

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

10 OCTOBER 2018

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 2018, 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

11 September 2018

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 2018. The report also details how the Audit Committee has fulfilled its Terms of Reference during this period.

BACKGROUND

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

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

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that Audit Committees are operating 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 2018, 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 the County Council's key priorities and challenges including funding pressures, the impact on services caused by an ageing population, the increased demand for children's social care services, the need to manage cyber security and information security risks, and the need to strengthen partnership working.

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, 2018

The Committee:

External Audit

- 1 Received and considered the external auditor's annual audit letter in respect of the 2016/17 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 2017/18 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 2017/18 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;
- 5 Met with representatives from Deloitte, the County Council's new external auditors from 2018/19 onwards.

Internal Audit

- 6 Continued to oversee the internal audit arrangements for the County Council and North Yorkshire Pension Fund. No changes were required to the Internal Audit Charter during the period;
- 7 Received and considered the results of internal audit work performed in respect of each Directorate and across different thematic areas. Monitored the progress made by management during the period to address identified control weaknesses;
- 8 Received and approved the Internal Audit Plan for 2018/19. 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;
- 9 Monitored the delivery of the annual Internal Audit plans through regular update reports presented by the Head of Internal Audit. Reviewed variations to the Audit plans which were considered necessary to reflect new or changed County Council priorities;
- 10 Considered the County Council's overall counter fraud arrangements in the light of emerging risks (both national and local). Received and considered the outcome of the annual 2017/18 Fraud and Loss Risk Assessment. The Committee also reviewed the work of Veritau 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 Head of Internal Audit confirmed that the Council's framework of governance, risk management and control provided substantial assurance. In forming this opinion, the Head of Internal Audit had considered the progress made by management during the year to address identified control weaknesses. The Head of Internal Audit also drew the Committee's attention to a number of specific control weaknesses identified during audit work including examples of poor practice with the handling of personal data and compliance issues with the Transparency Code;
- 12 Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2017/18, and considered the performance targets for 2018/19. 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. Whilst no new risks have been identified in the period, a number of the existing risks have been modified to reflect recent developments. For example, the risks around information governance were updated to reflect the General Data Protection Regulation (GDPR) and new Data Protection Act 2018. The new Commercial Strategy and the improved governance arrangements for the County Council's owned companies were also recognised. The Committee noted 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. The Committee also noted the outcomes of workshops which had helped to identify risks associated with a number of specific activities or projects (for example the A59 Kex Gill Realignment and the Tour de Yorkshire);
- 17 Considered the outcome of the annual insurance renewals. The Committee noted that Employer's Liability, Public Liability and motor premiums had all increased due to

changes in the Personal Injury Discount Rate set by government. The rate of Insurance Premium tax had also increased from 10% to 12% in the year;

Corporate Governance

- 18 Considered changes to the Local Code of Corporate Governance prior to approval. These changes included the addition of links to other documents on the County Council's website, the inclusion of a new protocol relating to the role of the Leader and Chief Executive in the ethical framework and reference to the General Data Protection Regulation (GDPR);
- 19 Considered and approved the Annual Governance Statement for 2017/18 of the County Council;
- 20 Considered the annual report on partnership governance. The report included details of the County Council's current partnerships, changes which had occurred in the year and the arrangements in place to monitor the management and performance of key partnerships. The report included details of 57 partnerships. The governance arrangements of all high and medium risk partnerships are monitored on a regular basis. The Committee noted that none of the partnerships were identified as being high risk and there had been no governance failures in the year. The Committee consider that partnership governance remains effective and the existing arrangements are proportionate and commensurate to the risks;
- 21 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 received details of the work being done to mitigate cyber security risks and to prepare for the introduction of the General Data Protection Regulation (GDPR) and new Data Protection Act in May 2018. 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 shares the view that information governance remains a key corporate risk;
- 22 Received a report detailing the progress made to implement the new Procurement and Contract Management Strategy, and the Strategy Action Plan. The Strategy was adopted in May 2018 and seeks to build on the progress made to date to develop more effective procurement processes within the County Council. The intention now is to invest more time on the pre-procurement 'discovery' stage as well as post procurement contract and supplier management. Committee noted that procurement savings of £882k had already been delivered against the 2020 target of £1.15m. The expectation was that the target would therefore be achieved;
- 23 Received a report outlining the arrangements put in place to ensure effective governance of the County Council's owned companies.

Financial Statements

- 24 Considered and approved the Statement of Accounts for 2017/18 of the County Council and the North Yorkshire Pension Fund. This year, the Council County had to prepare the annual accounts and governance statement by 31 May (one month earlier than in previous years) and to publish the audited and approved accounts and

governance statement by 31 July (two months earlier than previously). This change to the timetable was challenging for both the County Council and the external auditors, KPMG. The Committee was pleased to note that the external auditors had reported that the County Council had appropriate processes in place to prepare the financial statements and that the associated working papers were of a good standard. Officers were also proactive in dealing with the external auditor's queries and requests for information;

- 25 Received details of the revised Code of Practice on Local Authority Accounting which was issued by CIPFA in April 2017. Whilst no changes were required to the Council's accounting policies, some additional or changed disclosure notes were required to the 2017/18 Statement of Accounts. The anticipated change to the valuation of highways network assets from April 2017 onwards was however postponed indefinitely by CIPFA because the cost of implementation outweighed the possible benefits of adoption. The Committee also noted a number of potential future changes to the Code of Practice including changes to the classification and measurement of financial instruments, and the treatment of leases and income from customers. It was recognised that the resulting reclassification of certain operating leases could have an impact on the Council's prudential borrowing.

Other

- 26 Considered the County Council's arrangements for securing value for money. These arrangements include the Council Plan which aligns strategic goals and objectives, the 2020 North Yorkshire Programme which includes a focus on transformational change to deliver efficiencies, the medium term financial strategy (MTFS) and annual budget setting process, and individual service planning. The Committee also received details of a number of development areas which will drive further improvements in value for money, including more regular and consistent performance reporting, greater use of data to manage performance and increased use of self-service and automated processes. The Committee noted that improved procurement and contract monitoring had also made a significant contribution to the achievement of the County Council's savings targets;
- 27 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 2018/19. The Strategy includes authorised and operational limits on external debt, a minimum revenue provision policy and a policy to cap capital financing costs as a proportion of the annual net revenue budget;
- 28 Received briefings from officers on a number of topics including the work of Health and Adult Services, an update on health issues in North Yorkshire and the Future Financial Plan. Members also attended a full day training session on the role and responsibilities of audit committees, delivered by CIPFA;
- 29 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee;
- 30 Reviewed the Committee's Terms of Reference. We concluded that some limited changes were required to reflect recent best practice guidance;

- 31 During the year, the Committee benefitted from the attendance and participation of its two independent members, David Portlock and David Marsh. I would like to extend my thanks to both of them for their contribution to the work of the Committee and their ongoing diligence, enthusiasm and support. The term of office for both independent members however ended on 31 July 2018. I'm therefore pleased that, after a recruitment exercise, we have re-appointed both David Portlock and David Marsh for a further four years, to 31 July 2022. We have also appointed a third independent member, Nick Grubb for the same term.

Councillor Clifford Lunn
Chairman of the Audit Committee

AUDIT COMMITTEE

TERMS OF REFERENCE

1. In respect of **Internal Audit**

- to approve the Internal Audit Charter, 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 obtain assurance that the work of internal audit conforms to the Public Sector Internal Audit Standards.

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 liaise, as necessary, with the Standards Committee on any matter(s) relating to the Codes of Conduct for both Members and Officers.
- to review the arrangements in place for ensuring good governance in the County Council's key partnerships and owned companies

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 consider any other relevant matter referred to it by the County Council, Executive or any other Committee. In addition any matter of concern can be raised by this Committee to the full County Council, Executive or any other Member body.

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

12. To periodically review the effectiveness of the Audit Committee itself.

13. To meet not less than four times a year on normal business and review its Terms of Reference on an annual basis.