

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

25 OCTOBER 2019

## 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 2019, 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

30 September 2019

### 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 2019. 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 effectively<sup>1</sup>. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.

### WORK UNDERTAKEN AND OPINION

The Audit Committee has met on five occasions in the year to 30 September 2019, 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 and the internal auditors, Veritau. The committee also received reports from the previous and current external auditors, KPMG and Deloitte. The Committee has sought assurance that action has been taken, or is otherwise planned, by management to address any risk related issues that have been identified by the auditors during this period. The Committee has also sought to ensure that effective relationships continue to be maintained between the internal and external auditors, and between the auditors and management.

The 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.

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<sup>1</sup> CIPFA – Audit Committees Practical Guidance for Local Authorities and Police, 2018

The specific work undertaken by the Committee is set out below.

The Committee:

#### External Audit

- 1 Received and considered the external auditor's annual audit letter in respect of the 2017/18 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 Considered the external audit plan prepared by Deloitte for the audit of the 2018/19 financial statements and the review of the County Council's arrangements for securing value for money;
- 3 Received and considered the results of Deloitte's work in relation to the audit of the 2018/19 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. Deloitte had also issued an unqualified value for money conclusion;
- 4 Held an informal private meeting with Deloitte to discuss their work;

#### Internal Audit

- 5 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;
- 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 2019/20. 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). Received and considered the outcome of the annual 2018/19 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;

- 10 Received and considered the Annual Report of the Head of Internal Audit which provided an overall opinion on the County Council's control environment. The Committee noted that the work of internal audit is primarily focused on those areas which represent the highest risk for the County Council. The 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 areas which require further improvement including information security and contract management;
- 11 Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2018/19, and considered the performance targets for 2019/20. The Committee also considered the outcome of the internal audit quality assurance and improvement programme (QAIP) and an external assessment of internal audit working practices completed during the year. The Committee was pleased that internal audit practices continue to meet the required professional standards and therefore continued reliance could be placed on the arrangements operating within the County Council;
- 12 Held an informal private meeting with the Head of Internal Audit to discuss the work of the internal auditors;

#### Risk Management

- 13 Continued to oversee the County Council's risk management arrangements and strategy;
- 14 Considered changes to an updated Corporate Risk Management Policy;
- 15 Reviewed the progress made by the County Council to identify and address corporate risks. This included consideration of the updated Corporate Risk Register. It was noted that Brexit had been added as a new risk during the year, recognising the need to plan for the possible impacts of the United Kingdom leaving the European Union. A number of the existing risks had also been modified to reflect recent developments. For example, the Commercial Strategy is now treated as a directorate risk and the Savings and Transformation Programme has been updated to reflect 'Beyond 2020'. 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 Allerton Waste Recovery Park, the Harrogate Railway Line Improvement and the UCI World Championships 2019);

#### Corporate Governance

- 17 Considered changes to the Local Code of Corporate Governance prior to approval;
- 18 Considered and approved the Annual Governance Statement for 2018/19 of the County Council;

- 19 Considered other changes made or planned to the County Council's governance arrangements;
- 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 60 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 also considered a number of anticipated changes in some key partnerships over the next year, including possible changes to the York, North Yorkshire and East Riding Local Enterprise Partnership (LEP), the creation of Local Education Partnerships and Local Inclusion Steering Groups, changes to children's safeguarding arrangements and new or changed arrangements resulting from increasing health and social care integration. The Committee concluded 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 done to mitigate cyber security risks and to comply with the requirements of the General Data Protection Regulation (GDPR) and Data Protection Act 2018. The Committee also considered recent data security incidents, technical security changes to the Council's e-mail to enable the secure transfer of data to other public sector bodies and the introduction of new 'audit' and authorisation processes to improve information security during office moves. The Committee shares the view that information governance remains a key corporate risk;
- 22 Received a report detailing the progress made to implement the Procurement and Contract Management Strategy, and the Strategy Action Plan. Committee noted that procurement savings of £869k had already been delivered against the 2020 target of £1.15m. The expectation was that the target would therefore be achieved. The Committee also noted the plans in place to address possible price uncertainty or supply chain problems arising from Brexit, improvements to the Council's contract management arrangements and plans to introduce real time supplier financial and risk monitoring. The Committee was pleased to note that Procurement and Contract Management Service had won the GO National Procurement Leadership of the Year award for Local Government, and had also been highly commended in the National Procurement Team of the Year category. The Head of Procurement and Contract Management is also the chair of the YorProcure Strategic Procurement Group. This has allowed the Council to play a key role in developing the national procurement strategy for local government as well as participate in other regional and national groups;
- 23 Considered proposed changes to the County Council's Procurement and Contract Procedure Rules and the Constitution prior to their approval by the Executive and Full Council. The changes will help to clarify when procurement and contract award decisions should be treated as key decisions, and the process to follow when a contract is terminated early. The changes also provide further guidance to improve contract management, the approvals required in respect of the gateway process, the

use of grants, the process to follow in respect of low value contracts, and the support available to small and medium enterprises.

- 24 Received a report outlining the County Council's current resilience and business continuity arrangements. The report provided details of the Business Continuity Plan and how the County Council had responded to a number of recent incidents.

#### Financial Statements

- 25 Considered and approved the Statement of Accounts for 2018/19 of the County Council and the North Yorkshire Pension Fund. The Committee was pleased to note that the external auditors, Deloitte had reported that they had received good cooperation and support from the County Council. However, the recent McCloud judgement had caused problems for all local authorities given its proximity to the statutory deadline for completing the audit of 31 July;
- 26 Received details of the revised Code of Practice on Local Authority Accounting which was issued by CIPFA in April 2018. The updated Code resulted in certain changes to the classification and measurement of financial assets and the treatment of revenue from contracts. The actual impact of these changes on the Statement of Accounts was however minimal. The Committee also noted that some additional or changed disclosure notes were required to the 2018/19 Statement of Accounts. The Committee also noted that the treatment of leases will change from 2020/21. It was recognised that the resulting reclassification of certain operating leases could have an impact on the Council's prudential borrowing.

#### Other

- 27 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 are helping to drive further improvements in value for money, including the review of all service areas as part of the Better Efficiency through Sustained Transformation programme (BEST). 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;
- 28 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 2019/20. 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;
- 29 Received briefings from officers on a number of topics including the Council's Treasury Management and Commercial Investment activities, the Property Rationalisation programme and the systems to monitor suppliers' financial health in 'real time';
- 30 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee;

- 31 Reviewed the Committee's Terms of Reference. We concluded that some limited changes were required to reflect recent best practice guidance;
- 32 During the year, the Committee benefitted from the attendance and participation of its three independent members, David Portlock, David Marsh and Nick Grubb. I would like to extend my thanks to them for their contribution to the work of the Committee and their ongoing diligence, enthusiasm and support.

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. In respect of **External Audit**

- to ensure the independence of External Audit is maintained
- to review the annual audit plan and monitor its delivery

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 work with the Standards Committee to promote good ethical standards within the County Council
- 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.