns reported to Veritau by management.

3.3 As with previous audit reports an overall opinion has been given for each of the specific systems or areas under review. The opinion given has been based on an assessment of the risks associated with any weaknesses in control identified. Where weaknesses are identified then remedial actions will be agreed with management. Each agreed action has been given a priority ranking. The opinions and priority rankings used by Veritau are detailed in **appendix 4**.

3.4 It is important that agreed actions are formally followed up to ensure that they have been implemented. Veritau formally follow up all agreed actions on a quarterly basis, taking account of the timescales previously agreed with management for implementation. **On the basis of the follow up work undertaken during the year, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.**

3.5 All internal audit work undertaken by Veritau is based on an Audit Risk Assessment. Areas that are assessed as well controlled or low risk tend to be reviewed less often with audit work instead focused on the areas of highest risk. Veritau's auditors work closely with directorate senior managers to address any areas of concern.

4.0 **AUDIT OPINION**

4.1 Veritau performs its work in accordance with the Public Sector Internal Audit Standards (PSIAS). In connection with reporting, the relevant standard (2450) states that the chief audit executive (CAE)¹ should provide an annual report to the board². The report should include:

¹ For the County Council this is the Head of Internal Audit.

² For the County Council this is the Audit Committee.

- (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
- (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
- (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment)
- (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
- (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
- (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

4.2 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating across the three functional areas is that it provides **Substantial Assurance**. There are no qualifications to this opinion. With the exception of IT audit, no reliance has been placed on the work of other assurance bodies in reaching this opinion. As noted above, the Head of Internal Audit commissioned specialist IT audit services during the period from Audit North to support the delivery of this aspect of the Audit Plan. The Head of Internal Audit is satisfied with the quality of this work and has placed reliance upon it in reaching his opinion.

5.0 RECOMMENDATION

5.1 That Members consider the information provided in this report and determine whether they are satisfied that the overall control environment operating in respect of information technology, corporate and contract arrangements is both adequate and effective.

Max Thomas
Head of Internal Audit

Veritau Ltd
County Hall
Northallerton

7 September 2017

BACKGROUND DOCUMENTS

Relevant audit reports kept by Veritau Ltd at 50 South Parade, Northallerton.

Report prepared and presented by Max Thomas, Head of Internal Audit (Veritau).

INFORMATION TECHNOLOGY - FINAL AUDIT REPORTS ISSUED IN THE YEAR TO 31 AUGUST 2017

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	North Yorkshire 2020 – benefits management	Reasonable Assurance	The audit reviewed the project management arrangements adopted by the Council to enable the tracking and realisation of potential benefits arising from technology related projects in the 2020 Programme.	November 2016	<p>There was clear evidence that the structured approach to programme management adopted by the Council had resulted in the delivery of successful projects. However, benefit realisation management arrangements for both cashable and non-cashable benefits were not always being applied consistently or with sufficient rigour.</p> <p>It was recognised that there is a cost involved in measuring benefits and it might therefore be necessary to prioritise key benefits for active monitoring.</p>	<p>Ten P2 and seven P3 actions were agreed.</p> <p>Responsible Officers: Assistant Director, Technology and Change Head of Projects and Programme</p> <p>Project sponsors and project managers will be asked to ensure that governance arrangements are stated clearly in the project brief and project initiation documents and that these are simplified where possible. The portfolio level governance arrangements will be reviewed to ensure that these are streamlined and that there is clarity about approval processes. There will also be greater clarity regarding who signs off from a finance perspective.</p> <p>The process for initiating new projects will also be reviewed to ensure that this is streamlined and proportionate.</p> <p>Further advice has been given to project sponsors and project</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
						managers on how to treat non cashable benefits for making sure on-going benefits realisation is covered in project closure reports.
B	Synergy	High Assurance	<p>The Synergy system holds records of children and pupils relating to school admissions, school placements, early years', children's centres, troubled families and specialist educational services.</p> <p>The audit reviewed the controls in place to maintain the confidentiality, integrity and availability of information stored and processed using the Synergy system.</p>	May 2017	<p>Good controls were found to be in place. The operational management of the Synergy system included comprehensive system administration and user documentation; a robust user management and access controls process and a training programme for new users.</p> <p>However, some weaknesses were identified with audit trails. For example the system did not log access to client profiles by users. The application also did not have the functionality to restrict access to specific client profiles (for example if a client was known to a user).</p>	<p>One P3 action was agreed.</p> <p>Responsible Officer: Assistant Director, Technology and Change</p> <p>The audit report was discussed at the Synergy Steering group meeting held on 22 May 2017.</p> <p>The software supplier, Servelec has confirmed that an audit trail is not currently provided for the back office modules (Synergy Modules), although one is available for areas accessed via Gateway. The Steering group will take ownership of the risk and work closely with the Corporate Systems Team in case there is ever the need to request an access report from Servelec.</p>
C	Liquid Logic	Substantial Assurance	The Liquid Logic system holds client records for adults and children including referrals, assessments, care and intervention plans, and contracts. There are approximately 14,000 live	May 2017	Robust user management and access controls were in place with comprehensive system documentation. There was also a fully embedded training programme, including competency assessments for new users.	<p>Four P4 actions were agreed.</p> <p>Responsible Officers: Service Manager – Infrastructure Team Senior Systems Officer Head of Business Support CYPS & CS</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>client records (adults and children). The audit reviewed the key controls in place to maintain the confidentiality, integrity and availability of information stored and processed using the Liquid Logic system.</p>		<p>However, there were some inconsistencies in relation to the management of the different modules in the system. Server and server back up configurations differ between the Adults (LLA) and Children's (LCS) modules, and neither module uses the latest build available. Default passwords and security settings were also different.</p> <p>Business Continuity Plans (BCPs) detailing how individual teams within the services would operate in the event of system unavailability had also not been developed.</p>	<p>A server update has taken place, and a project initiated to upgrade the infrastructure to SQL2012.</p> <p>LCS and LLA password parameters and policies have been reviewed and aligned to the Council's corporate policies.</p> <p>Backup configuration across both LCS & LLA environments will be reviewed and standardised.</p> <p>Service teams have been requested to provide details of how they would operate in the event of the system being unavailable. Business continuity is also being considered by the continuous improvement groups (LCS and LLA).</p>
D	IT Security Incident Management	Reasonable Assurance	<p>The audit reviewed the policies and processes in place to mitigate the risks in relation to accidental or malicious IT security incidents.</p>	March 2017	<p>An Incident Management policy has been developed and arrangements and procedures for the detection and resolution of ICT security incidents are in place.</p> <p>However, there was no clearly defined network security strategy or security incident response plan outlining the various co-ordinated actions required to identify and / or address ICT security incidents.</p>	<p>Four P2 and one P3 actions were agreed.</p> <p>Responsible Officer: Senior Information Security and Compliance Officer. Head of Technology Solutions.</p> <p>The cyber security strategy and recovery plans will be reviewed.</p> <p>A technical network security policy</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					<p>An ICT risk analysis has been carried out but did not evaluate some cyber security risks in sufficient detail to enable the identification of appropriate mitigating actions.</p> <p>There was no clearly defined incident management response plan. Recording and response by service centre staff to security incidents was also inconsistent.</p>	<p>will be created and additional processes added to incident response plan.</p> <p>The Service desk management process will also be reviewed.</p>
E	IT Network and Server Operational Management	Substantial Assurance	<p>The audit reviewed the key controls designed to secure the provision and management of network services.</p> <p>Due to the increasing threat from cyber security attacks the Council needs to ensure that it has appropriate controls in place to provide secure network services and to protect infrastructure and data stored on the network.</p>	May 2017	<p>The controls were generally effective. However, there was no formal policy in place to assess network security vulnerabilities highlighted in new software releases.</p> <p>AAA (Authentication, Authorization and Accounting) security had not been implemented and a generic account was used to facilitate administration access to network switches.</p> <p>Standard operating procedures (SOPs) had not been developed to support day-to-day operational and maintenance tasks. Responsibilities for performing those tasks had also not been identified.</p>	<p>Three P2 and one P3 actions were agreed.</p> <p>Responsible Officer: Service Manager Unified Comms and Security Technical Lead</p> <p>All switch products are now registered with HP so updates are received when new software versions are released.</p> <p>Where possible, the implementation of RADIUS or TACACS+ for authentication will be considered for those switches that can be configured successfully. AAA security will be applied to all replacement switches as part of the LAN replacement programme</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
						Additional SOPs will be developed to outline the schedule for automated operational tasks and checks such as configuration updates, backups and monitoring.
F	Business Intelligence and Data Warehouse Security Management	Reasonable Assurance	The Business Intelligence (BI) and Data Warehouse systems act as reporting repositories which collate data from a number of systems and provide users with information and reports to support decision making across a number of Council priorities. The integrity and security of the information is therefore critical to ensure the accuracy of reports. The audit reviewed the key controls in place to maintain the confidentiality, integrity and availability of information stored and processed using the Business Intelligence and Data Warehouse systems.	May 2017	<p>There is evidence that the structured approach to Business Intelligence reporting is improving the delivery of quality information to support decision making processes.</p> <p>Management information and dashboards are being developed using MS Power BI. The control environment for report development was evolving as systems and processes were refined and matured.</p> <p>However, no formal process was in place for accepting BI reporting development requests into the BI Team development portfolio. An approved project methodology had not been adopted for the implementation of BI Projects.</p> <p>Documented operating procedures had not been developed to support the day to day BI processes and administration.</p>	<p>Four P2 and one P3 actions were agreed.</p> <p>Responsible Officer: Data and Intelligence Manager</p> <p>The process for requesting work will be documented as part of the service offer for BI projects.</p> <p>Following the planned service restructure all new development work will be carried out as either part of a formal project work package or service request recorded in the service management system.</p> <p>Operational procedures will be documented during the transition process following the restructure.</p>
G	Wireless Network Follow-up	Substantial Assurance	The audit reviewed the progress in completing the	May 2017	Three of the four agreed actions had been fully implemented. Changes	<p>One P2 action was agreed.</p> <p>Responsible Officer:</p>

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
				<p>had been made to the configuration for guest Wi-Fi, and testing confirmed that access was now only possible through registration. Procedural documentation had been updated and further documentation produced to support the purpose and configuration of each Service Set Identifier (SSID).</p> <p>However, wireless Intrusion Detection System (IDS) events were still not being pro-actively monitored or subject to regular review. IDS events could not be exported to provide meaningful information.</p>	<p>Technical Lead</p> <p>A method to better correlate alerts from multiple systems is to be investigated as part of a wider security review. A team structure review will consider more dedicated security roles to improve proactive management of identified events. The software provider has been contacted to obtain advice on the import and analysis of data.</p>

CORPORATE THEMES - FINAL AUDIT REPORTS ISSUED IN THE YEAR TO 31 AUGUST 2017

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Payroll / HR	Reasonable Assurance	<p>The audit reviewed the procedures and controls within the ResourceLink payroll system which ensure that:</p> <ul style="list-style-type: none"> • key payroll information is present and accurate. • high value payments are reasonable. • compulsory unpaid leave is calculated correctly for in-year starters and existing staff <p>Testing was carried out using data analysis software which allowed 100% of the population to be checked (approximately 18,000 records).</p>	June 2017	<p>A small number of errors were identified in relation to National Insurance numbers and multiple payroll numbers. The details were shared with Employment Support Services for them to verify and correct (where necessary).</p> <p>A number of claims for additional hours had not been submitted on a regular basis.</p> <p>All employees are subject to a salary adjustment for compulsory unpaid leave (CUP). However, the corresponding flexitime adjustment for employees who work for only part of the year was not always being made by managers.</p>	<p>Two P2 and two P3 actions were agreed.</p> <p>Responsible Officer: Business Support Officer Senior HR Advisor Senior HR Advisor, Policy Lead for HR</p> <p>All records will be checked (apart from a small minority that contain specific differences) to ensure the identified data is complete and accurate.</p> <p>Late claiming of additional hours will be raised with the appropriate Senior HR Advisors / managers.</p> <p>Further guidance will be issued to managers to explain the CUP deduction.</p>
B	Employment Documentation	Reasonable Assurance	<p>The Council uses the Wisdom Electronic Data Records Management System (EDRMS) to store and process employment related documentation. The audit reviewed the controls in place</p>	February 2017	<p>The audit found the Wisdom EDRMS system is an intuitive and well-structured software package. Clear guidance and reference material had been circulated to managers.</p> <p>Monitoring of managers' use of</p>	<p>Two P2 and one P3 actions were agreed.</p> <p>Responsible Officer: Corporate Directors (S151, HAS, BSS, CYPS)</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			to maintain the confidentiality, integrity and availability of information stored and processed using the EDRMS system.		<p>Wisdom was good. Separate reviews had been conducted in October 2015 and March 2016 that focused on which managers had not yet accessed Wisdom and the relationship between the number of employee files uploaded and the number of reporting staff.</p> <p>Testing found that the uploading of documentation for disciplinary cases was good with all expected documents saved in the correct areas. However, some expected documents were not present for sickness, paternity and maternity cases and for retired employees.</p>	An email was sent to the Corporate Directors with a request made that Service Managers are reminded that employment documentation should be uploaded to Wisdom in a timely manner, and saved in the correct location.
C	Insight Performance Dashboard	Substantial Assurance	The audit reviewed the operation of the insight performance tool to review how effectively it is used by managers, and how it contributes to the management of team performance.	May 2017	<p>Data within Insight is fed directly from ResourceLink and the Learning Zone. It is therefore reliant on the accuracy and completeness of the information that is input into these systems.</p> <p>Most service managers who use Insight were employing the system effectively as a management tool, although no clear correlation could be seen between use of the system and improvement in performance. Some managers were using alternative management tools despite Insight being available and cited technical difficulties or a lack of</p>	<p>Two P3 actions were agreed.</p> <p>Responsible officer: Assistant Chief Executive (Business Support)</p> <p>The Insight Performance Dashboard will be re-launched with training provided to all managers who request it.</p> <p>An upgrade of MyView will be completed which should reduce structure issues.</p> <p>The possibility of updating training completed through the Nexus</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					<p>understanding of how to use the system as reasons for low uptake.</p> <p>In some cases managers' highlighted issues with the completeness of data contained within Insight. Other than a failure of managers to enter data the main reasons identified were training via Nexus which can take up to 4 weeks to appear on the system, and issues where structure charts did not reflect teams managed.</p>	external training portal more frequently by the Training and Learning Team will be reviewed. If this is practical, it will be introduced to prevent management from manually compiling statistics.
D	Risk Management	High Assurance	The audit reviewed the frequency with which risk registers are reviewed and updated. The audit also reviewed how risks are managed in relation to commercial activities, and in particular reviewed the management of risk during the creation of the new NY Property Services company.	May 2017	<p>The audit found the corporate arrangements for risk management to be effective. The corporate and directorate risk registers are being updated in line with policy requirements (at least annually). The 2016 risk registers were also compared to previous risk registers. This showed that new and emerging risk are being identified and evaluated at both a corporate and directorate level.</p> <p>A risk register/log and high level project team were created for establishing the new property services company. A 'lessons learnt' document was also produced following the completion of the project to help capture key challenges, processes and</p>	<p>One P3 action was agreed Responsible Officer: Corporate Director - Strategic Resources</p> <p>The lessons learnt document will be shared widely to support future projects.</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					opportunities. However, this document had not been widely shared. In the future, a monthly report will be prepared for the company board summarising the current operational risks and associated risk appetite.	
E	Information Security compliance audits	Various	Unannounced audit visits are made to offices and establishments across the County Council. The visits are intended to assess the extent to which personal and sensitive data is being held and processed securely. The visits also consider the security of assets, particularly mobile electronic devices and other portable equipment. Two reports were finalised during the period covering separate areas of County Hall.	Various	<p>Following each visit, a detailed report was sent to the Senior Information Risk Owner (SIRO), as well as to relevant directorate managers. Findings have also been discussed by the Corporate Information Governance Group (CIGG).</p> <p>Working practices were found to be poor in a number of instances. Two visits were classified as Limited Assurance and one was Reasonable Assurance.</p>	<p>Six P2 actions were agreed</p> <p>Responsible Officer: Corporate Director - Strategic Resources (and others)</p> <p>Responses have been obtained from relevant directorate managers following each audit. Management have viewed the findings extremely seriously and have taken immediate action where issues have been discovered.</p> <p>Follow up visits have been arranged where significant information risks have been identified.</p> <p>A programme of further visits is currently being prepared.</p>

CONTRACTS - FINAL AUDIT REPORTS ISSUED IN THE YEAR TO 31 AUGUST 2017

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Best Value Forms - Compliance with Contract Procedure Rules	No opinion given	<p>A change to the Councils Contract Procedure Rules in February 2016 provided some extra freedoms for low value purchases. For contracts valued at under £25,000 competitive quotes are no longer mandatory. If quotations are not sought a Best Value Form must be completed.</p> <p>The audit reviewed the application of the new procedures and sought to establish whether:</p> <ul style="list-style-type: none"> • Forms are being completed to the required standard • Opportunities offered by the new CPRs for purchasing decisions under £25000 are being taken <p>We completed and reported four separate audits in this area during the period.</p>	August 2017	<p>The majority of forms reviewed had been completed in line with expected practice.</p> <p>We identified weaknesses which reflect the 'bedding in' of the new process. For example, some forms were not fully or properly completed. Some had quotations supporting the form (when both are not required). Some small items should have been sourced from existing Council contracts. However, there was a general improvement in the standard of completed forms over time.</p> <p>Some variability in the number and nature of forms being completed was noted. For example, one directorate (BES) completed seven times the number of forms compared to HAS.</p> <p>We also found some inconsistency in what was being recorded on the Forward Procurement Plan (FPP).</p>	<p>Eight areas for improvement were highlighted to address control weaknesses.</p> <p>Responsible Officer: Head of Procurement and Contract Management</p> <p>The findings were in line with managements observations of the new arrangements.</p> <p>The Procurement Board has received regular information on the use of the new procedures.</p> <p>Internal Audit has been asked to further review the use of Best Value forms in 2017/18. This will also help review the progress being made to embed the new arrangements.</p> <p>The completion and use of the FPP is an area which we are regularly reviewing. The findings from the audit will be considered as part of our usual work with directorate procurement champions.</p>

AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 September 2017

PROGRESS ON ISSUES RAISED BY THE COMMITTEE

**Joint Report of the Corporate Director – Strategic Resources
and the Assistant Chief Executive (Legal and Democratic Services)**

1.0 PURPOSE OF THE REPORT

1.1 To advise Members of

- (i) progress on issues which the Committee has raised at previous meetings
- (ii) other matters that have arisen since the last meeting and that relate to the work of the Committee

2.0 BACKGROUND

2.1 This report is submitted to each meeting listing the Committee's previous Resolutions and / or when it requested further information be submitted to future meetings. The table below represents the list of issues which were identified at previous Audit Committee meetings and which have not yet been resolved. The table also indicates where the issues are regarded as completed and will therefore not be carried forward to this agenda item at the next Audit Committee meeting.

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
23/09/15	146 – Internal Audit Work and related Internal Control Matters for the Health and Adult Services Directorate.	That the Corporate Director – Strategic Resources discuss the timing of the next governance review of the Health and Wellbeing Board and Integrated Commissioning Board with the Assistant Director – Strategic Resources and the Head of Internal Audit.	Awaiting latest set of guidelines for Better Care Fund and on-going discussions with Health. Optimum timing will then be determined. A verbal update was provided to the Committee at the last meeting. This issue is such that it is unlikely that a single action will address. It is suggested that verbal updates continue to be provided and the focus on HAS for the September meeting provides opportunity to explore further.	?
02.03.17	225- Progress on Issues raised by the Committee	That the Corporate Director, Health and Adult Services be invited to attend the Audit	Due to the availability of the Corporate Director, Health and Adult Services on 28 September an invitation has	X

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
		Committee meeting on 28 September 2017, together with the relevant Executive Member, to discuss issues around the Better Care Fund and Health and Adult Services.	been sent for the meeting on 30 November 2017.	
22.06.17	11 – Annual Report of the Head of Internal Audit	That the Head of Internal Audit provide information to Mr David Portlock concerning the aggregate total of the contracts where there had been five breaches relating to inadequate contract monitoring and two significant breaches relating to cost variation forms not completed	Information provided	✓
	11 – Annual Report of the Head of Internal Audit	That the Head of Internal Audit contact Mr David Marsh with a response to his question about the level at which contracts which are rolling forward can be signed off	Information provided	✓
	13 – Review of the Effectiveness of the Audit Committee	That the Committee be asked, in six months' time, whether it wished to proceed with a review of the Committee's effectiveness and the form and scope of any such review	To consider again at the December meeting	X
	13 – Review of the Effectiveness of the Audit Committee	That the results of the questionnaire issued to all Members of the Audit Committee in March be circulated to Audit Committee Members.	The information is currently being collated and should be circulated in time for the meeting.	X
	14 – Partnership Governance	That the Assistant Director (Policy and Partnerships) pick-up the issue that the County Council's Finance Officers are not involved in the HAS Involvement Forums although the County Council is making a £179k budget contribution to those Forums in addition to officer time.	The County Council budget allocation to the Forums has always been overseen in the normal way by the relevant budget manager and Assistant Director Strategic Resources. The Assistant Director Strategic Resources is now the nominated Finance Officer for the Forums going forward and this will be recorded in future annual reports.	✓

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
	15 – Business Continuity Update	That the Corporate Director – Strategic Resources find out, for information purposes, whether the County Council make back-ups anywhere other than in Councils' buildings.	Data back-ups of all data are consolidated at the Data Centre in County Hall, which is, in turn backed-up to the data centre at Richmondshire District Council	✓
	16 – Corporate Procurement Strategy Update	That the Head of Procurement and Contract Management provide Mr David Portlock with information about the increase in the number of local businesses which are now supplying the County Council.	Verbal update to be provided	X

3.0 TREASURY MANAGEMENT

- 3.1 Capita Asset Services – Treasury Solutions have updated their interest rate forecasts on 7 August (last updated May 2017) to take into account the Bank of England quarterly Inflation Report for May 2017, the decision of the MPC meeting of 3 August. Capita have maintained their forecasts on the basis that there is very little in the way of any material change of any significance over the last three months to warrant making any changes.
- 3.2 CIPFA have issued consultations on proposed changes to the Code of Practice on Treasury Management and the Prudential Code. The consultations includes proposed changes to prudential indicators and the potential introduction of a capital strategy. The deadline for responses to the CIPFA consultation are required by Saturday 30th September 2017. Officers are currently in the process of drafting a response to the consultation

4.0 RECOMMENDATION

- 4.1 That the Committee considers whether any further follow-up action is required on any of the matters referred to in this report.

GARY FIELDING
Corporate Director – Strategic Resources

BARRY KHAN
Assistant Chief Executive
(Legal and Democratic Services)

County Hall
NORTHALLERTON

7 September 2017

Background Documents: Report to, and Minutes of, Audit Committee meeting held on 22 June 2017



External Audit Report 2016/17

North Yorkshire County Council

North Yorkshire Pension Fund

—

August 2017

Summary for Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016/17 external audit at North Yorkshire County Council ('the Council') and North Yorkshire Pension Fund ('the Pension Fund').

This report focusses on our on-site work which was completed in July and August 2017 on the Council's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 to 14.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Council's financial statements after the Audit Committee on 7 September.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements at the same time.

For the Council accounts we identified 7 significant audit adjustments from the draft financial statements. Some of these adjustments impacted on the Comprehensive Income & Expenditure Statement, but the impact was reversed out through the Movement in Reserves Statement and so did not impact on the level of General Fund balance. The adjustments affecting the Balance Sheet reduced the Council's Net Assets by £1.4m. See Appendix 3 for details on the adjustments made.

For the Pension Fund accounts we identified 1 disclosure audit adjustment from the draft financial statements but this has no impact on the net assets of the fund. See Appendix 3 for the details of the adjustment.

Based on our work, we have raised one recommendation. Details on our recommendation can be found in Appendix 1.

We are now in the completion stage of the audit, but our audit work on the Council's Whole of Government Accounts submission has yet to be completed. This final phase of work will be completed before the end of September 2017, and we will issue our completion certificate and Annual Audit Letter at the conclusion of all audit work.

Value for Money conclusion

In April 2017 we reported that we had completed our detailed risk assessment and planning work for our Value for Money (VFM) conclusion and had not identified any significant risks. We have updated our risk assessment through the audit, and concluded that our initial assessments were still appropriate, and there were no significant risks to our VFM conclusion. Following the completion of our work, we have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money conclusion when we issue our audit opinion on the financial statements.

See further details on pages 15 to 18.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

We ask the Audit Committee to note this report.

Contents

The key contacts in relation to our audit are:

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29	Six: Audit fees

This report is addressed to North Yorkshire County Council (the Council) and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing general.enquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one

Financial Statements



We anticipate issuing an unqualified audit opinion on the Council's 2016/17 financial statements and the Pension Fund on or after 7 September. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Council has reported Net Cost of Services of £419.6m, and a Deficit on the Provision of Services of £43.4m. The Council maintained its General Fund balance at £27.2m, but utilised £2.8m of earmarked reserves in the year.

The Pension Fund's reported Net Assets at 31 March 2017 were £3,035.8m, an increase of £618m from the previous year.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Council's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
<p>1. Significant changes in the pension liability due to LGPS Triennial Valuation (Council only)</p>	<p>Why is this a risk?</p> <p>The Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.</p> <p>The pension numbers included in the financial statements for 2016/17 are based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.</p> <p>Our work to address this risk</p> <p>We reviewed the output from the Actuary relating to the Triennial Valuation at 31 March 2016 and the rolled forward values at 31 March 2017. We tested the data provided by the Council to the Pension Fund to confirm that it is materially complete and accurate.</p> <p>In addition, during our audit of the Pension Fund, we reviewed and tested the completeness and accuracy of the data provided to the actuary by the Pension Fund to inform the Triennial Review. As in previous years, we received specific requests from the auditors of other admitted bodies to provide assurance to them. We are required to support their audits under the protocols put in place by Public Sector Audit Appointments, and where the work they request is over and above that already being carried out for our Pension Fund audit, there are additional costs arising from this. As in previous years, the Pension Fund can consider recharging these costs to the relevant admitted bodies.</p>
<p>2. Revaluation of Property, Plant & Equipment (Council only)</p>	<p>Why is this a risk?</p> <p>The Council has a rolling programme of revaluations of its Property, Plant & Equipment assets in line with the requirements of the CIPFA Code of Practice.</p> <p>In 2016/17 the rolling programme meant the Council revalued its primary schools. This is a significant proportion of the Council's PPE value and represents a very large number of assets. While the revaluation approach was applied consistently with previous years revaluations, the size and nature of the assets being revalued in 2016/17, results in the inherent risk of applying incorrect valuations leading to material errors being greater than in previous years.</p> <p>Our work to address this risk</p> <p>We discussed with officers early in our audit to establish the approach that the Council took to revaluing its primary schools. Our detailed testing included a range of work, including:</p> <ul style="list-style-type: none"> — Assessing the competence, capability, objectivity and independence of the Council's external valuer;

Significant audit opinion risks	Work performed
2. Revaluation of Property, Plant & Equipment (Council only) (continued)	<ul style="list-style-type: none">— Reviewing the terms of engagement of, and the instructions issued to, the valuer for consistency with the Council's accounting policies and the CIPFA Code of Practice;— Reviewing the information provided to the valuer by the Council and agreeing this to the Council's asset records;— Reviewing the reasonableness of the valuation assumptions used in the valuation model;— Reviewing the accounting treatment of the revaluation within the Council's financial statements to ensure that any upwards revaluations or impairments have been properly classified and accounted for; and— Considering the adequacy of the disclosures about the key judgments and degree of estimation in arriving at the valuation and related sensitivities.

Considerations required by professional standards

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.



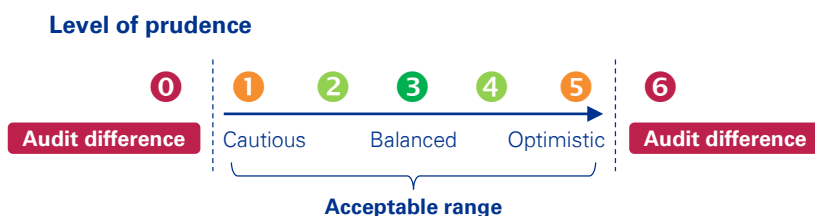
Other areas of audit focus

We identified one key area of audit focus. These are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	<p data-bbox="446 609 582 636">Background</p> <p data-bbox="446 654 1322 706">CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):</p> <ul data-bbox="446 727 1333 969" style="list-style-type: none"><li data-bbox="446 727 1333 837">— Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and<li data-bbox="446 857 1333 969">— Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. <p data-bbox="446 990 1329 1100">The Council was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.</p> <p data-bbox="446 1120 672 1147">What we have done</p> <p data-bbox="446 1166 1350 1249">During our interim audit visit in January we considered the template form of accounts the Council had produced and confirmed that this was compliant with the requirements of the Code.</p> <p data-bbox="446 1270 1350 1417">During our final audit visit we tested the Council’s restatements, and reported results for 2016/17 and confirmed that they were consistent with the requirements of the Code, and also consistent with the information the Council had reported internally. We have also agreed the disclosed figures to the Council’s Oracle general ledger and found no issues to report.</p>

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Provisions (Council)	3	3	Our testing of Provisions has not identified any matters to report. The basis on which provisions have been calculated is consistent with previous periods. We believe this basis to be balanced and reasonable.
Accruals (Council)	3	3	Our testing of the Council’s approach to estimating its year end accruals has not identified any matters to report. The Council has made judgements regarding its accruals policies to enable it to produce its draft accounts a month earlier than in 2015/16. We have not identified any issues with the approaches adopted in 2016/17, and note that the Council has more actively considered the materiality of items in determining its accruals policies than in previous years.
Property, Plant & Equipment (Council)	3	3	As reported on pages 6 and 7 the Council’s valuation of its Primary Schools was a significant risk for our audit. The Council’s valuer, North Yorkshire Property Services has carried out detailed valuation calculations and our work has concluded that the valuer has taken a balanced and reasonable approach to valuing the assets. We consider that the Council’s judgements on the useful lives of its assets has led to balanced and reasonable lives which leads to reasonable depreciation charges.
Pension Fund liability (Council & Pension Fund)	3	3	As reported on page 6, the changes in the Council’s Pension Fund liability from the triennial revaluation was a significant risk for our audit of the Council’s financial statements. While the Pension Fund statements do not include the Pension Fund liability – reporting only the Net Assets as permitted by the applicable reporting framework – the actuarial calculations are informed by information provided by the Pension Fund. Our testing of the controls and processes in place at the Pension Fund confirmed that the information passed to the actuary was complete and accurate. Our testing of the actuarial assumptions supporting the Council’s Pension Fund liability were in line with our own expectations and we concluded that the Pension Fund estimates are well balanced.
Unquoted investments (Pension Fund)	3	3	Our testing has found an effective control environment in place with regards to investments, including the fund managers and custodian engaged by the fund. We consider there to be robust review of unquoted investment valuations within these relationships.

Proposed opinion and audit differences – Council

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Council’s 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 7 September 2017.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level (see Appendix 4 for more information on materiality) for this year’s audit was set at £15m. Audit differences below £0.75m are not considered significant.

Our audit identified a total of 7 significant audit differences, which we set out in Appendix 3. These adjustments have been adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Council’s movements on the General Fund for the year and balance sheet as at 31 March 2017.

Although some of the adjustments have impacted on the deficit on the provision of services, this impact has been reversed out through the Movement In Reserves Statement, and there has been no impact on the Council’s General Fund balance.

The Net Assets have reduced by £1.4m as a result of the adjustments, mainly reflecting the changes in the valuation of Property, Plant & Equipment and Investment Property. There are corresponding reductions in the Council’s reserves, predominantly the Unusable Reserves.

In addition, we identified some smaller adjustments and presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (‘the Code’). The Council has adjusted these in the final financial statements.

Narrative report

We have reviewed the Council’s 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Council.

Annual governance statement

We have reviewed the Council’s 2016/17 Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Movements on the general fund 2016/17

£m	Pre-audit £'000	Post-audit £'000	Ref
Deficit on the provision of services	35,611	43,361	1
Adjustments between accounting basis and funding basis under Regulations	32,784	40,534	1
Transfers from earmarked reserves	(2,827)	(2,827)	
Increase in General Fund	0	0	

Balance sheet as at 31 March 2017

£m	Pre-audit £'000	Post-audit £'000	Ref
Property, plant and equipment	1,498,112	1,495,797	1
Other long term assets	68,447	69,409	1
Current assets	404,724	404,724	
Current liabilities	(196,195)	(196,195)	
Long term liabilities	(760,385)	(760,385)	
Net assets	1,014,703	1,013,350	
General Fund	27,270	27,720	
Other usable reserves	226,964	226,514	1
Unusable reserves	760,469	759,116	1
Total reserves	1,014,703	1,013,350	

1 These adjustments are detailed in Appendix 3, and relate to changes in the valuation of Property Plant & Equipment and Investment Property, and related impacts on depreciation and the charges made to the Income & Expenditure Statement. There has been no overall impact on the General Fund, and Net Assets have reduced by £1.4m.

Proposed opinion and audit differences – Pension Fund

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Pension Fund's 2016/17 financial statements following approval of the financial statements by the Audit Committee on 7 September 2017.

Pension fund audit

Our audit of the Fund also did not identify any material misstatements.

The final materiality level (see Appendix 4 for more information on materiality) for this year's Pension Fund audit was set at £25m. Audit differences below £1.25m are not considered significant.

Only one significant adjustment was identified and this was corrected by the Council. This relates to the disclosure of investment asset hierarchy in Note 16a, which resulted in £268.4m of assets being recategorised from Level 1 to Level 2.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Pension Fund has addressed these where significant.

As in 2015/16, the Pension Fund has accounted for benefits payable on a cash basis rather than accruing benefit liabilities which are due at the year end but not yet paid. This issue was reported last year and we have not included any specific recommendations or actions for the Fund as a result.

The benefits paid after 31st March 2017 which should have been accrued into 2016/17 were £925,000. This amount is below our significant differences threshold, and we have not required the amount to be corrected in the accounts. The corresponding figure for 2015/16 was reported by the previous auditors last year was £836,000.

Annual report

We have reviewed the Pension Fund Annual Report and confirmed that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2017. The Pension Fund Annual Report is due to be approved by the Pensions Committee on 14 September 2017, and we intend to give our opinion on the Annual Report after this meeting. We will need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

Fund account as at 31 March 2017			
£m	Pre-audit £'000	Post-audit £'000	Ref
Opening net assets of the Fund	2,417,833	2,417,833	
Contributions & transfers in	139,209	139,209	
Benefits & transfers out	(113,750)	(113,750)	
Management expenses	(2,168)	(2,255)	1
Return on investments	594,232	594,798	1
Closing net assets of the Fund	3,035,356	3,035,836	

Net assets as at 31 March 2017			
£m	Pre-audit	Post-audit	Ref
Net investment assets	3,020,255	3,020,222	
Current assets	16,874	17,358	1
Current liabilities	(1,743)	(1,744)	2
Net assets of the Fund	3,035,356	3,035,836	

1 These minors errors were identified and corrected by the Pension Fund after the draft statements were produced, predominantly following receipt of more accurate information from fund managers

2 This is a rounding correction only

Accounts production and audit process

The Accounts and Audit Regulations 2015 introduces a statutory requirement to produce a draft set of financial statements earlier for the year 2017/18. It also shortens the time available for the audit.

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Council's accounting practices and financial reporting.

We also assessed the Council's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter reporting deadlines in 2017/18.



Introduction of KPMG Central

We introduced KPMG Central this year, which is an IT-based document storage system to facilitate the secure transfer of large amounts of data between the Council & Pension Fund and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Council and Pension Fund Closedown Teams to efficiently share requested information. Feedback from the finance teams has been positive, and we will refine the use of the system in 2017/18 to help drive further efficiencies.

Accounting practices and financial reporting

The Council has recognised the additional pressures which the earlier closedown in 2017/18 will bring. A significant focus for the closedown in 2016/17 was to deliver draft financial statements earlier than in the previous year, and to the timetable which applies from 2017/18.

We are pleased to report that the Council's focus has delivered positive results, and we received a complete set of draft accounts on 1 June 2017, which is one month earlier than the current statutory deadline, and a full month earlier than in 2015/16. We have commented elsewhere in this report on some of the changes in estimation techniques adopted to deliver this earlier delivery, and we have not identified any significant weaknesses to report in the Council's approach this year.

We engaged proactively with the Council throughout the year to address issues as they emerged and this has helped to improve the efficiency of the closedown process and the progress of the final audit visit.

Timeliness and quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in January 2017 which outlines our documentation request. This helps the Council and the Pension Fund to provide audit evidence in line with our expectations. We followed this up with regular liaison meetings with officers to discuss specific requirements of the document request list.

While most of the supporting working papers were made available for the start of our final audit visit on 26 June 2017, some key working papers were not available then. Although this did not cause significant issues this year due to the timing of the audit visit, this will not be the case in 2017/18. The deadline for our audit opinion in 2017/18 is 31 July 2018, two months earlier than this year. The challenge to deliver the earlier audit opinion will mean that our final audit visit will be shorter and more intensive, and we will require supporting working papers for the accounts as a whole to be available alongside the draft financial statements at 31 May 2018. Any delays in 2017/18 will impact on the likelihood of us meeting the audit deadline.

The standard of the working papers provided was generally high, and this is consistent with previous years.

Section one: financial statements

Response to audit queries

Officers responded to our audit queries promptly, and the timeliness and quality of responses did not cause delays or other consequential issues with the progress of our audit. We have developed a positive and proactive working relationship with the Council's finance team, and this has helped to deliver the audit to the planned timetable while minimising the impact on the finance team.

Most of our audit queries were directed to the Council's central finance team, but on occasions staff in other directorates and departments were involved in providing assistance and evidence to our audit team. The responses from each of these teams was similarly prompt and helpful as those received from the central finance team.

Consistent with our comments earlier in this section of the report, one of the challenges in 2017/18 of completing an earlier audit is that there is less time available to resolve our audit queries. We will continue to liaise regularly with the finance team, and ensure that we discuss and agree a suitable approach to the 2017/18 audit which provides the best opportunity to meet the earlier timetable.

Group audit

The Council produces group accounts, incorporating its interests in its significant subsidiary companies:

- NYnet Limited (turnover of £4.4m and net assets of £7.5m); and
- Yorwaste Limited (turnover of £38.9m and net assets of £9.7m).

To provide our audit opinion on the Council's consolidated financial statements we carry out work on the consolidation process and substantively test elements of the group financial statements. We do not seek assurance from the subsidiary's component auditors, this is consistent with previous years, and reflects our efficient approach to obtaining group accounts audit evidence.

There are no specific matters to report pertaining to the group audit. We are also pleased to report that there were no issues to note in relation to the consolidation process.

Pension Fund audit

The audit of the Pension Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Prior year recommendations

As part of our audit we have specifically followed up the Council's progress in addressing the recommendations in last year's ISA 260 report.

The Council has implemented all of the recommendations in our ISA 260 Report 2015/16.

Appendix 2 provides further details.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final audit visit. As reported in our *Interim Audit letter* in April 2017 this work progressed well, and there were no matters to report to the Council.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council and Pension Fund 2016/17 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of North Yorkshire County Council and North Yorkshire Pension Fund for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the Council or the Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Strategic Director – Corporate Resources for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the

oversight of the financial reporting process; and

- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Council's 2015/16 financial statements.



Section two

Value for money

Our 2016/17 VFM conclusion considers whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Council has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

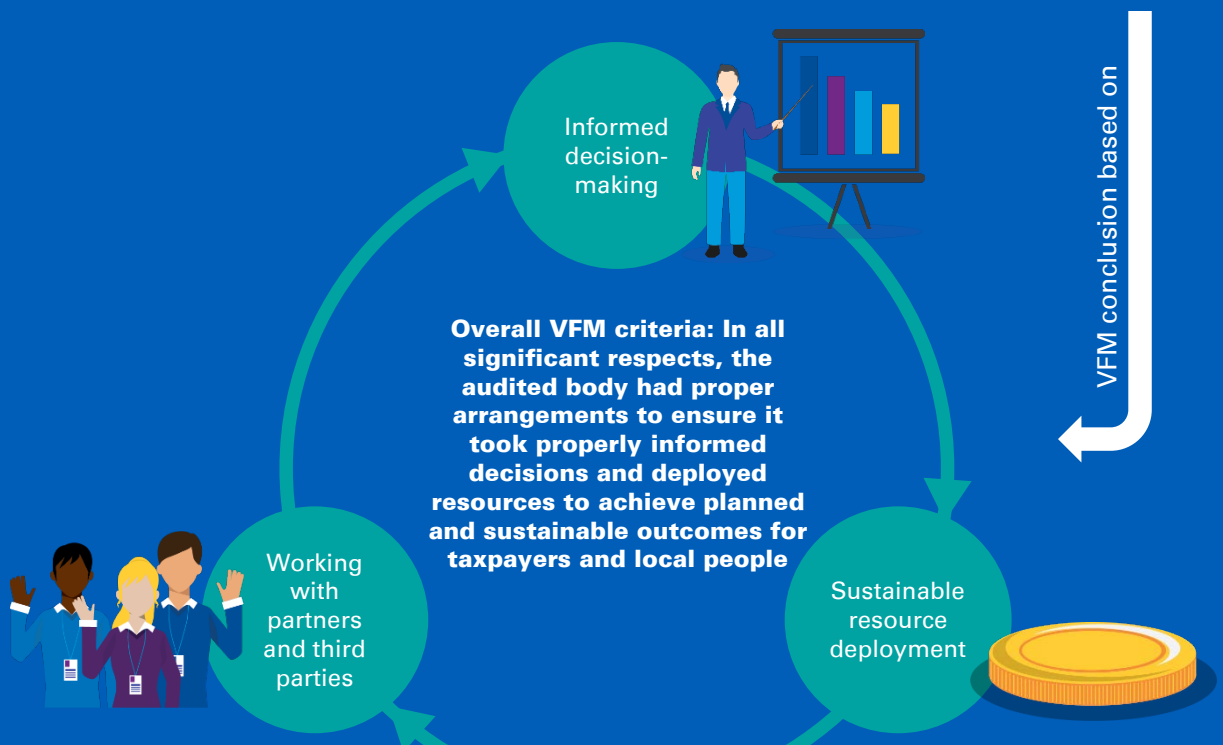
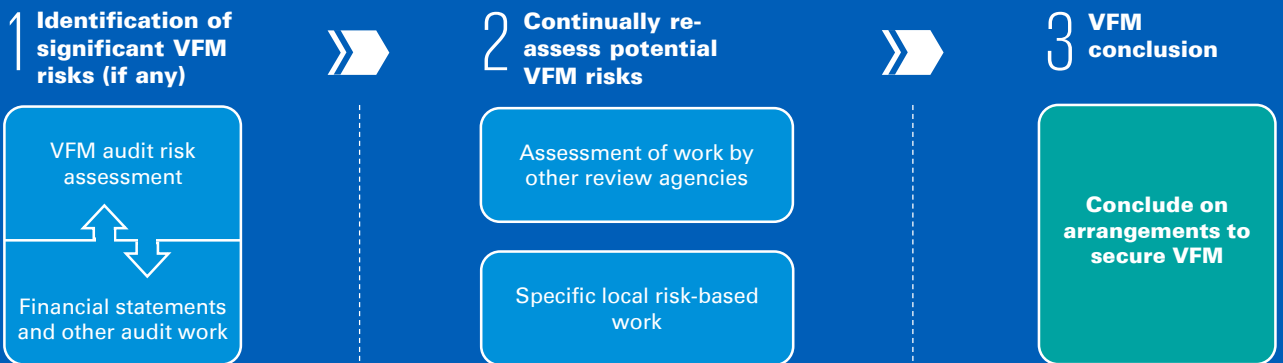
VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the Council 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

The Code of Audit Practice, published by the NAO in April 2015, requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements'.

Our VFM conclusion considers whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



The table below summarises our assessment of the Council’s arrangements against the three sub-criteria. Overall we have concluded that the Council does have adequate arrangements to deliver Value for Money in its use of resources.

VFM assessment summary	
VFM sub criteria	Adequate arrangements?
Informed decision-making	✓
Sustainable resource deployment	✓
Working with partners and third parties	✓
Overall summary	✓

Work completed

In line with the risk-based approach set out on the previous page, and in our External Audit Plan we have:

- Assessed the Council’s key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- Considered the results of relevant work by the Council, inspectorates and review agencies in relation to these risk areas.

Key findings

Having completed our detailed planning work, we reported in our *Interim Audit letter* in April 2016, that we had not identified any significant risks to our VFM conclusion.

In concluding this, we particularly considered the following key elements:

- The Council’s approach to medium term financial planning. The 2020 North Yorkshire Council Plan sets

out the Council’s strategy for delivering against the significant financial challenges. These challenges are reported and monitored in the corporate risk register and the Council is clearly devoting significant resources to putting in place mitigating arrangements to manage those risks. The challenges and risks are significant for the medium term, but from our review we are satisfied that the Council has arrangements in place to respond to these challenges, and we have no issues to report.

- The Council’s approach to partnership working. This year has seen closer working with local NHS organisations in areas such as the Better Care Fund and commissioning of health services across the county. The Council is aware of the significant challenges and risks with this closer integration, and we are satisfied that the Council’s arrangements to manage these challenges are appropriate and adequate.
- Governance arrangements. The Council continues to deliver some significant projects and change programmes designed to address the financial and operational challenges in the medium term. In addition it continues to be innovative in considering the opportunities to strengthen its financial position, particularly in its approach to commercial opportunities. From our review of the arrangements in place, we are satisfied that the Council has continued to have in place appropriate governance arrangements to support effective decision making.

Overall conclusion

On the basis of the detailed work carried out we conclude that the Council has adequate overall arrangements in place to deliver value for money in its use of resources.


A close-up, shallow depth-of-field photograph of a stack of books on a wooden surface. The books are stacked vertically, with the top one showing a red cover. A silver pen lies horizontally in the foreground, its tip pointing towards the left. The background is softly blurred, showing more books and a warm, golden light. The word 'Appendices' is overlaid in a red, serif font, flanked by two vertical red lines.


Appendices


Key issues and recommendations

Our audit work on the Council’s 2016/17 financial statements identified an issue with the accuracy of the Council’s fixed asset register. We have summarised this issue in this appendix together with our recommendation which we have agreed with Management. We have also included Management’s responses to the recommendation. The Council should monitor progress in addressing the recommendation. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

- 

High priority
Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.
- 

Medium priority
Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
- 

Low priority
Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

2016/17 recommendations summary

Priority	Number raised in our interim report	Number raised from our year-end audit	Total raised for 2016/17
High	0	0	0
Medium	0	1	1
Low	0	0	0
Total	0	1	1

1. Fixed asset register



As part of the year-end closedown processes the Council’s Fixed Asset Register, which generates the Property, Plant & Equipment accounting entries contained a number of errors, including:

- Duplicate assets, for example where schools had merged, had not been removed;
- De-commissioned assets had not been revalued and recategorised as Surplus Assets;
- The valuation of assets subject to a ‘desktop’ revaluation in year had not been calculated using the correct formula; and
- Accumulated depreciation relating to assets disposed of in year had not been correctly removed.

Recommendation

Ensure that the quality assurance of the financial statements includes a review of the fixed asset register to ensure that all errors and omissions are identified during the closedown period.

Management Response

Accepted

The methodology by which the desktop revaluations are applied to fixed assets has been corrected. Additional measures will be implemented, as part of the closedown preparatory process and actual closedown timetable, to ensure fixed assets which have been de-commissioned, merged or re-categorise are fully identified with assistance from the Property Team and their accounting treatment amended accordingly.

Owner

Senior Accountant – Capital & Treasury Management

Deadline

31 May 2018

Follow-up of prior year recommendations

In the previous year, we raised three recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Council has implemented all of the recommendations, although as a result of timing issues, the impact of one of these will only be able to be reported in the 2017/18 financial statements.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation’s status to date. We have also obtained Management’s assessment of each outstanding recommendation.

Below is a summary of the prior year’s recommendations.

2015/16 recommendations status summary			
Priority	Number raised	Number implemented	Number outstanding
High	0	0	0
Medium	2	2	0
Low	1	1	0
Total	3	3	0



1. Cash flow statement – capital debtors and creditors

The Council has updated its ledger coding structure in 2015/16 and has not retained separate capital ledger codes. Consequently it has been unable to identify the capital debtors and creditors, required for compliant completion of the cash flow statement. As the cash flow requires the movement on capital debtors and creditors from the prior year, this omission will impact on 2015/16 and 2016/17.

Recommendation

Include a method of identifying capital debtors and creditors in the 2016/17 closedown process to enable compliance with cash flow requirements from 2017/18.

Management original response

Agreed. The specific capital debtors and creditors balance sheet codes were consolidated as part of the review of the Authority’s Chart of Accounts during the upgrade of the financial ledger, which has impacted on the detail of the analysis available. As a result the report’s recommendation is accepted and the specific codes will be re-instated for use during 2016/17.

Owner

Senior Accountant, Capital & Treasury Management

Original deadline

30 June 2017

KPMG’s August 2017 assessment

Fully implemented

Our testing of the cash flow statement identified that the Council has re-instated capital debtor and creditor codes in its chart of accounts and that these codes had been used.

As the original recommendation states, the compliance with the cash flow reporting requirements will only be achieved in 2017/18 once the Council has an accurate opening and closing balance on these codes.

Medium priority

2. Assets under construction

As part of the year-end closedown processes the Council omitted to transfer an asset from Assets under Construction to Operational Land & Building.

Assets under Construction are measured at Historical Cost, whereas Operational Assets are measured at either Existing Use Value or Depreciated Replacement Cost.

Recommendation

Include a process to identify the operational date of any Assets under Construction as part of the year-end closedown, and ensure that the value of any operational assets transferred in year is on the correct basis.

Management original response

Agreed. The report’s recommendation is accepted and a full review of any Assets Under Construction will be undertaken as part of the year end closedown process.

Owner

Senior Accountant, Capital & Treasury Management

Original deadline

30 June 2017

KPMG’s August 2017 assessment

Fully implemented

Our work indicates that the Council has transferred all Assets under Construction to operational assets during the year and that the assets transferred have been revalued according to the Council’s revaluation policy.

Low priority

3. Related Party Transactions

In applying the applicable financial standard, the CIPFA Code allows Councils to apply a consideration of materiality in disclosing related party transactions. It does however require that Councils consider materiality from both its own perspective and that of the related party. This might mean that a low level of transaction should be disclosed where it relates to an individual or a small business. Although it has disclosed some related party transactions of a low value, the transactions with Other Related Parties are only disclosed where they are greater than £1 million.

Recommendation

Include a consideration of materiality from both the related party and the Council’s perspective in the closedown processes for all related party transactions and disclose all transactions that are considered material from either party.

Management original response

Agreed. In line with the reports recommendation, a review of the materiality thresholds regarding related party disclosures will be undertaken in advance of the 2016/17 closedown process.

Owner

Senior Accountant, Statutory Accounts

Original deadline

30 June 2017

KPMG’s August 2017 assessment

Fully implemented

Our work indicates that the Council has considered the materiality of related party transactions during this years accounts preparation.

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance, which in your case is the Audit Committee. We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Council's finance team has responded positively to our audit findings and is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences – Council

Our audit did not identify any material misstatements.

Our audit identified a number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them:

- Property, Plant & Equipment (PPE) (Note 18):
 - Duplications. A small number of assets were found to be duplicated on the fixed asset register as a result of the register not being updated to reflect schools that had merged through the year. As a result the Land & Buildings value of PPE has been reduced by £6.0m with a corresponding reduction across the Capital Adjustment Account and Revaluation Reserve.
 - PPE Valuations. The revaluation of Property, Plant and Equipment had been incorrectly applied in the fixed asset register, resulting in an understatement in the Net Book Value of PPE in Note 18 of £8.0m. This error arose through applying an incorrect percentage increase to the previous valuation for each relevant asset. This error also impacted on the valuation of Investment Property in Note 25 of £1.0m. The total impact of this adjustment was an increase in net assets of £9.0m as at 31 March 2017.
 - Bentham School. A new school became operational during 2015/16 and was revalued during 2016/17. The new valuation had not been applied to the new school in the asset register, and in addition the old school, which was no longer operational, had not been impaired and recategorised to reflect it now being a surplus asset. The impact of these adjustments is that the Land & Buildings Net Book Value reduced by £4.9m and the value of Surplus Assets increased by £0.6m. The corresponding adjustments have been made to the Capital Adjustment Account and the Revaluation Reserve.
 - Depreciation on disposed PPE assets. The accumulated depreciation on assets disposed of in the year had not been correctly categorised and written out of the asset register and Note 18. This has been corrected within Note 18 and has no impact on the closing net book value of PPE which was correctly stated.
- Capital expenditure (Note 21): The amount of expenditure on 'Structural Maintenance of Roads and Bridges' disclosed in Note 21 was understated by £6.8m, and 'All spending in areas below £2m' was overstated by £6.8m.
- Capital grants (Note 9): The amount of Local Growth Fund grant income in Note 9 was overstated by £7.0m. In addition the amount in Note 9 relating to Section 31 grant for Bedale Bypass was understated by £2.7m. This error also impacted on the capital expenditure disclosed in Notes 21, 22 and 34, reflecting the net overstatement of £4.3m in capital grants and associated expenditure.
- Leases (Note 13): Future financial commitments under operating leases was understated by £1.1m due to the omission of vehicle contract hire leases from the original draft figures. This only impacted on the disclosures in Note 13.

Unadjusted audit differences - Council

There are no unadjusted audit differences. All adjustments identified through the audit have been adjusted in the final financial statements.

Adjusted audit differences – Pension Fund

Our audit did not identify any material misstatements.

Our audit identified one significant disclosure error in the Pension Fund financial statements. This has been discussed with management and the financial statements have been amended:

- Fair Value hierarchy (Note 16a). Our testing identified that a number of investments which were originally classified as level 1 financial assets did not meet the definition of a level 1 financial asset, and were actually level 2 assets. The value of investments which were reclassified as a result of this finding was £309.8m. An adjustment was also made to the prior period disclosure for level 1 and 2 assets in Note 16a. This issue does not impact on the opening or closing net assets of the fund.

Unadjusted audit differences – Pension Fund

There are no unadjusted audit differences. All adjustments identified through the audit have been adjusted in the final financial statements.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We revisited our assessment of materiality reported in our External Audit Plan 2016/17, presented to you in February 2017, and have confirmed that the level of materiality was still appropriate.

Materiality – Council audit

Materiality for our audit of the Council's financial statements was set at £15 million which equates to around 1.5 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision which was £10 million for the Council financial statements.

Materiality – Pension Fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £25 million which is approximately 0.8 percent of the Fund net assets.

We design our procedures to detect errors at a lower level of precision, set at £17 million for 2016/17.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether

taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Council and Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.75 million for the Council and £1.25 million for the Pension Fund.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately

disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of North Yorkshire County Council and North Yorkshire Pension Fund for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the Council or the Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	Fee	Potential threat to auditor independence and associated safeguards in place
Grant claim assurance work on: <ul style="list-style-type: none"> - Teachers' Pension return - Department for Transport Major Schemes claim 	£5,500	<p>Self-interest: These engagements are entirely separate from the audit through a separate contract. The fee rates are low in comparison to the audit fees and they are not contingent on any outcomes from the assurance work.</p> <p>Self-review: The nature of this work is to provide an independent assurance report to the relevant external body. This does not impact on our other audit responsibilities and there is no threat of our work under these engagements being reviewed through our audit.</p> <p>Management threat: This work provides a separate assurance report and does not impact on any management decisions.</p> <p>Familiarity: This threat is limited given the scale, nature and timing of the work. This is the second year we have completed these assurance reports.</p> <p>Advocacy: We will not act as advocates for the Council in any aspect of this work. The output is an independent assurance report to the relevant external body applying an approach issued by that body.</p> <p>Intimidation: not applicable to these areas of work</p>
Total estimated fees	£5,500	
Total estimated fees as a percentage of the external audit fees	5%	

Appendix 6

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the Council audit is £94,490 plus VAT (£94,490 in 2015/16), and £24,943 plus VAT (£24,493 in 2015/16) for the Pension Fund audit.

We are proposing an additional fee of £4,996 to the Pension Fund, relating to the additional work we were required to carry out for other auditors of admitted bodies for IAS19 reporting purposes, under arrangements put in place by PSAA. This is the same additional fee we raised, following approval by PSAA, in 2015/16 as the level of work has been the same this year.

PSAA fee table		
Component of audit	2016/17 (actual fee) £	2015/16 (actual fee) £
Council accounts opinion and value for money conclusion work		
PSAA scale fee	94,490	94,490
Additional work to conclude our opinion and conclusion	0	2,991
Sub-total	94,490	97,481
Pension Fund opinion		
PSAA scale fee	24,493	24,493
Additional work to conclude our opinion	(Note 1) 4,996	4,996
Sub-total	29,489	29,489
Total Council and Pension Fund audit fee	123,979	126,970

All fees are quoted exclusive of VAT.

Note 1: Pension Fund additional work

For 2016/17, we have discussed additional fee in relation to the additional IAS19 work for other auditors of admitted bodies with the s151 officer. This is still subject to PSAA determination.



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NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 September 2017

**Report following the detailed review of the draft Statement of Final Accounts
(incorporating Annual Governance Statement) for 2016/17****1.0 Purpose of the Report**

- 1.1 To advise members of the Audit Committee on:
- i. Issues identified during the detailed review of the draft Statements of Final Accounts (SoFA) and the draft Annual Governance Statement (AGS) for 2016/17;
 - ii. Actions taken as a result of issues being identified;
 - iii. Offering an opinion on the draft SoFA and draft AGS for 2016/17 in advance of the Audit Committee being asked to approve them.

2.0 Background

- 2.1 On 22 June 2017 the Audit Committee considered a report which provided a draft Statement of Final Accounts (SOFA) for 2016/17. This included a draft Annual Governance Statement (AGS) for 2016/17. In order to fulfil its responsibilities, the Audit Committee needs to be able to satisfy itself that the SOFA properly reflects the financial position of the Council and the governance and internal control processes described in the AGS are in fact both operational and effective.
- 2.2 It was agreed that a Members Working Group be convened to give detailed consideration of the draft SOFA/AGS and that a report would be presented to the full Audit Committee on 7 September 2017. However, due to changes within the Audit Committee and shortened timescales to finalise the SOFA and AGS, Mr David Portlock (External Member) volunteered to undertake the review himself as the sole member of the working group.
- 2.4 This report provides a summary of the detailed review of the SOFA for 2016/17 which incorporate the AGS.

3.0 Key Areas Identified

- 3.1 To assist the Audit Committee's understanding, comments are provided separately on the AGS and the SOFA for 2016/17, whilst recognising that both ultimately feature in the same document. This section also identifies the action that has taken place and / or will take place.

Annual Governance Statement 2016/17

1. Issue – a number of suggestions and observations were provided in respect of the Annual Governance Statement.

Action taken – the suggestions and observations have been taken into account through minor amendments to the Annual Governance Statement where appropriate, including section 7.3.

Statements of Final Accounts 2016/17

1. Issue – a number of detailed questions were submitted and explanations were provided.

Action taken – explanations provided and no further action required.

2. Issue – a number of sub-headings and supporting narrative within statements were reviewed

Action taken – these have now been updated to provide greater clarity within the accounts.

3. Issues - a number of typos / simple errors were identified.

Action taken – these have now been corrected and are incorporated within the SoFA presented to the Audit Committee on this agenda.

4.0 Conclusions of Mr David Portlock regarding the Statements of Account and the Annual Governance Statement for 2016/17

- 4.1 I am satisfied that all appropriate actions have been taken and satisfactory explanations have been provided where required.
- 4.2 No further issues have been identified up to the date of this report. However, it should be noted that I have not been made aware of the finalised position on the findings of the County Council's External Auditors.
- 4.3 Subject to the above, I recommend to the Audit Committee that the Statements of Final Accounts and the Annual Governance Statement for 2016/17 are approved.

David Portlock
29 August 2017

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 September 2017

STATEMENT OF FINAL ACCOUNTS for 2016/17 including LETTER of REPRESENTATION

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF REPORT

- 1.1 To approve a Letter of Representation that is required to be submitted to the External Auditor.
- 1.2 To approve a Statement of Final Accounts for 2016/17 following completion of the external audit of those Accounts.
- 1.3 To approve the Annual Governance Statement (AGS) for 2016/17.

2.0 BACKGROUND

- 2.1 A draft Statement of Final Accounts (SOFA) for 2016/17 was considered by this Committee on 22 June 2017 in advance of these accounts being audited by the External Auditor during July and August 2017. This SOFA incorporates the accounts of the North Yorkshire Pension Fund.
- 2.2 A number of issues identified following the meeting on 22 June 2017 and in subsequent correspondence have been picked up by the Members Working Group on Governance, whose report is a separate item on the agenda for this meeting.
- 2.3 The external audit of the 2016/17 Accounts is now complete with the report of the External Auditor being included as a prior item on this Agenda. Separate reports are issued by the External Auditor for the County Council and North Yorkshire Pension Fund accounts.
- 2.4 The External Auditor has indicated that he anticipates being able to issue an unmodified opinion by the time the Audit Committee meets.
- 2.5 The revised SOFA is provided as a separate booklet in the Agenda papers for this meeting.
- 2.6 To conclude the Final Accounts process (in advance of the External Auditor signing off the 2016/17 Accounts by the required statutory date of 30 September 2017), it is necessary for this Committee to
 - (i) agree and countersign a Management Letter of Representation to the External Auditor (see **paragraph 3**)

- (ii) note the changes reflected in the Final SOFA compared to the version considered on 22 June 2017(see **paragraph 4**), and
- (iii) approve the Final SOFA and authorise the Chairman to sign the Accounts on that basis (see **paragraph 5**)

2.7 The report also asks Members to approve a final Annual Governance Statement for 2016/17 and authorise the Chairman to sign the AGS on its behalf (**paragraph 6**).

3.0 **LETTER OF REPRESENTATION**

3.1 The External Auditor requires a written representation from the County Council's management as an acknowledgement of its responsibility for the fair presentation of the SOFA and as audit evidence on matters material to the financial statements when other sufficient appropriate evidence cannot reasonably be expected to exist.

3.2 The Letter of Representation is attached as **Appendix A**. The Letter should be reviewed by the Audit Committee as the body charged with responsibility for governance and then signed on their behalf by the Chairman, before approval of the SOFA. This is to ensure that Members of this Committee are aware of the representations on which the Auditor intends to rely when issuing his opinion.

3.3 The Letter applies to the financial statements of both the County Council and North Yorkshire Pension Fund.

3.4 Members are therefore asked to consider and approve this Letter and then authorise the Chairman to sign it on their behalf. The Letter will then be submitted to the External Auditor.

4.0 **CHANGES REFLECTED IN THE FINAL SOFA**

4.1 A number of changes have been made to the SOFA since it was considered by Members of this Committee on 22 June 2017.

4.2 These changes are explained in detail in **Appendix B** attached and arise from:-

- (i) refinements agreed with the External Auditor during their audit of the accounts
- (ii) internally initiated refinements together with those resulting from comments and questions by Members of this Committee and the Members Working Group
- (iii) inclusion of the External Auditor's certificate which was not included in the draft document on 22 June 2017.

5.0 APPROVAL OF THE FINAL SOFA

5.1 The audited final SOFA is attached as a separate booklet. This incorporates all the changes to the draft version considered by Members on 22 June 2017, as set out in **paragraph 4** and **Appendix B**. These accounts will be re-signed by the Corporate Director – Strategic Resources and the Chief Executive on 7 September 2017.

5.2 Members are therefore asked to approve the Final SOFA for 2016/17 following completion of the audit and authorise the Chairman to sign the accounts on behalf of the Audit Committee. A copy of the Statement of Responsibilities for the Statement of Accounts (page 20 of the SOFA) which the Chairman is asked to sign is attached as **Appendix C** with the wording

‘I confirm that these accounts were approved by the Audit Committee On 7 September 2017.’

5.3 A copy of the Balance Sheet (pages 41 and 42 of the SOFA) is also attached as **Appendix D**.

5.4 As mentioned in **paragraph 2.4** the External Auditor has indicated that he anticipates being able to issue an unmodified opinion on the accounts.

6.0 ANNUAL GOVERNANCE STATEMENT

6.1 The Annual Governance Statement (AGS) is an annual report which assesses the effectiveness of the governance processes which have been put in place within the Council. It accompanies the Statement of Final Accounts.

6.2 The AGS has been drafted to comply with the latest Delivering Good Governance Framework in Local Government 2016 and associated Principles.

6.3 In order to fulfill its responsibilities, the Audit Committee needs to be able to satisfy itself that the governance and internal control processes described in the AGS are in fact both operational and effective. One aspect of this assurance process is to review progress by management on dealing with the issues identified in the AGS. The Audit Committee considered a draft AGS at its meeting on 22 June 2017.

6.5 The requirement to produce an AGS is set out in the Accounts and Audit (England) regulations for the Council to approve an AGS as part of the SOFA and the Audit Committee is therefore requested to formally approve the AGS 2016/17 and to authorise the Chairman to sign the AGS on its behalf.

7.0 **RECOMMENDATIONS**

- 7.1 That Members authorise the Chairman to sign the Letter of Representation set out in **Appendix A** on behalf of the Audit Committee.
- 7.2 That in relation to the Statement of Final Accounts 2016/17
- (i) Members note the changes to the Final SOFA as set out in **paragraph 4 and Appendix B**, and
 - (ii) Members approve the Final SOFA for 2016/17 (**paragraph 5.2**), and
 - (iii) recommend that the Chairman sign the Statement of Responsibilities for the Statement of Accounts as attached at **Appendix C**
- 7.3 That Members approve the Annual Governance Statement 2016/17 and authorise the Chairman to sign the AGS on its behalf (**paragraph 6.5**).

GARY FIELDING

Corporate Director – Strategic Resources

County Hall,
Northallerton
7 September 2017

There are no background documents



Our Ref: GF/

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KPMG LLP
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7 September 2017

Dear Rashpal

This representation letter is provided in connection with your audit of the financial statements of North Yorkshire County Council ("the Council"), for the year ended 31 March 2017, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Council and the Group as at 31 March 2017 and of the Council's and the Group's expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

These financial statements comprise the Expenditure and Funding Analysis, the Council and Group Movement in Reserves Statements, the Council and Group

Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, and the related notes (including the Expenditure and Funding Analysis). The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Council confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Council confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Council has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Council and the Group as at 31 March 2017 and of the Council's and the Group's expenditure and income for the year then ended;
 - ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, other than liabilities to pay pensions and other benefits after the end of the scheme year;
 - iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Information provided

5. The Council has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;

- additional information that you have requested from the Council for the purpose of the audit; and
 - unrestricted access to persons within the Council and the Group from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Council confirms the following:
- i) The Council has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Council has disclosed to you all information in relation to:
- a) Fraud or suspected fraud that it is aware of and that affects the Council and the Group and involves:
- management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
- b) allegations of fraud, or suspected fraud, affecting the Council's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Council acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Council acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Council has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Council has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Council has disclosed to you the identity of the Council's and the Group's related parties and all the related party relationships and transactions of which it

is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

11. The Council confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Council's and the Group's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Council and the Group to continue as a going concern.

12. On the basis of the process established by the Council and having made appropriate enquiries, the Council is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Council further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 7 September 2017.

Yours faithfully,

Cllr Clifford Lunn
Chair of the Audit Committee

Gary Fielding
Corporate Director, Strategic
Resources

cc: Audit Committee

Appendix to the Council Representation Letter of North Yorkshire County Council:

Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and

nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity’s assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the “reporting entity”).

- a) A person or a close member of that person’s family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

- b) An entity is related to a reporting entity if any of the following conditions applies:
- i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the Council and other persons having the authority and responsibility for planning, directing and controlling the activities of the Council, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

**CHANGES TO THE 2016/17 STATEMENT OF FINAL ACCOUNTS
SINCE AUDIT COMMITTEE ON 22 June 2017.**

1.0 Introduction

1.1 There have been a number of changes made to the Statement of Final Accounts (SOFA) since it was considered by the Audit Committee on 22 June 2017.

1.2 These changes are as a result of:

- (a) Refinements agreed with the External Auditor during the Audit of Accounts process
- (b) Internally initiated refinements together with those resulting from comments and questions by Members of this Committee the Members Working Group.
- (c) Inclusion of the External Auditor's Certificate that was not included in the draft document on 22 June 2017.

2.0 Changes made as a result of the final accounts audit

2.1 KPMG commenced their auditing of the SOFA in early July 2017 and concluded their auditing process in early September 2017. During the audit process, the following amendments have been agreed with the auditor.

- amendments to the County Council and Group Balance Sheet, Comprehensive Income and Expenditure Statement and Expenditure, and Expenditure and Funding Analysis to reflect changes to the valuation of Land and Buildings revalued in year;
- amendment to the County Council and Group Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis regarding the accounting for grant income;
- minor changes to disclosures and notes to the accounts; and
- various amendments to Pension Fund Main Statements and supporting notes.

3.0 Internally initiated refinements, together with queries raised by Members of the Audit Committee on 22 June 2017 and subsequently the Members Working Group on Governance

- various presentational adjustments to the supporting notes to assist the reader of the accounts;
- adjustments to the Annual Governance Statement; and
- various minor presentational issues and rounding adjustments.

4.0 Inclusion of the External Auditor’s Certificate in the final SOFA as a result of the Audit process having now been finalised.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The County Council is required to:

- (a) make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director – Strategic Resources;
- (b) manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- (c) approve the Statement of Accounts.

The Corporate Director – Strategic Resources is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Corporate Director – Strategic Resources has:

- (a) selected suitable accounting policies and then applied them consistently;
- (b) made judgements and estimates that were reasonable and prudent; and
- (c) complied with the local authority Code.

The Corporate Director – Strategic Resources has also:

- (a) kept proper accounting records which were up to date; and
- (b) taken reasonable steps for the prevention and detection of fraud and other irregularities.

CERTIFICATE OF THE CORPORATE DIRECTOR – STRATEGIC RESOURCES

I certify that the Statement of Accounts 2016/17 presents a true and fair view of the financial position of the County Council and the North Yorkshire Pension Fund at the accounting date and their income and expenditure for the year ended 31st March 2017.

Gary Fielding
Corporate Director – Strategic Resources
September 2017

Co-signed by,
Richard Flinton
Chief Executive
September 2017

CERTIFICATE OF THE AUDIT COMMITTEE

I confirm that these Accounts were approved by the Audit Committee on 7th September 2017 following completion of the External Audit

Chair of the Audit Committee
September 2017

BALANCE SHEET AS AT 31ST MARCH 2017

31st March 2016 £000		31st March 2017 £000
1,507,699	Property, Plant and Equipment (note 18)	1,495,797
34,731	Investment Property (note 25)	35,722
9,763	Intangible Assets (note 24)	8,616
3,518	Long Term Investments (note 29)	9,018
21,420	Long Term Debtors (note 30)	16,053
1,577,131	Long Term Assets	1,565,206
227,383	Short Term Investments (note 39a)	276,218
1,081	Inventories	1,695
64,137	Short Term Debtors (note 31)	77,381
69,013	Cash and Cash Equivalents (note 28)	49,260
170	Assets held for sale (note 27)	170
361,784	Current Assets	404,724
(57,566)	Short Term Borrowing (note 39a)	(100,454)
(83,904)	Short Term Creditors (note 32)	(90,233)
(272)	PFI Liability repayable within 12 months (note 12)	(193)
(8)	Finance Lease repayable within 12 months (note 13)	(9)
(1,996)	Provisions to be used within 12 months (note 33)	(2,599)
(3,025)	Capital Grant Receipts in Advance (note 9)	(2,707)
(146,771)	Current Liabilities	(196,195)
(3,073)	Long Term Creditors (note 23)	(3,004)
(4,181)	PFI Liability repayable in excess of 12 months (note 12)	(3,988)
(1,077)	Finance Lease repayable in excess of 12 months (note 13)	(1,068)
(5,750)	Provisions to be used in excess of 12 months (note 33)	(7,870)
(436,923)	Pensions Liability (note 10)	(463,951)
(308,975)	Long Term Borrowing (note 39a and 39d)	(277,531)
(4,889)	Capital Grant Receipts in Advance (note 9)	(2,973)
(764,868)	Long Term Liabilities	(760,385)
1,027,276	Net Assets	1,013,350

31st March 2016 £000		31st March 2017 £000
	Usable Reserves	
27,270	General Working Balance (note 34a)	27,270
192,543	Earmarked Reserves (note 34b)	189,716
0	Capital Receipts Unapplied Reserve (note 34c)	1,618
27,304	Capital Grant Unapplied Reserve (note 34d)	35,630
<u>247,117</u>	Total Usable Reserves	<u>254,234</u>
	Unusable Reserves	
260,831	Revaluation Reserve (note 35a)	280,141
4,675	Collection Fund Adjustment Account (note 35b)	5,614
0	Financial Instruments Adjustment Account (note 35c)	0
(7,606)	Accumulated Absences Account (note 35d)	(9,424)
(436,923)	Pension Reserve (note 35e)	(463,951)
959,182	Capital Adjustment Account (note 35f)	946,736
<u>780,159</u>	Total Unusable Reserves	<u>759,116</u>
<u>1,027,276</u>	Total Reserves	<u>1,013,350</u>

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 SEPTEMBER 2017

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 2017, 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 Clifford Lunn, Chair of the Audit Committee

County Hall
Northallerton

7 August 2017

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 2017. 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 four occasions in the year to 30 September 2017, 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, KPMG. 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 Committee has continued to focus its attention on a number of emerging issues and priorities including funding challenges, devolution, the need for sustainable growth, health and social care integration, the risk of service failure in the social care sector, information security and safeguarding.

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.

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

The Committee:

External Audit

- 1 Received and considered the external auditor's annual audit letter in respect of the 2015/16 audit year. The Committee was pleased to note that the external auditors had not raised any significant issues and had given unqualified audit opinions for both the County Council and the North Yorkshire Pension Fund. KPMG had also issued an unqualified value for money conclusion and an unqualified opinion on the Whole of Government Accounts return;
- 2 Received and considered the external auditor's plan for the audit of the 2016/17 financial statements and the review of the County Council's arrangements for securing value for money;
- 3 Received and considered the results of KPMG's work in relation to the audit of the 2016/17 financial statements of the County Council and the North Yorkshire Pension Fund. The Committee was pleased to note that the auditors had not identified any issues and had given unqualified audit opinions for both the County Council and the North Yorkshire Pension Fund. KPMG had also issued an unqualified value for money conclusion;
- 4 Held an informal private meeting with KPMG to discuss their work;

Internal Audit

- 5 Continued to oversee the internal audit arrangements for the County Council and North Yorkshire Pension Fund. This has included approving changes to the Internal Audit Charter;
- 6 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;
- 7 Received and approved the Internal Audit Plan for 2017/18. The plan ensures that limited internal audit resources are prioritised towards those systems and areas which are considered to be the most risky or which contribute most to the achievement of the County Council's corporate objectives;
- 8 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;
- 9 Considered the County Council's overall counter fraud arrangements in the light of emerging risks (both national and local) and approved changes to the County Council's anti-money laundering policy;
- 10 Received and considered the outcome of the annual 2016/17 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;

- 11 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 issues related to information security, procurement and contract management within Health and Adult Services, access to IT systems by volunteers and compliance with the Payment Card Industry Data Security Standard;
- 12 Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2016/17, and considered the performance targets for 2017/18. 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;
- 13 Held an informal private meeting with the Head of Internal Audit to discuss the work of the internal auditors;

Risk Management

- 14 Continued to oversee the County Council's risk management arrangements and strategy;
- 15 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 recognised that many of the risks identified were complex in nature and/or had potentially significant financial implications;
- 16 Assessed the adequacy and effectiveness of each Directorate's risk management arrangements through consideration of the risks and mitigating actions identified in each Directorate Risk Register;
- 17 Considered the outcome of the insurance tender exercise. The Committee was pleased to note the overall saving of £104k pa (net of insurance premium tax) that had been achieved;

Corporate Governance

- 18 Considered changes to the Local Code of Corporate Governance prior to approval. These changes reflected the core principles and requirements of the recently published CIPFA/SOLACE 'Delivering Good Governance in Local Government Framework' (2016);
- 19 Considered and approved the Annual Governance Statement for 2016/17 of the County Council. The Statement had been updated so that it aligned with the new

corporate governance principles and framework. The Committee also reviewed the progress made by management to address significant issues identified in the 2015/16 Annual Governance Statement;

- 20 Considered a number of recent developments to strengthen and improve corporate governance arrangements as well as future plans. The Committee was pleased to note the refresh of the Council Plan and the continued focus on the Medium Term Financial Strategy (MTFS);
- 21 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 noted that none of the partnerships were identified as being high risk although 19 were classed as medium risk. The governance arrangements of all high and medium risk partnerships are monitored on a regular basis. The Committee consider that partnership governance remains effective and the existing arrangements are proportionate and commensurate to the risks;
- 22 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 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 updating the corporate information policy framework, identifying new or emerging risks, sharing best practice, and monitoring compliance with corporate information governance standards. The Committee also considered the results of the information security compliance checks performed by internal audit and the causes of recent data security incidents. The Committee noted that the number of reported incidents has increased but recognised that this is likely to have been caused by heightened awareness of the issue. The Committee shares the view that information governance remains a key corporate risk;
- 23 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 continues to be made to develop effective systems and processes to reduce the risks of disruption;
- 24 Received reports detailing the progress made to implement the Corporate Procurement Strategy (2014 - 2020) and the achievement of procurement related savings. The Committee also noted a number of other developments including the establishment of the new Corporate Procurement and Contract Management Service following the decision to bring the service in-house, greater focus on market engagement, the implementation of a category management approach to cross-Council expenditure, improved contract management and increased collaboration with other public sector organisations;

Financial Statements

- 25 Considered and approved the Statement of Accounts for 2016/17 of the County Council and the North Yorkshire Pension Fund;
- 26 Received details of the revised Code of Practice on Local Authority Accounting which was issued by CIPFA in April 2016. Whilst no changes are required to the Council's

accounting policies, the format of the 2016/17 Statement of Accounts will need to be amended. In practice this will mean that we will now be able to report income and expenditure by directorate. The Committee also noted a number of potential future changes to the Code of Practice including the anticipated change to the valuation of highways network assets from April 2017 onwards. This will represent a significant change in accounting policy and require separate disclosure of different categories of infrastructure (for example, carriageways, footways and cycle tracks, and street lighting). Other changes being considered include the extension of the definition of finance leases to include certain operating leases. This change, if implemented, could have an impact on the Council's prudential borrowing.

- 27 Received and considered proposed changes to the timetable for the preparation and approval of the Statement of Accounts and Annual Governance Statement. For the 2017/18 financial year onwards, the Council County is required to produce the annual accounts and governance statement by 31 May (one month earlier than previously) and to have published the audited and approved accounts and governance statement by 31 July (two months earlier than previously). This change to the timetable is challenging for both the County Council and KPMG. The Committee was therefore interested to understand the planned changes to approach that are considered necessary to meet the accelerated timetable. The Committee also noted that the timetable for the preparation and audit of the 2016/17 Statement of Accounts and Annual Governance Statement had been revised to meet the new requirements. This will allow any issues in scheduling to be identified early.

Other

- 28 Received and considered proposed changes to the Contract Procedure Rules prior to referral to the Executive and approval by the County Council. The changes included recognition of the new Corporate Procurement and Contract Management Service structure, improved procedures for the evaluation of OJEU tenders, greater clarity on the approvals required at each stage of the 'gateway' process, improved guidance for the administration of grants. Other changes included new requirements for when non-council employed workers are engaged (to ensure compliance with the new legal requirement to deduct tax and NI), and measures to improve transparency and engagement by small and medium enterprises (SMEs);
- 29 Continued to scrutinise the County Council's treasury management arrangements. This included reviewing the updated Treasury Management policy statement and the annual Treasury Management and Investment Strategy for 2017/18. The Strategy incorporates a minimum revenue provision policy and a policy to cap capital financing costs as a proportion of the annual net revenue budget;
- 30 Received briefings from officers on issues facing the County Council including the measures being taken to promote information governance good practice and reduce the risks of cyber attack. Members also attended a seminar on the 2020 Modern Council;
- 31 Members also attended a training course in July delivered by CIPFA which highlighted the role and responsibilities of the Audit Committee. The course was a helpful induction for the new members of the Committee. It was also attended by audit committee members from other neighbouring councils which helped to provide an opportunity to compare practices and share knowledge;

- 32 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee;
- 33 Reviewed the Committee's Terms of Reference. We concluded that no changes were required.
- 34 We welcomed a number of new members to the Committee in May this year. I was also appointed as the new Chair. I would like to thank my predecessor, Councillor Mike Jordan, for the enthusiasm and dedication he showed in the role and for ensuring the Committee effectively discharged its responsibilities.

Councillor Clifford Lunn
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).

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 SEPTEMBER 2017

INTERNAL AUDIT WORK FOR THE CHILDREN AND YOUNG PEOPLE'S SERVICES
DIRECTORATE

Report of the Head of Internal Audit

1.0 PURPOSE OF THE REPORT

- 1.1 To inform Members of the **internal audit work** performed during the year ended 31 May 2017 for the Children and Young People's Services Directorate (CYPS) and to give an opinion on the systems of internal control in respect of this area.

2.0 BACKGROUND

- 2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to the Children and Young Peoples Services (CYPS), the Committee receives assurance through the work of internal audit (as provided by Veritau), as well as receiving a copy of the latest directorate risk register.
- 2.2 This agenda item is considered in two parts. This first report considers the work carried out by Veritau and is presented by the Head of Internal Audit. The work of internal audit is reported in accordance with an agreed programme of work with this report covering audits finalised in the 12 months from 1 June 2016 to 31 May 2017. The second part is presented by the Corporate Director and considers the risks relevant to the directorate and the actions being taken to manage those risks.

3.0 WORK CARRIED OUT DURING THE YEAR ENDED 31 MAY 2017

- 3.1 The audit of schools has changed in recent years with a reduction in the number of individual establishment audits being carried out. The majority of audit work within schools is now performed as part of themed audits, where a specific topic is reviewed across a range of schools. During these audits feedback is provided to each school visited, but the audit report is issued to CYPS and includes common issues or best practice relevant to schools in general. CYPS then produces a response which is aimed at improving standards across all schools.
- 3.2 Details of internal audit work undertaken within the directorate and the outcomes of these audits are provided in **appendix 1**.
- 3.3 Veritau has also been involved in a number of other areas of work in respect of the directorate. This work has included:

- (a) providing a series of training courses for school governors on financial controls and the School Financial Value Standard (SFVS);
 - (b) monitoring and reviewing SFVS returns and drafting the DfE return;
 - (c) reviewing LMS Procedure Rules, in conjunction with school representatives and officers from Finance and Management Support, Legal Services and the Corporate Property Landlord Unit;
 - (d) contributing to training sessions at the termly school bursar conferences;
 - (e) offering advice to schools on tendering and quotation procedures in connection with devolved capital works;
 - (f) keeping schools informed of best practice and recent developments;
 - (g) publishing advice for schools on counter-fraud arrangements to enable them to comply with the requirements of the LMS Scheme;
 - (h) carrying out a number of other special investigations that have either been communicated via the Whistleblowers' hotline or have arisen from issues and concerns raised with Veritau by CYPs management.
- 3.4 As with previous audit reports an overall opinion has been given for each of the specific systems or areas under review. The opinion given has been based on an assessment of the risks associated with any weaknesses in control identified. Where weaknesses are identified then remedial actions will be agreed with management. Each agreed action has been given a priority ranking. The opinions and priority rankings used by Veritau are detailed in **appendix 2**.
- 3.5 It is important that agreed actions are formally followed up to ensure that they have been implemented. Veritau now follow up all agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. **On the basis of the follow up work undertaken during the year, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.**
- 3.6 All internal audit work undertaken by Veritau is based on an Audit Risk Assessment. Areas that are assessed as well controlled or low risk are reviewed less often with audit work instead focused on the areas of highest risk. Veritau's auditors work closely with directorate senior managers to address any areas of concern.
- 4.0 **AUDIT OPINION**
- 4.1 Veritau performs its work in accordance with the Public Sector Internal Audit Standards (PSIAS). In connection with reporting, the relevant standard (2450) states that the chief audit executive (CAE)¹ should provide an annual report to the board². The report should include:

¹ For the County Council this is the Head of Internal Audit.

² For the County Council this is the Audit Committee.

- (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
- (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
- (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment)
- (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
- (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
- (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

4.2 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating in the Children and Young People's Services Directorate is that it provides **Substantial Assurance**. There are no qualifications to this opinion and no reliance was placed on the work of other assurance bodies in reaching that opinion.

5.0 **RECOMMENDATION**

5.1 That Members consider the information provided in this report and determine whether they are satisfied that the internal control environment operating in the Children and Young People's Services Directorate is both adequate and effective.

MAX THOMAS
Head of Internal Audit

Veritau Ltd
County Hall
Northallerton

7 August 2017

BACKGROUND DOCUMENTS

Relevant audit reports kept by Veritau Ltd at 50 South Parade, Northallerton.

Report prepared by Ian Morton, Audit Manager, Veritau and presented by Max Thomas, Head of Internal Audit.

AUDIT REPORTS ISSUED IN THE YEAR TO 31 MAY 2017

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	School Improvement Partnership	Substantial	<p>Four school improvement partnerships have been created to bring together school leaders and council officers. The objective of the partnerships is to help improve standards across North Yorkshire through greater collaboration. The audit examined whether:</p> <ul style="list-style-type: none"> • The partnerships had set objectives, targets and milestones that are owned collectively. • The partnerships are monitoring and reporting activity, outcomes and impact. • The partnerships are held accountable for the allocation of funding and also the impact it has had on outcomes for children and young people 	July 2016	<p>At the first meeting of each partnership, members were required to sign confidentiality agreements and were made aware of the code of conduct. Each partnership has been correctly established under the constitution and has a suitable membership.</p> <p>There is no evidence of any declarations of interest within partnership minutes, although there is a possibility that conflicts may occur due to involvement with teaching alliances. No Service Level Agreements have been agreed between the partners so there maybe misunderstandings about the expectations of service delivery.</p>	<p>Two P2 and one P3 action were agreed.</p> <p>Responsible Officers Assistant Director – Education and Skills</p> <p>The importance of declaration of interests has been highlighted to all chairs. Memorandum of Understandings will be drawn up and used to define service delivery requirements</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<ul style="list-style-type: none"> Any conflicts of interest have been recognised and mitigated 			
B	Filey Junior School	No	<p>A full school audit was undertaken, covering the following areas:</p> <ul style="list-style-type: none"> Governance & financial management; Procurement; Payments; Income; Human resource management; Payroll School Fund administration; Data Protection and Information Technology; Risk management and insurance 	January 2017	<p>A number of major issues were identified in relation to the administration and financial management of the school.</p> <p>There was no effective method of collecting and banking income. Budget monitoring was not taking place, and therefore potential issues with income collection were not identified. The school fund was not managed effectively - it was unclear what it was used for and it had not been independently reviewed.</p> <p>Other issues were identified in respect of reconciliations, authorisation of orders, invoices and salary changes, and VAT returns not being submitted on a regular basis. VAT was also not accounted for correctly</p>	<p>Three P1, six P2 and six P3 actions were agreed.</p> <p>Responsible Officers</p> <p>Headteacher Governing Body FMS Officer</p> <p>The FMS officer for the school has provided significant support to bring documentation up to date and to establish new procedures for the school's financial administration.</p> <p>The School Fund has been closed and all transactions now take place within the BAFS account.</p> <p>Procedures have been clarified by the FMS officer. Staff and governors are now aware of their duties and responsibilities. The FMS officer is continuing to review progress to ensure key activities take place at the appropriate time and to the agreed standard.</p>
C	Developing Stronger Families	High	The DCLG framework for the Troubled	June 2016	Suitable evidence was available to support the claim for each	No actions identified.

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			Families Programme requires internal audit to carry out a representative sample of at least 10% of results for each claim. The aim of these checks is to ensure families are eligible for inclusion in the programme and that appropriate progress has been achieved against the Outcome Plan		family within the sample.	
D	Themed School Audit - KS1 Free School Meals	Substantial	The audit reviewed the impact on individual schools following the introduction of Universal Free School Meals (UFSM) for KS1 pupils. The audit examined the impact on school catering facilities, the number of children entitled to pupil premium and the efforts of schools to maintain registration for Free School Meals (FSM) and hence Pupil Premium entitlement	April 2017	<p>It is difficult to be certain if trends in FSM eligibility are down to local economic factors, or if the lack of incentive for parents to apply has had an impact, but there has been a clear decline in numbers at KS1.</p> <p>Some schools have introduced incentives for parents to apply, including offering supermarket vouchers, PE T-shirts or raffles. However, there does not appear to be any strong evidence that this approach has improved application rates.</p>	<p>Two P3 actions were agreed.</p> <p>Responsible Officers</p> <p>Head of Finance – Schools & Early Years / FMS Team Manager</p> <p>The financial management training offered by the FMS Team to schools will highlight the need to ensure that where incentives are offered to encourage parents to apply for FSM that there needs to be an appropriate review mechanism in order to ensure FSM entitlement rates are increasing. This was highlighted at the Spring 2017 Bursars Conference</p> <p>In conjunction with Veritau, we will investigate the possibility of using</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
						district council data or HMRC data to identify families who are eligible for FSM but have not claimed their entitlement.
E	Children's Direct Payments	Reasonable	<p>This audit was a follow up of the 2015/16 audit, and reviewed the implementation of the agreed actions.</p> <p>Following the previous audit it was proposed to transfer the monitoring of Children's Direct Payments to the Health and Adult Services Direct Payments Support Service (DPSS). The audit reviewed if this change had been successful in improving monitoring arrangements</p>	May 2017	<p>It was found that since being transferred to the DPSS the monitoring arrangements have significantly improved. By having a DPSS Advisor with specialist knowledge involved from the outset and also undertaking the monitoring allows for issues to be identified promptly and action taken.</p> <p>However, the current monitoring arrangements in place for managed accounts are not sufficiently robust to be confident that the assessed needs of the child are being met.</p> <p>The DP pay schedule is managed by Business Support, but access to the spreadsheet is not sufficiently controlled, and the reconciliation process is not sufficient to verify the accuracy of information</p> <p>Some issues remain in relation to out of date guidance information, delays in updating Liquidlogic for some cases, and the need for</p>	<p>Two P2 and five P3 actions were agreed.</p> <p>Responsible Officers DPSS Manager Business Support Manager</p> <p>The process for managed accounts will be reviewed and training provided via team meetings.</p> <p>The pay schedule procedures will be reviewed to improve security measures.</p> <p>Documentation will be updated where required, an authorisation list produced and additional guidance produced and communicated to staff.</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					authorisation lists to identify who can initiate a new direct payment.	
F	Developing Stronger Families	High	The DCLG framework for the Troubled Families Programme requires internal audit to carry out a representative sample of at least 10% of results for each claim. The aim of these checks is to ensure families are eligible for inclusion in the programme and that appropriate progress has been achieved against the Outcome Plan	December 2016	Suitable evidence was available to support the claim for each family within the sample.	No actions identified.
G	Themed School Audit - Income	Substantial	The audit reviewed procedures at a sample of schools to ensure that: <ul style="list-style-type: none"> • all income received is recorded correctly and banked in a timely manner • there is a charging policy which is regularly reviewed and updated, includes debt recovery and is 	May 2017	In general most schools had good procedures in place for the management of income and many now use an electronic income collection system for pupils to minimise the amount of cash income. A number of schools do not obtain lettings income in advance and in one case this had resulted in issues around outstanding payments. In some cases lettings policies have not been updated recently and therefore lettings	One P2 and four P3 actions were agreed. Responsible Officers Head of Finance – Schools Schools will be reminded of the need to review and sign off their lettings policies and the other issues identified within the audit. This will be done through bursars' conferences and training courses and we will ensure that this guidance is included in the finance manual. A note will also be

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>applied consistently</p> <ul style="list-style-type: none"> insurance documents are retained for all lettings VAT on income is charged correctly 		<p>prices may be out of date. Some schools did not enforce the letting policy in relation to cancellations by regular users.</p> <p>One school uses a lettings company to manage all lettings, and although a SLA is in place this is a generic document provided by the lettings company.</p> <p>There are some issues around VAT exemption based upon affiliated sports clubs</p>	sent to FMS officers with the finding of this and other themed audits and they will be asked to deliver this message when in school.
H	Themed School Audit - Budget Management	High	The audit reviewed budgeting and budget management procedures within a sample of schools to ensure compliance with best practice and that suitable budget management could be evidenced.	May 2017	<p>The majority of schools visited have good procedures in place for budget monitoring, and provide regular budget monitoring reports both to the Head Teacher and the Governing Body. Outturn, start and revised budgets are produced and submitted to CYPs Finance in line with required timescales</p> <p>Issues were identified with a small number of schools where budget reports are not submitted to governors in advance of meetings or with suitable regularity. There was also a lack of evidence of challenge or discussion within the minutes at some schools</p>	<p>One P2 and one P3 action were agreed.</p> <p>Responsible Officers Head of Finance – Schools</p> <p>Schools will be reminded of this recommendation, through bursars' conferences and training courses and we will ensure that this guidance is included in the finance manual. A note will also be sent to FMS officers and they will be asked to deliver this message when in school. Discussions will be held with Education & Skills and Governor Support to ensure they also deliver this message to governors</p>

Audit Opinions and Priorities for Actions

Audit Opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 SEPTEMBER 2017

INTERNAL CONTROL MATTERS FOR THE CHILDREN AND YOUNG PEOPLE'S
SERVICES DIRECTORATE

Report of the Corporate Director – CYPS

1.0 PURPOSE OF THE REPORT

- 1.1 To outline some of the key service risks and governance developments within the Directorate
- 1.2 To receive details of the updated Risk Register for the Children & Young People's Directorate

2.0 BACKGROUND

- 2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to the Children and Young People's Services (CYPS), the Committee receives assurance through the work of internal audit (detailed in a separate report to the Committee) and through the Directorate Risk Register.
- 2.2 In previous reports, there has been a section on the Statement of Assurance which sought to identify those item that may give rise to internal control or performance risk issues for the Directorate in the forthcoming year. Under new arrangements, there are no longer directorate based Statements of Assurance but some headlines on key service risks and governance developments are provided at section 3.0

3.0 KEY GOVERNANCE DEVELOPMENTS AND RISK ISSUES

- 3.1 There are a number of key governance developments in the forthcoming year which may impact on the Directorate. A number of key headlines are set out below:

(a) SEND and High Needs Strategic Review

The LA has a duty to keep its special educational provision under review and to ensure sufficiency in placements to meet the needs of children and young people with special educational needs and/or disabilities (SEND). Consistent with the national trend, NYCC is experiencing an increase (16% in the year to March 2017) in the number of children and young people assessed as requiring Education, Health and Care Plans. In North Yorkshire the majority of children have their needs met in mainstream school but there has been an increased demand for specialist placements. There is significant work currently underway to review the continuum of special educational provision across the county to ensure it is fit for purpose for the future and that the majority of children can have their needs met in North Yorkshire. Work is also underway to identify the necessary capital investment required across the special school estate. Places in

specialist provision have also been increased by 69 places from September 2017 in response to meeting demand locally and minimise higher-cost out-of-county placements.

(b) Role of the Local Authority in School Improvement

The government has indicated that it envisaged a fully academised system and that the role of the local authority would, therefore, diminish. In addition, the government reduced funding for councils through the Education Services Grant (ESG). Whilst government policy has moved away from a forced academised system, it remains clear that this is seen as the general direction of travel. The government is currently refining its thinking on the nature of council responsibilities in terms of school improvement. However, this requires a more focused School Improvement service that also seeks commercial opportunities. Reshaping the service and financial modelling of different scenarios are being developed to identify future operational models and potential savings.

In addition, the North Yorkshire Education Partnership has identified an opportunity to establish a highly strategic streamlined North Yorkshire Education Trust which would advocate for the sector in the county at a local and national level, propose policy and influence strategy.

(c) Dedicated Schools Grant (DSG)

School and education funding uncertainty has arisen given proposals to implement a new national funding formula. There are potential changes in high needs funding and a proposed white paper on the role and responsibilities of the LA in school improvement (described above). In July 2017, the Secretary of State, Justine Greening, announced an extra £1.3 billion for schools and high needs across 2018-19 and 2019-20 as part of a transitional period towards the national funding formula. Gaining authorities will have amounts confirmed based on the final formula in September 2017. The additional funding for schools and high needs will be funded from “savings and efficiencies” in the Department for Education budget – however, details have yet to be clearly set out and how, if at all, this will impact on local authorities.

(d) MTFs: 2020 Savings and Budget Pressures

As part of the Council’s 2020 Savings Programme, CYPS have played a full and active role in the development of savings ideas, with a good record of transforming services and delivering savings. The target has been £15m savings over the period 2015-20 across a range of services. During this period, the Council has seen the demand for some services increase and expectations remain high; within this context, it has been necessary to take a transformational approach. Although the target was front-loaded with £11.3m in 2015-16 and 2016-17, there are strong indications that the delivery of the programme is getting tougher and will be more challenging to deliver. In addition, the programme should not be seen in isolation, but in the context of wider financial pressures that are beginning to emerge, particularly around SEND. Arrangements are supported by sound programme and project management arrangements including formal project teams, a structure of programme board oversight and active monitoring of implementation and impact.

(e) Integration of Services

Opportunities for joint commissioning arrangements have been developed with Health partners, particularly to ensure that speech, language and communication needs are developed and in place. Work continues to contribute to the delivery of the Health & Wellbeing Board in relation to children's health priorities to ensure strategic decision-making is influenced by Young and Yorkshire 2 (the Children and Young People's Plan). However, this is in the context where some health funding contributions for short breaks for disabled children has been withdrawn in 2017-18.

The Directorate has also benefitted from a number of sources of grant funding (e.g. No Wrong Door, Opportunity Areas, Partners in Practice). These have provided short-term funding for investment in innovative approaches to service delivery. Opportunities to ensure and maximise an integrated approach to service delivery within the Directorate will also be explored to ensure strong performance and successful outcomes for children and young people - but that are also financially sustainable.

4.0 DIRECTORATE RISK REGISTER

4.1 The **Directorate Risk Register** (DRR) is the end product of a systematic process that initially identifies risk at Service Unit level and the aggregates these via a sieving process to Directorate level. A similar process sieves Directorate level risks into the Corporate Risk Register.

4.2 The Risk Prioritisation System used to drive all Risk Registers across the County Council categorises risks as follows:

- **Category 1 and 2 are high risk (RED)**
- **Category 3 and 4 are medium risk (AMBER)**
- **Category 5 is low risk (GREEN)**

4.3 The DRR represents the principal risks that may materially impact on the performance and financial outcomes of the Directorate. The CYPS DRR was last reviewed in July 2017. The detailed DRR is shown at **Appendix 1** and shows a range of risks and the risk reduction actions which have been put in place to minimise them.

4.4 The main **amendments** to the risk register since June 2016 which reflect ongoing changes are as follows:

- The previous risk relating to Safely Reducing the LAC Population was changed to Looked After Children.
- The Strategy for Supporting Disabled Children, Young People and their Families has been expanded to include SEND Funding which was previously reported as a separate Directorate risk. The detailed actions against the risk will still be monitored as part of the Inclusion Service risk register.
- The School Organisation: Place Planning and Funding has been amended to School Organisation and Funding which emphasises the risk over the coming year.

- The Good and Safe Governance Arrangements risk was amended to Information Governance. This has previously included health and safety which will continue to be monitored as part of the Education & Skills Service risk register. However, information governance remains a Directorate risk.
- The 2020 North Yorkshire including workforce development, planning and cultural change within CYPS was amended to Planning and Cultural Change within CYPS to deliver 2020 North Yorkshire and address national changes.

4.5 Some examples of actions that have been completed in relation to particular risks since the last report to the Committee include:

- Strategy for Supporting Disabled Children, Young People and their Families – development of a single Disabled Children register. Work also continues to monitor the impact of the implementation of the new delivery model for short breaks.
- Safeguarding Arrangements – the implementation of the MAST has strengthened partnership working providing a single point of contact for referrals and to ensure that early engagement avoids escalation to statutory services.
- Looked After Children – the number of children and young people looked after have reduced from 415 at Q1 2016 to 397 at Q1 2017. The emphasis is on safely managing admissions and discharges to care to prevent, where possible, a rise in the care population.
- Planning and Cultural Change within CYPS to deliver 2020 North Yorkshire and address national changes – work continues on delivering the OD 2020 cross cutting theme across the directorate to ensure that managers and staff have the right skills, attitude and technology for new ways of delivering services. Leadership of the 2020 CYPS programme and project activity continues with regular monitoring at Children & Young People’s Leadership Team incorporating issues arising from programme, budget and funding.
- Educational Outcomes – work continues on the preparation for, and implementation of, the approach to the ‘Scarborough Opportunity Area’ building on the ‘Scarborough Pledge’ to collaboratively challenge educational underachievement.
- Information Governance – the introduction of a digital signature solution enables documents to be sent securely (e.g. HR and procurement contracts).
- Inspection Outcomes – work continues to ensure pre-inspection readiness.
- Partnership and Integration with Health – through the Partners in Practice initiative, work continues to improve joint commissioning arrangements for psychologists and speech and language therapists to improve outcomes for looked after children earlier; some co-location of staff has also been achieved.

5.0 RECOMMENDATION

5.1 That the Committee:

- (i) note the updated risk register for the CYPS Directorate; and
- (ii) provide feedback and comments on the CYPS Directorate Risk Register, key risk and governance issues/ developments and any other related internal control matters

Stuart Carlton
Corporate Director – Children and Young People’s Services

Risk Register: **month 0 (July 2017) – detailed**
 Next Review Due: **January 2018**
 Report Date: **4th August 2017 (cpc)**

Phase 1 - Identification											
Risk Number	24/211	Risk Title	24/211 - Schools Organisation and Funding				Risk Owner	CD CYPS	Manager	CSD AD SR (AH) CYPS AD E&S	
Description	Failure to assess and manage the combined effects of changes in the national school policy and funding framework, demographics (both rising and falling as a result of housing market changes) and national and local political circumstances, resulting in a fragmentation of the network of services for children, growing numbers of unsustainable and/or failing schools, insufficient school places, fragmentation due to academisation.					Risk Group	Strategic	Risk Type	Corp 20/205		
Phase 2 - Current Assessment											
Current Control Measures			Consistent monitoring of forecast numbers. Links with District Councils and developers over major housing developments (including ISDG work). Cross-directorate "Strategic Priority Schools" approach. Work with the Education Partnership, Keep up to date with current publications, email, etc. Reg review of DfE and other critical websites. Liaison with other LAs. Early assessment of resource implications on new development. Advocacy of NYCC case for funding, new procedures for grant & award acceptance, involvement in appropriate national conferences, participation in DfE priorities when possible, collaboration guidance and toolkit, review of planning areas to explore the level of need; framework for prioritisation of school organisation issues, briefings provided for elected Members and NY Education Partnership; involvement with White Paper strategic board; liaison with Education Funding Agency (EFA), DfE and Regional Schools Commissioner (RSC)								
Probability	H	Objectives	M	Financial	M	Services	H	Reputation	H	Category	I
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed			
Reduction	24/209 - Continue to work with and use effective lobbying channels eg Educational Building and Development Officers Group (EBDOG)					CSD AD SR (AH) CYPS AD E&S	Tue-31-Jul-18				
Reduction	24/1151 - Develop arrangements to support the process of academisation, where it has been started, to ensure smooth transfer of schools. Assist groups of schools, where appropriate, to develop locally focused Multi Academy Trusts or other appropriate arrangements					CYPS AD E&S	Tue-31-Jul-18				
Reduction	24/1152 - Assess implications for the market of changes to early years funding					CYPS AD E&S	Tue-31-Jul-18				
Reduction	24/1204 - Continue to encourage, support and build capacity to enable schools to work collaboratively to seek to ensure continued viability					CYPS AD E&S	Tue-31-Jul-18				
Reduction	28/454 - Ensure consistent approach corporately to infrastructure funding, including CIL					CYPS AD E&S	Tue-31-Jul-18				
Reduction	28/1428 - Continual review of the estate including maintenance requirement (ongoing)					CSD AD SR (AH)	Tue-31-Jul-18				
Reduction	28/1432 - Exploit alternative sources of funding for the delivery of new school spaces and encourage free school applications where appropriate					CYPS AD E&S	Tue-31-Jul-18				
Reduction	28/1444 - Develop constructive relationships with the Regional Schools Commissioner and receive their practical support					CYPS AD E&S	Tue-31-Jul-18				



Risk Register: **month 0 (July 2017) – detailed**
 Next Review Due: **January 2018**
 Report Date: **4th August 2017 (cpc)**

Reduction	28/1445 - Work with the Property team to mitigate risks to the delivery of the 2016/17 and 2017/18 capital plans arising from the transfer of the contract with Mouchel to an in-house arrangement						CYPS AD E&S	Tue-31-Jul-18		
Phase 4 - Post Risk Reduction Assessment										
Probability	M	Objectives	M	Financial	M	Services	H	Reputation	H	Category 2
Phase 5 - Fallback Plan										
Fallback Plan	28/300 - Investigate failure and resolve member briefings, media mgt,								Action Manager	CYPS AD E&S



Risk Register: month 0 (July 2017) – detailed

Next Review Due: January 2018

Report Date: 4th August 2017 (cpc)

Phase 1 - Identification											
Risk Number	24/259	Risk Title	24/259 - Strategy for Supporting Disabled Children, Young People and their Families including SEND				Risk Owner	CD CYPS	Manager	CYPS AD Incl	
Description	Failure to implement the Strategy for supporting Disabled Children, Young People and their Families including SEND resulting in unmet needs, workload pressures, missed savings target and criticism					Risk Group	Strategic	Risk Type	Incl 21/254		
Phase 2 - Current Assessment											
Current Control Measures			Options appraisal; engagement with stakeholders; EIA; public consultation; Exec approval; multi agency transition steering group; single Disabled Children register developed; advertising and marketing for fostering in progress; development officer; work with fostering on strategic proposal and comms re marketing; reviewed the Partnership with Action for Children for delivery of short breaks in Scarborough; further developed options paper for Short Break proposals and consider the impact of legal rulings on reductions made by other authorities; transformation plans completed;								
Probability	M	Objectives	M	Financial	H	Services	H	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed			
Reduction	21/142 - Establish method for maintenance and ongoing use of the single Disabled Children register					CYPS Incl HoSEN	Mon-31-Jul-17	Wed-31-May-17			
Reduction	21/341 - Continuation of the plan to build place capacity at Forest Moor school and explore potential for a satellite at Selby.					CYPS AD E&S CYPS AD Incl	Sat-30-Jun-18				
Reduction	21/372 - Structure the required phased implementation of the delivery model, firstly short breaks and then the re-profiling of the work to address the overspend					CYPS AD Incl	Sat-30-Sep-17				
Reduction	21/374 - Implement the Preparing for Adulthood model relating to SEND transition; needs further work to embed particularly work with colleagues in HAS					CYPS AD Incl	Sat-30-Jun-18				
Reduction	21/383 - Review the changes to CRC and Fostering delivery to ensure capacity and contribution to 2020 Inclusion programme; need to maintain priority around personalisation and the hub model from CRC and to conclude work on T&C, quality assurance and the brokerage model with HAS					CYPS Incl HoSEN	Sat-30-Jun-18				
Reduction	21/451 - Transform the function of the Children's Resource Centres to extend the range of support					CYPS AD Incl	Sat-30-Jun-18				
Reduction	21/453 - Early work to secure longer term overnight provision in Scarborough					CYPS AD Incl	Sat-30-Jun-18				
Reduction	21/456 - Issue the SEND strategy and seek to promote the narrative to all stakeholders; draft done, timing will allow inclusion of aspects of ISOS report and SEND inspection					CYPS AD Incl	Sat-30-Sep-17				
Reduction	21/483 - Work with colleagues in C&FS to consider services for all disabled children whose carers request assessments and support.					CYPS AD Incl	Sat-30-Jun-18				
Reduction	24/427 - Dir level – Carry out actions listed in service risk 21/23 'to ensure control of spending for SENDs YP funding'					CYPS AD Incl	Tue-31-Jul-18				
Phase 4 - Post Risk Reduction Assessment											
Probability	M	Objectives	M	Financial	M	Services	H	Reputation	H	Category	2
Phase 5 - Fallback Plan											



Risk Register: **month 0 (July 2017) – detailed**
Next Review Due: **January 2018**
Report Date: **4th August 2017 (cpc)**

		Action Manager
Fallback Plan		



Risk Register: **month 0 (July 2017) – detailed**
 Next Review Due: **January 2018**
 Report Date: **4th August 2017 (cpc)**

Phase 1 - Identification											
Risk Number	24/221	Risk Title	24/221 - Partnership and Integration with Health				Risk Owner	CD CYPS	Manager	All CYPLT members	
Description	Failure to develop and implement new models of care that will provide better outcomes for children and young people and local communities. This failure would have a negative impact on the development of integrated services, give rise to increased costs to CYPS and cause the loss of opportunities that joint provision may offer.					Risk Group	Partnerships	Risk Type	Corp 20/47		
Phase 2 - Current Assessment											
Current Control Measures			H&W Board; Children's Trust Board; Public Health team; CYPLT; Dir of partnership Commissioning; joint post of Commissioning Manager; joint post of Public Health analyst; CYPS Plan; Health and Well-being Strategy refreshed with children's health as a priority and aligned with the CYPS Plan; JSNA; CYPLT fully briefed and up to date with the changing commissioning landscape and the different roles involved; appropriate engagement secured with CCGs'leads for children for commissioning affecting children and young people and their families; services commissioned for 0-5 and 5 - 19 Healthy Child Programme to ensure close alignment with Preventative Services; children's health performance reviewed at the Children's Trust Board to monitor the impact of changes on children's health outcomes in North Yorkshire; Work with Public Health to embed PH outcomes into the work of CYPS; specifications for 0-5 healthy child service in place; 'Future in Mind' strategy reflects the needs of Children and Young People in N Yorkshire; tender process for future contracts; analyses of children's health in N Yorkshire, raising awareness and seeking actions from partner agencies to mitigate risks around children's physical and mental health and to inform commissioning decisions;								
Probability	M	Objectives	H	Financial	H	Services	H	Reputation	M	Category	2
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed		
Reduction	21/114 - Continuously improve partnership with CYP & Families, Health Commissioners and SEMH providers through SEMH steering group and SEMH implementation plan						CYPS Incl HoIE	Tue-31-Jul-18			
Reduction	24/415 - Ensure Healthy Child team and Prevention team collaborate effectively to deliver improved outcomes of Children, Young People and Families						CYPS C&F HoPrev	Tue-31-Jul-18			
Reduction	24/416 - Work with the commissioned provider to ensure Mental Health services are effective (ongoing)						CYPS C&F HoRes	Tue-31-Jul-18			
Reduction	24/432 - Address lessons learned from the SEND inspection to strengthen the partnership with Health (ongoing)						CYPS AD Incl	Tue-31-Jul-18			
Reduction	24/1153 - Continue to contribute to the delivery of the workplan for the Health and Well-being Board in relation to children's health priorities and ensure strategic decision making in Health is influenced through alignment with the JSNA and the Children and Young People's Plan (ongoing)						CD CYPS	Tue-31-Jul-18			
Reduction	24/1161 - Contribute to the review of the Partnership Commissioning Unit (no formal opportunity provided)						CD CYPS CYPS Incl HoIE	Fri-31-Mar-17	Fri-31-Mar-17		
Reduction	24/1182 - Carry out financial modelling and continue dialogue between Integration and Health						CSD AD SR (HE)	Tue-31-Oct-17			
Reduction	28/439 - Hold regular contract monitoring and quality assurance meetings with providers including on site commissioning visits						CYPS S&C CMH	Sat-30-Jun-18			
Phase 4 - Post Risk Reduction Assessment											



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Probability	L	Objectives	H	Financial	H	Services	H	Reputation	M	Category	3
Phase 5 - Fallback Plan											
										Action Manager	
Fallback Plan											



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Phase 1 - Identification											
Risk Number	24/27	Risk Title	24/27 - Looked After Children			Risk Owner	CD CYPS	Manager	CYPS AD C&F		
Description	Failure to ensure that looked after children arrangements provide sufficient support for those with multiple and complex needs (including work on step down from Tier 4 cases, unaccompanied asylum seeker children and those not receiving 25 hours of education); that the service supports the regionalised adoption service; and ensures sufficient foster carers are recruited; failure to do so results in poorer outcomes for young people, the need for high cost interventions/placements and reputational damage				Risk Group	Performance	Risk Type	C&F 22/181			
Phase 2 - Current Assessment											
Current Control Measures			Placement, permanence and complex decision making forum; monitoring of external placements; Young people's accom strategy; Financial scrutiny; enhanced CYPLT scrutiny; monitoring of permanency planning; maximise use of adoption and SGO; foster carer recruitment campaign; independent identification of foster carer training needs; [F&F: initial audit of cases; working group; officer panel; independent panel]; support from Outreach service considered unless there are child protection concerns; CYPS 2020 Programme; commissioning strategy; F&F policy embedded; effective budget monitoring; Permanence Strategy; Adoption and Fostering Strategy; exceptional placement panel chaired by Dir; pooled budget; national innovation programme No Wrong Door; complex needs pathway; short breaks guidance;								
Probability	M	Objectives	M	Financial	H	Services	M	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
Reduction						Action Manager	Action by	Completed			
Reduction	22/271 - Continue to increase the number of foster carers recruited including the required number of Advanced foster carers					CYPS C&F HoRes	Sat-30-Jun-18				
Reduction	22/272 - Carry out further work to ensure that WD arrangements preserve the quality of foster carer training					CYPS C&F HoRes	Sat-30-Jun-18				
Reduction	22/274 - Effectively monitor and seek to strengthen the challenge to drift in children and young people's care plans					CYPS C&F HoS&LAC	Sat-30-Jun-18				
Reduction	22/462 - Development of integrated pathways for step down from tier 4					CYPS C&F HoS&LAC	Sat-30-Jun-18				
Reduction	22/478 - Continue work around accommodation for young people leaving custody					CYPS C&F HoRes	Sat-30-Jun-18				
Reduction	22/502 - Review the pathway for unaccompanied asylum seekers, including the commissioned service for interpreters					CYPS C&F HoRes	Sun-31-Dec-17				
Reduction	22/1054 - Review and refine process of working between the commissioning and contract teams					CYPS AD C&F	Sun-31-Dec-17				
Reduction	22/1081 - Introduce location of clinicians in prevention, social work, LAC and leaving care teams to prevent children becoming looked after					CYPS AD C&F	Sat-30-Jun-18				
Reduction	22/1082 - Reviewing and piloting of new assessment tool for foster carers					CYPS C&F HoRes	Sat-30-Jun-18				



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Reduction	22/1092 - Explore possible alternative models in relation to those not receiving 25 hours of education					CYPS C&F HoRes	Sat-30-Jun-18				
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	H	Services	M	Reputation	H	Category	3
Phase 5 - Fallback Plan											
Fallback Plan	24/245 - Review to strengthen commissioning strategy, system controls							Action Manager			
								CYPS AD C&F			



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Phase 1 - Identification											
Risk Number	24/213	Risk Title	24/213 - Planning and Cultural Change within CYPS to deliver 2020 North Yorkshire and Address National Changes				Risk Owner	CD CYPS	Manager	CSD AD SR (AH)	
Description	Failure to maintain a strong change culture, processes and supporting capacity within CYPS to deliver 2020 North Yorkshire and address national funding and policy changes, resulting in a reduction of quality in service delivery, inability to fully meet current and future financial requirements, internal and external criticism.					Risk Group	Financial	Risk Type			
Phase 2 - Current Assessment											
Current Control Measures			Strong platform for WF development including culture around innovation and change; leadership capacity and experience in place; strength in operational workforce in place; ability to address further challenges relating to changes in policy; authority well engaged and connected to national agenda and therefore better placed to be proactive in positive planning; previous experience of successful delivery of financial challenges faced (savings target met creating confidence in ability); strong collaborative working with colleagues such as Finance, Performance and HR; monitoring of the overall CYPS & Organisational OD requirements via Programme managers & NY2020 Operational Group; direct involvement of ADs with 2020 work strands; detailed financial planning; cost budget monitoring based on risk assessment of all service areas; review of Directorate resources carried out; training of budget managers and support staff; guidance materials; collective responsibility for budget; maximum use of technology enhanced procurement profile; data system review; forward procurement plan regularly reviewed; Business Partner approach adopted to ensure service decisions include all full assessment of financial implications;								
Probability	M	Objectives	M	Financial	H	Services	H	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed		
Reduction	24/312 - Maintain leadership of programme and project activity and ensure regular monitoring and report to CYPLT of progress on all 2020 North Yorkshire programmes; ensure scheduled quarterly reviews of Directorate resource requirements to support programme takes place; ensure link to planning of workforce capacity to meet the changing context						CSD AD SR (AH) CYPS Prog Board	Sun-30-Sep-18			
Reduction	24/414 - Deliver the OD 2020 cross cutting theme across the directorate and ensure managers have the right skills, attitude and technology for the new way of delivering services (ongoing)						CYPS HoHR	Sun-30-Sep-18			
Reduction	24/1000 - Retain focus on individual high risk areas of concern for monitoring processes and systems including assessment of staff involvement						CSD AD SR (AH) CSD SR HoFP	Sun-30-Sep-18			
Reduction	24/1146 - Ensure strong continued budget management by staff at all levels within the Directorate						CSD AD SR (AH)	Sun-30-Sep-18			
Reduction	24/1149 - Develop proposed operating models in Education in response to changing national expectations for consideration as appropriate by Executive						CD CYPS	Sun-30-Sep-18			
Reduction	24/1187 - Monitor the potential financial impact of proposed changes to Early Years, Schools and Local Authorities funding methodologies and advise Management Board and Executive as appropriate of any potential impact on the Council's 2020 savings profile						CD CYPS CSD AD SR (AH)	Fri-31-Aug-18			
Reduction	24/1189 - Continue to engage fully with the 2020 Stronger Communities and Customer Themes to ensure greatest alignment with service and wider Council needs; continue to ensure CYPS strategic link to Customer Theme is well established through SLT representative Programme Managers						CSD SR T&C SPM (2020) CYPS AD Incl	Mon-30-Apr-18			
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	M	Services	H	Reputation	M	Category	3



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Phase 5 - Fallback Plan		Action Manager
Fallback Plan	24/246 - Re-prioritise CYPS Spending plans and strategic approaches	CYPS LT



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Phase 1 - Identification											
Risk Number	24/249	Risk Title	24/249 - Educational Outcomes					Risk Owner	CD CYPS	Manager	CYPS AD E&S
Description	Failure to ensure positive educational outcomes for children and young people together with appropriate support for schools to be good or outstanding results in lower achievement levels for pupils, and NY children's life chances being determined by geography or family circumstances rather than being in their own hands.						Risk Group	Performance	Risk Type	E&S 27/19	
Phase 2 - Current Assessment											
Current Control Measures			Cross-directorate "Strategic Priority Schools" approach; work with Schools Forum; detailed analysis of data; joint annual performance review and target settings with schools; effective targeted intervention; 'Closing the Gap' strategy; School Improvement strategy including monitoring groups for vulnerable children; Achievement for Unlocked Programme; alternative models of school leadership including mergers, federations, MATs and informal partnerships promoted; the North Yorkshire Education Partnership established; skills strategy and assessment of needs developed in preparation for area review; stronger links with the LEP through a joint post in place;								
Probability	M	Objectives	M	Financial	M	Services	L	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed		
Reduction	24/353 - Ensure leadership including governance and release of commissioning capacity in the context of the Improvement Partnerships within the context of the shift to Sector Led Improvement						CYPS AD E&S	Tue-31-Jul-18			
Reduction	24/428 - Ensure effective implementation of the local 'Raising achievement of vulnerable learners' innovation programme and monitoring of the impact of the projects funded through this programme, given the reduction in funding in this area						CYPS AD E&S	Tue-31-Jul-18			
Reduction	24/430 - Continue to implement plans to further improve Children in Care educational outcomes particularly with the focus on progress						CYPS Ho ELAC	Tue-31-Jul-18			
Reduction	24/498 - Continue the relevant strategies around outcome for the post 16 Area Review						CYPS AD E&S	Tue-31-Jul-18			
Reduction	24/1185 - Develop and implement the approach to the 'Scarborough Opportunity Area' which builds on the 'Scarborough Pledge' and collaboratively challenges underachievement						CD CYPS	Tue-31-Jul-18			
Reduction	27/401 - Working together under the North Yorkshire Learning Trust and the LEP umbrella to establish stronger links with colleges, businesses and employers						CYPS AD E&S	Tue-31-Jul-18			
Reduction	27/1372 - Complete the evaluation of the school improvement service to ensure it remains fit for need; paper to CYPLT in July with work to follow						CYPS AD E&S	Tue-31-Jul-18			
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	M	Services	L	Reputation	H	Category	3
Phase 5 - Fallback Plan											
Fallback Plan	24/560 - Continually review via internal mechanisms and the new NY Education Partnership and challenge Programmes and Strategies in order to ensure better educational outcomes								Action Manager		CD CYPS



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Phase 1 - Identification											
Risk Number	24/178	Risk Title	24/178 - Information Governance				Risk Owner	Chief Exec		Manager	CD CYPS
Description	Failure to ensure that good information governance arrangements are in place throughout the Directorate resulting in data breach, possible prosecution, claims, media attention, fines					Risk Group	Legislative		Risk Type		
Phase 2 - Current Assessment											
Current Control Measures			Issues, concerns, major breaches discussed at CYPS Leadership Team; periodic information governance updates circulated by CYPS DIGC to all Service Groups; ad hoc security sweeps carried out by Business Support colleagues in corporate buildings; pro forma circulated to managers to enable them to complete their own security sweeps; Assistant Directors raising profile at SMT meetings; review of hard copy communications undertaken, double checking process for outgoing sensitive mail, issues shared on CYPS Risk Management forum pages and move to secure electronic communications where possible; Strategic Support data governance team;								
Probability	M	Objectives	M	Financial	H	Services	M	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed			
Reduction	24/359 - Work closely with the new Data Governance team in Strategic Support					CYPS CYPLT	Sun-30-Sep-18				
Reduction	24/474 - Review and update the information asset registers in line with policy guidelines					CYPS CYPLT	Sat-30-Sep-17				
Reduction	24/476 - Implement new and / or revised information governance actions agreed at Corp Info Gov Group as appropriate for the Directorate (ongoing)					CYPS CYPLT	Sun-30-Sep-18				
Reduction	24/500 - Continue work on converting paper based communications to electronic communications					CYPS CYPLT	Sun-30-Sep-18				
Reduction	24/1150 - Continue to investigate all information breaches thoroughly and take action against individuals as appropriate.					CYPS CYPLT	Sun-30-Sep-18				
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	M	Services	M	Reputation	H	Category	3
Phase 5 - Fallback Plan											
										Action Manager	
Fallback Plan	24/527 - More rigorous intensive information governance training for staff & following ICO procedures									CD CYPS	



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Phase 1 - Identification											
Risk Number	24/250	Risk Title	24/250 - Safeguarding Arrangements				Risk Owner	CD CYPS		Manager	CYPS AD C&F
Description	Failure to have a robust approach to Safeguarding is in place results in risk to vulnerable children, adults and families and not protecting them from harm.					Risk Group	Safeguarding		Risk Type	C&F 22/252	
Phase 2 - Current Assessment											
Current Control Measures			LSCB Safeguarding website; regularly reviewed procedures; practice standards issued to teams to support consistent practice; monthly performance data which is monitored regularly to seek assurance over key performance headlines; case file audit process; manager authorisation of all assessments; ICS; newly formed integrated family support service; training strategy; clear supervision process which is audited on a regular basis; strengthened Multi agency screening team (MAST); OFSTED 'good' categorisation; delivery and implementation of the VEMT approach with the LSCB; working with colleagues and the CCG lead to ensure appropriate resources available for complex young people;								
Probability	L	Objectives	H	Financial	H	Services	M	Reputation	H	Category	3
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed		
Reduction	22/407 - Introduction of 'Practice Weeks' where managers will visit locations to observe and review practice						CYPS C&F SMT	Sat-30-Jun-18			
Reduction	24/431 - Ensure compliance with Safeguarding Board and Children and Families' procedures						CYPS AD C&F	Sat-30-Jun-18			
Reduction	24/433 - Continue the new developments with the MAST to strengthen responses to children and young people who go missing or who are vulnerable to CSE by improved intelligence and information sharing arrangements						CYPS C&F HoS&LAC	Sat-30-Jun-18			
Reduction	24/434 - Ensure where there is a concern that a young person is being exploited that the Bedfordshire risk assessment tool is always completed						CYPS C&F HoS&LAC	Tue-31-Jul-18			
Reduction	24/1162 - Feed into review of EDT arrangements (adult lead); main submission into review made but ongoing liaison will continue						CYPS AD C&F	Sat-30-Jun-18			
Reduction	24/1197 - Ongoing Mgt file audit of case files against established assessment standards and staff supervision files						CYPS C&F SMT	Sat-30-Jun-18			
Reduction	24/1199 - Monitoring and management of performance against agreed targets in the SMT action plan						CYPS C&F SMT	Sat-30-Jun-18			
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	H	Financial	H	Services	M	Reputation	H	Category	3
Phase 5 - Fallback Plan											
									Action Manager		
Fallback Plan	24/252 - Carry out necessary review of approach, target underperforming areas and take on lessons learned from any serious case reviews							CD CYPS			

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Phase 1 - Identification											
Risk Number	24/15	Risk Title	24/15 - Inspection Outcomes				Risk Owner	CD CYPS	Manager	CYPS CYPLT	
Description	Failure to avoid adverse outcomes from statutory inspections of provision of local authority safeguarding including joint area integration inspections, schools and settings, children's centres, adult learning, SEND/school improvement services, adoption and fostering, children in care and children's homes resulting in reputational damage, or centrally imposed interventions, disruption of children's care and/or education, requirement for additional resources					Risk Group	Performance	Risk Type	E&S 27/13		
Phase 2 - Current Assessment											
Current Control Measures			Systematic monitoring; regular termly monitoring in Schools and Settings; intervention in inverse proportion to success; use of a repertoire of interventions including local and national leaders in education and TSAs as appropriate; Service Planning focussing on improvement; monitor/evaluate current support; timely use of statutory powers; early identification and rigorous response to schools causing concern; "Annual conversations" with Children's Centres; regular monitoring of data; programme of self-evaluation; Ofsted prep SMT sub group; proactive approach to improvement; CD CYPS oversees inspection readiness; partnership inspection reference group established; improved knowledge/awareness of inspection frameworks; post Ofsted inspection plans implemented as appropriate; self assessment for safeguarding and children in care and for school improvement; framework for prioritisation of school organisation issues, briefings provided for elected Members and NY Education Partnership; post Ofsted inspection plans implemented								
Probability	L	Objectives	M	Financial	L	Services	H	Reputation	H	Category	3
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed		
Reduction	22/1051 - Continual review of policies and procedures and update as required to ensure new guidance and procedures are embedded						CYPS LT	Sun-30-Sep-18			
Reduction	22/1052 - Ensure consultation with and participation of service users to inform service delivery and design						CYPS AD Incl	Sun-30-Sep-18			
Reduction	24/358 - Discuss and carry out training and awareness raising around the gravity of inspections, for colleagues who support CYPS on matters such as Procurement						CYPS HoHR	Sat-30-Jun-18			
Reduction	24/497 - Ensure areas of development following SEND inspection are embedded in the updated SEND strategy which will be monitored by the SEND strategy group (ongoing)						CYPS AD Incl	Sun-30-Sep-18			
Reduction	24/524 - Review the inspection frameworks relating to CYPS and embed a section on inspection prep in every Q report to CYPLT and service, including key performance indicators and narrative description of performance (ongoing)						CSD HoS&P	Sun-30-Sep-18			
Reduction	24/525 - Continue to ensure all statutory returns are signed off by services prior to submission, with a brief summary included in Q reports along with performance data (ongoing)						CSD HoS&P	Sun-30-Sep-18			
Reduction	24/526 - Maximise the benefit of benchmarking and learning derived from regional sector led improvement activity (ongoing)						CSD HoS&P	Sun-30-Sep-18			
Reduction	24/527 - Work with services to support the development of Self Evaluation Frameworks where appropriate, including monitoring feedback from other inspections in order to strengthen our own services (ongoing)						CSD HoS&P	Sun-30-Sep-18			
Reduction	24/1179 - Ensure pre inspection readiness by carrying out identified actions, monitoring outcomes and assessing their impact (ongoing)						CYPS AD C&F CYPS AD Incl	Sun-30-Sep-18			



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Reduction	24/1204 - Continue to encourage, support and build capacity to enable schools to work collaboratively to seek to ensure continued viability	CYPS AD E&S	Tue-31-Jul-18								
Reduction	27/226 - Ensure continuation of effective delivery of service to schools and settings whilst the local and national picture of provision of school improvement services is changing (ongoing)	CYPS AD E&S	Tue-31-Jul-18								
Reduction	27/392 - More rigorous risk assessment leading to earlier intervention and support, including early use of statutory powers	CYPS AD E&S	Tue-31-Jul-18								
Reduction	27/1401 - Ensure accurate school and setting self-evaluation and effective school development plans (on-going)	CYPS AD E&S	Tue-31-Jul-18								
Reduction	27/1402 - Continue to work with a range of external partners, (DfE, RSC and Ofsted) to understand their concerns and have shared dialogue within a changing context	CYPS AD E&S	Tue-31-Jul-18								
Reduction	27/1405 - Commission external support and/or develop leadership capacity as required eg TSAs, Academies and NLEs	CYPS AD E&S	Tue-31-Jul-18								
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	L	Services	H	Reputation	H	Category	3
Phase 5 - Fallback Plan											
Fallback Plan											Action Manager



NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 SEPTEMBER 2017

PROGRESS ON 2017/18 INTERNAL AUDIT PLAN

Report of the Head of Internal Audit

1.0 PURPOSE OF THE REPORT

- 1.1 To inform Members of the progress made to date in delivering the 2017/18 Internal Audit Plan and any developments likely to impact on the Plan throughout the remainder of the financial year.

2.0 BACKGROUND

- 2.1 Members approved the 2017/18 Audit Plan on 22 June 2017. The total number of planned audit days for 2017/18 is 1,134 (plus 956 days for other work including counter fraud and information governance). The performance target for Veritau is to deliver 93% of the agreed Audit Plan.
- 2.2 This report provides details of how work on the 2017/18 Audit Plan is progressing.

3.0 INTERNAL AUDIT PLAN PROGRESS BY 31 JULY 2017

- 3.1 The internal audit performance targets for 2017/18 were set by the County Council's client officer. Progress against these performance targets, as at 31 July 2017, is detailed in **Appendix 1**.
- 3.2 Work is ongoing to complete the agreed programme of work. It is anticipated that the 93% target for the year will be exceeded by the end of April 2018 (the cut off point for 2017/18 audits). **Appendix 2** provides details of the final reports issued in the period. A further 5 audit reports have been issued but remain in draft and fieldwork is underway with other scheduled audits.

Contingency and Counter Fraud Work

- 3.3 Veritau continues to handle cases of suspected fraud or malpractice. Such assignments are carried out in response to issues raised by staff or members of the public via the Whistleblower Hotline, or as a result of management raising concerns. Since the start of the current financial year, 11 cases of suspected fraud or malpractice have been referred to Veritau for investigation. Two of these are internal fraud cases, one relates to social care and four are external fraud. A further four cases relate to applications for school places. A number of these investigations are still ongoing.

Information Governance

- 3.4 Veritau's Information Governance Team (IGT) continues to handle a significant number of information requests submitted under the Freedom of Information and Data Protection Acts. The number of FOI requests received between 1 April 2017 and 31 July 2017 is 420 compared with 422 requests received during the corresponding period in 2016/17. The IGT is currently exceeding the performance response target of 95% for 2017/18 with approximately 97.51% of requests so far being answered within the statutory 20 day deadline. The IGT also coordinates the County Council's subject access requests (SARs) and has received 58 such requests between 1 April 2017 and 31 July 2017.¹
- 3.5 Veritau is continuing to assist with the implementation of the County Council's information governance framework (including the update of information asset registers, preparation of data sharing agreements, data breach reporting and investigation, and the provision of advice and training). As part of this, Veritau auditors also continue to undertake a programme of unannounced audit visits to County Council premises in order to assess staff awareness of the need to secure personal and sensitive information.

Variations to the 2017/18 Audit Plan

- 3.6 All proposed variations to the agreed Audit Plan arising as the result of emerging issues and/or requests from directorates are subject to a Change Control process. Where the variation exceeds 5 days then the change must be authorised by the client officer. Any significant variations will then be communicated to the Audit Committee for information. The following variations have been authorised since the plan was approved. The variations follow discussions with management and reflect changes in current priorities:

Review of Foundation Housing contract	+5 days
Contingency (balance nil)	-5 days
Net change to plan	nil

Follow Up of Agreed Actions

- 3.7 Veritau follow up all agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. A new escalation procedure has been introduced to formalise the reporting process in the event that agreed actions are not implemented or management fail to provide adequate information to enable an assessment to be made. At this stage in the year, there are no actions which have needed to be escalated. On the basis of the follow up work undertaken during the year to date, the Head of Internal Audit is therefore satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.

¹ The processing of SARs was changed in 2016/17. Requests were previously answered by individual directorates.

4.0 **RECOMMENDATION**

- 4.1 Members are asked to note the progress made in delivering the 2017/18 Internal Audit programme of work and the variations agreed by the client officer.

Report prepared and presented by Max Thomas, Head of Internal Audit

Max Thomas
Head of Internal Audit
Veritau Limited
County Hall
Northallerton

7 July 2017

Background Documents: Relevant audit reports kept by Veritau at 50 South Parade, Northallerton.

PROGRESS AGAINST 2017/18 PERFORMANCE TARGETS (AS AT 31/7/2017)

Indicator	Milestone	Position at 31/7/2017
To deliver 93% of the agreed Internal Audit Plan	93% by 30/4/18	26.26%
To achieve a positive customer satisfaction rating of 95%	95% by 31/3/18	100%
To ensure 95% of Priority 1 recommendations made are agreed	95% by 31/3/18	0%
To ensure 95% of FOI requests are answered within the Statutory deadline of 20 working days	95% by 31/3/18	97.51%

FINAL 2017/18 AUDIT REPORTS ISSUED TO DATE

Audit Area	Directorate	Overall Opinion
Local Growth Fund - grant audit (chargeable)	BES	No opinion
Growth Hub – grant audit (chargeable)	BES	No opinion

AUDIT COMMITTEE - PROGRAMME OF WORK 2017 / 18

ANNUAL WORKPLAN		JUNE 17	SEPT 17	DEC 17	MAR 18	JUNE 18	JULY 18
Audit Committee Agenda Items							
A	Training for Members (as necessary)	2	1	2			
	Annual Internal Audit Plan 2017/18	x			x	x	
	Annual report of Head of Internal Audit 2015/16	x				x	
	Progress Report on Annual Internal Audit Plan 2016/17		x		x		
	Internal Audit report on Children and YP's Service		x			x	
	Internal Audit report on Computer Audit/Corporate Themes/Contracts		x				
	Internal Audit report on Health and Adult Services			x			
	Internal Audit report on BES			x			
	Internal Audit report on Central Services				x		
	Annual Audit Letter			x			
B	Annual Audit Plan 2015/16 (NYCC & NYPF)				x		
	Annual Report / Letter of the External Auditor	x	x				
	Interim Audit Report	x				x	
	Discussion with External Auditor on 1-to-1 basis						
C	Statement of Final Accounts including AGS (NYCC + NYPF)	x	x				x
	Letter of Representation		x				x
	Chairman's Annual Report		x				
	Effectiveness of Audit Committee	x				x	
	Changes in Accounting Policies				x		
	Corporate Governance – review of Local Code + AGS	x				x	
	– progress report inc re AGS	x				x	
	Risk Management (inc Corporate R/R) – progress report	x		x		x	
	Partnership Governance – progress report	x					
	Information Governance – progress report				x		
	Review of Finance,/Contract/Property Procedure Rules						
	Business Continuity	x				x	
	Audit Committee Terms of Reference			x			
	Counter Fraud				x		
	Contract Management			x			
	Treasury Management – Executive February				x		
Corporate Procurement Strategy	x				x		
VFM Review							
D	Work Programme	x	x	x	x	x	
	Progress on issues raised by the Committee (inc Treasury Management)	x	x	x	x	x	
E	Agenda planning / briefing meeting	06/06					
	Audit Committee Agenda/Reports deadline	12/06					
Audit Committee Meeting Dates		22/06	07/09	30/11	01/03	21/06	26/07

- A = Internal Audit
- B = External Audit
- C = Statement of Final Accounts / Governance
- D = Other
- E = Dates

- ⊙ before formal meeting
- 1 Cyber Security and General Information Governance
- 2 Health / HAS – Richard Webb and Jim Clark
- 3 Sessions to be sorted