

North Yorkshire County Council

Audit Committee

Minutes of the informal remote meeting held on Monday, 21st March, 2022 commencing at 1.30 pm.

County Councillor Cliff Lunn in the Chair; plus County Councillors Karl Arthur, Margaret Atkinson and David Hugill, Mr Nick Grubb, Mr David Marsh and Mr David Portlock

In attendance: County Councillors Carl Les and Gareth Dadd

Officers present: Vicki Dixon, Gary Fielding, John Raine, Fiona Sowerby, Max Thomas and Ruth Gladstone

Other Attendees: Nicola Wright (Deloitte), Nick Rayner (Deloitte) and Alex Ferezan (Deloitte)

Apologies: County Councillors Robert Baker, Philip Broadbank, Jim Clark and Don MacKay

Copies of all documents considered are in the Minute Book

249 Minutes of the Informal Meeting of the Committee held on 13 December 2021

Resolved –

That the Minutes of the informal meeting of Audit Committee Members held on 13 December 2021, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

250 Declarations of Interest

There were no declarations of interest.

251 Public Questions or Statements

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

252 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 made on issues raised at previous meetings, and other matters that had arisen since the Committee's last meeting and related to the work of the Committee.

Gary Fielding (Corporate Director – Strategic Resources) highlighted that, since preparation of the report, the Bank of England had raised the base rate to 0.75%.

Resolved –

That the report be noted.

253 External Audit Annual Report 2020/21

Considered –

The report of Deloitte which set out the key findings arising from the work which Deloitte had carried out regarding North Yorkshire County Council for the year ended 31 March 2021 and included commentary on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources "VfM".

The report advised that Deloitte had issued an unqualified opinion on the Council's financial statements on 22 December 2021 and that Deloitte had identified no significant weaknesses in the Council's VfM arrangements.

Nick Rayner of Deloitte introduced the report and responded to Members' questions. During discussion:-

- Members commented that financial staff from the County Council and the District and Borough Councils were working very closely together regarding local government reorganisation, including on the amalgamation of financial forecasts.
- Mr David Portlock congratulated the Council for having no issues with its VfM arrangements and that Deloitte's had no recommendations in respect of significant weaknesses.
- Nick Rayner confirmed that a date had not been announced for the issuing of central guidance relating to Whole of Government Accounts work. He confirmed that this would not impact the commencement of Deloitte's audit work for 2021/22.

Resolved –

That the report be noted.

254 External Audit Planning Report for Year Ending 31 March 2022 - North Yorkshire County Council

Considered –

Deloitte's planning report for the County Council for the year ended 31 March 2022 which set out respective responsibilities in relation to the financial statements audit and invited Members to ask questions at this stage of the audit.

The report included Deloitte's audit plan, including key audit judgements and the planned scope, and key regulatory and relevant corporate governance updates.

Nicola Wright of Deloitte introduced the report and, together with Nick Rayner, responded to Members' questions. During discussion:-

- Nicola Wright confirmed that Deloitte had discussed and agreed, with the Council's Finance Team, a plan for achieving the 30 November 2022 deadline for publishing the audited accounts for 2021/22.
- With regard to the planned format of the Council's financial statements for 2021/22, John Raine confirmed that the Council's Finance Team intended, working alongside Deloitte, to streamline disclosures as much as possible. However, streamlining disclosures could sometimes be a challenge due to the conflict with the requirement to include the detail required by the Code of Practice.

- Nicola Wright clarified that Deloitte's 2021/22 work would include checking that the County Council's existing internal governance procedures and processes continued to operate well at the time when the focus was on change to the new unitary North Yorkshire Council. Deloitte would also be looking to understand the process through which the County Council was preparing for local government reorganisation and the impact of such work during 2021/22.
- Nicola Wright explained that inflation was not included in the list of significant audit risks on page 45 because this list referred to the risks that the Council's financial statements would include incorrect transactions and figures. She added that inflation, whilst an important risk, was more of an operational risk for the Council. However, if the Council made inflationary assumptions, Deloitte might challenge such assumptions if they felt that they were too prudent or too optimistic. Gary Fielding added that he regarded inflation as one of the key risks for the budget in the medium term financial plan over the next three years. Members supported the view that higher inflation would not be a short-term problem.

Resolved –

That the report be noted.

255 External Audit Planning Report for Year Ending 31 March 2022 - North Yorkshire Pension Fund

Considered –

Deloitte's planning report for North Yorkshire Pension Fund for the year ended 31 March 2022 which set out respective responsibilities in relation to the financial statements audit and invited Members to ask questions at this stage of the audit.

The report included Deloitte's audit plan, including key audit judgements and the planned scope, and key regulatory updates.

Nicola Wright of Deloitte introduced the report and, together with Alex Ferezan, responded to Members' questions. During discussion:-

- Nicola Wright advised that Deloitte had planned, with the Council's pension staff, for the audit of the 2021/22 financial statements of North Yorkshire Pension Fund to conclude to the same deadline, ie end of November 2022, as the audit of the Council's 2021/22 financial statements.
- Nicola Wright advised that Deloitte considered, from an audit perspective, that it was unlikely that there would be a material misstatement arising from implementation of the McCloud public sector pensions remedy.
- David Portlock advised that he was the Chair of the North Yorkshire Pension Board. He then referred to page 85 which was headed "Topical matters – New powers to block suspicious pension transfers" and included the Deloitte response "the Audit Committee should engage with the administration at the Fund to ensure that processes have been put in place to ensure that the new rules were implemented from 30 November 2021 and that these further steps have been implemented to protect members against pension scams". David Portlock queried whether such business should come to the Audit Committee or the Pension Board. Gary Fielding undertook to arrange for a piece of work to be undertaken to give an assurance and then ensure it was shared across the board.
- Members referred to page 93 which was headed "Independence and fees" and

included the statement "... we have documented our assessment on the threats and safeguards concerned with the delivery of services to, and the receipt of fees from BCPP, along with our assessment on the opinion of a reasonable and informed third party on these services". Members asked whether the document was a public document or a Deloitte internal document. Nicola Wright advised that this was an internal, independent assessment on Deloitte's files.

Resolved –

That the report be noted.

256 Progress on 2021/22 Internal Audit Plan

Considered –

The report of the Head of Internal Audit which advised of progress made to date in delivering the 2021/22 internal audit programme of work and other related services (ie, information governance and counter fraud) delivered to the County Council by Veritau. The report also highlighted issues likely to impact on the programme of work throughout the remainder of the year.

The Head of Internal Audit introduced the report and responded to Members' questions. During discussion:-

- Members commended the leaflet aimed at increasing fraud awareness which had been sent out with Council Tax bills.
- Members highlighted the high number of 2021/22 audits where the status was currently marked either "fieldwork in progress" or "planning". They questioned Max Thomas concerning whether he was confident that sufficient audit work would be carried out, and evidence obtained, in order for him to give an annual opinion later in 2022. Max Thomas responded that, based on reports from staff, he was confident that the work would be completed and Veritau would have sufficient coverage to provide a sufficiently comprehensive, evidence based opinion.

Resolved –

That the progress made in delivering the 2021/22 Internal Audit programme of work and other assurance related services provided by Veritau be noted.

257 2022/23 Internal Audit Plan Consultation

Considered –

The report of the Head of Internal Audit which sought Members' views on the priorities for internal audit in 2022/23.

Max Thomas (Head of Internal Audit) introduced the report and responded to Members' questions. During discussion:-

- Max Thomas highlighted that much of Veritau's forthcoming work would be influenced, or directly connected to, local government reorganisation (LGR). Members asked about the impact of this on the work that Veritau normally undertook across the Council so that, at the end of the year, Veritau would be able to give an assurance about the controls and governance across the Council. In response, Max Thomas highlighted the following:- (i) Veritau staff from Counter

Fraud and Information Governance were supporting LGR workstreams by providing advice and challenge. (ii) The main focus for internal audit work in the forthcoming year would be to ensure that controls continued to operate right up to the end of the year and that there was ongoing compliance with the Council's existing policies and procedures. (iii) Individual directorate-themed audits would be included in the areas to be covered during the year by Veritau, together with cross cutting audits. However, there would be a change of emphasis, with less systems assurance work being undertaken as such work would not necessarily be relevant in the current situation.

- In response to Members' questions, Gary Fielding advised that his primary concern at present was obtaining sufficient staff to be able to do the work and with the right skills set to take on the extra task of building to deliver LGR. He very much welcomed Veritau's input in making sure systems would be set up correctly from the outset. He also regarded, as a positive, the work around the increasing focus on integration with Health and forthcoming changes relating to social care charging.
- Members commented that Veritau had provided internal audit services for most district councils within North Yorkshire and this would be of great value in bringing systems together.

Resolved –

That the draft Internal Audit Plan for 2022/23 be noted.

258 Accounting Policies

Considered –

The report of the Corporate Director - Strategic Resources concerning the County Council's Accounting Policies for 2021/22, and potential changes in the pipeline that were likely to impact on future years' accounting policies and the SOFA.

John Raine (Head of Technical Finance) introduced the report, advising that, at present, there were no changes to the Code of Practice that impacted on the County Council's 2021/22 Accounting Policies. CIPFA was currently considering the matter of delays to the publication of audited financial statements and this might create potential changes in accounting policies going forward. John Raine also highlighted the national changes to the timetable for publishing local authority accounts and advised that the intention, within the County Council, was to report the draft SOFA to the Audit Committee's meeting on 27 June 2022, to undertake the external audit between July and November, and to report the final SOFA to the Committee's meeting on 28 November 2022.

Resolved –

- (a) That it be noted that there are no changes, at present, to the Accounting Policies for 2021/22.
- (b) That the changes to the Statement of Accounts timetable for 2022 be noted.
- (c) That the potential changes to the SOFA and accounting policies which are in the pipeline for 2022/23 onwards be noted.

259 Treasury Management Strategy

Considered –

The report of the Corporate Director – Strategic Resources inviting Members to review and comment on the 2022/23 Treasury Management Strategy approved by the County Council on 16 February 2022.

Gary Fielding and John Raine answer Members' questions, which included the following:-

- The variation, between years, in the prudential indicator for the County Council's capital expenditure plans (page 121) was due to central grants having not yet been put in place for those programmes that drove expenditure.
- With regard to inflation, the County Council took advice from external treasury management specialists. Usually consumer spending fuelled inflation but this was not the case in terms of the current rise in inflation. Instead the upward pressure was due to distressed supply chains and geopolitical events. There was no impact on the County Council's finances when inflation rates increased because all the County Council's loans were on fixed rates and the County Council had no external debt on variable rates. The County Council's short-term investment returns increased when inflation rose. The negative side of rising inflation was the cost to the County Council's supply chains, which resulted in increased prices.
- The County Council was not planning to make further commercial investments at this stage. All the County Council's previous commercial investments had been funded through internal cash. All its commercial investments had generated a return in excess of the amounts that would have been achieved had the money instead been invested in cash and on a daily basis.
- Savings arising from local government reorganisation had not been factored into the County Council's accounts because it would be the new unitary Council that would benefit from such savings, although a lot of work would be required to achieve them. However, the scale of such savings should be more than adequate to deal with the County Council's current projected deficit and the current projected deficits from the district councils. There would be many challenges in the forthcoming 3 to 4 years and the savings achieved may well be required to provide sufficient headroom and agility to respond to the challenges as they arose.

Members identified no comments which they wished to propose to the Chief Executive Officer for onward recommendation, under his emergency delegated decision making powers, to the Executive.

Resolved –

That the 2022/23 Treasury Management Strategy be noted.

260 Corporate Governance

Considered –

The report of the Corporate Director – Strategic Resources inviting Members to review and propose amendments to the updated Local Code of Corporate Governance.

Gary Fielding introduced the report, highlighting that officers were proposing a number of changes, which were shown as tracked changes in the report, to update the Local Code and that the two principle areas that had been impacted were the consequences of the Covid pandemic and local government reorganisation.

Resolved –

That the updated Local Code of Corporate Governance, as set out at Appendix A to the

report, be recommended to the Chief Executive Officer for him to recommend it, under his emergency delegated decision making powers, for formal approval by himself under paragraph 4.1(m) of the Officers' Delegation Scheme, in consultation with 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).

261 Information Governance Annual Report

Considered –

The report of the Corporate Director – Strategic Resources, providing an update on Information Governance matters, developments in the County Council's Information Governance arrangements, details of related performance, and compliance with relevant legislation.

Gary Fielding introduced the report and, together with Max Thomas and Fiona Sowerby, responded to Members' questions. During debate, officers confirmed that information governance remained one of the top risks for the County Council. Cyber security was an area of increasing concern and complexity, with the prevalence of cyber-attacks increasing and causing significant harm. As an organisation, the County Council was getting better at identifying issues, with staff reporting them more readily. This was important because, in addition to the requirement to report serious breaches to the ICO, it provided the knowledge and the ability to address some of the underlying causes and to reduce risks.

Resolved –

That the County Council's information governance arrangements and activities during the year be noted.

262 Central Services Directorate - Internal Audit Work

a

Considered –

The report of the Head of Internal Audit which advised of the internal audit work performed during the 8 months to 31 January 2022 for the Central Services Directorate.

Max Thomas introduced the report, highlighting that Veritau had issued two final reports during the period for the Central Services Directorate and the outcomes were set out in Appendix 1 to the report. The Covid-19 pandemic had continued to cause some delays in audit work. A number of other audits were therefore currently at draft report stage or fieldwork was still progressing. No significant issues had been identified in the work completed to date.

Resolved –

That the results of internal audit work performed in the period for the Central Services Directorate be noted.

262 Central Services Directorate - Internal Control Matters

b

Considered –

The report of the Corporate Director – Strategic Resources which provided an update of issues and progress against governance related areas identified within the Central

Services Directorate, together with the Directorate's latest Risk Register.

Vicki Dixon (Assistant Director – Strategic Resources) introduced the report and, together with Gary Fielding, responded to Members' questions. During debate:-

- Members questioned why there was no fallback plan for the risk “failure to support the Council’s aspiration to achieve carbon neutrality for 2030 resulting in unmet public expectation and missed opportunities for energy spend reduction” (page 226). Gary Fielding responded that this was an interesting question because the target date of 2030 was so far ahead, and he wondered whether the Council wanted to give the impression of admitting that a plan was needed for not delivering an objective that was so far in the future. Officers undertook to give this more thought.
- Staff recruitment was a challenge and various strategies had been put in place. Past experience of local government reorganisations, which had not taken place during a pandemic, and when the labour workforce market was not as challenging as it was at present, had identified that, due to natural turnover, there had been very few redundancies, and most organisations had found themselves with fewer staff than they wanted and needed.

Resolved –

- (a) That the position regarding the Central Services Directorate’s key governance issues be noted.
- (b) That the Directorate Risk Register for the Central Services Directorate be noted.

263 Programme of Work

Considered –

The Committee’s programme of work which identified items of business scheduled for consideration at each of the Committee’s forthcoming meetings.

Gary Fielding introduced the programme of work, highlighting that training sessions would be arranged to include:- an update on LGR (MTFS and governance issues); pensions governance; and governance of external companies. The order in which these issues would be taken might be changed, and other suggestions would be welcome.

Resolved –

That the Committee’s programme of work be noted.

The meeting concluded at 3.15 pm.