

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

24 OCTOBER 2022

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 2022, 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 which 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.

Cllr Cliff Lunn
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

3 October 2022

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 2022. 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 4 occasions during the year. This has enabled the Committee to monitor 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 has also received reports from the external auditors, Deloitte.

Following the local elections in May 2022, the membership of the Committee changed. Continuity was however maintained with a number of councillors remaining on the Committee. Two of the three independent co-opted members of the committee also agreed to continue in their role.

The Audit Committee is satisfied that the County Council has maintained an adequate and effective control framework throughout the period covered by this report. The Committee recognises that the County Council is currently going through a period of significant change caused by local government reorganisation (LGR) and this is creating new challenges and risks. The Committee has been provided with regular updates from officers and will continue to seek assurances about the management of risks through to vesting day.

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 regular progress reports and updates from the external auditors, Deloitte on the annual audit of the County Council and the North Yorkshire Pension Fund. It was noted that the completion of the 2020/21 audit was delayed due to staff illness and the need for additional testing. The Committee expressed its disappointment at the delay and noted the impact it would have on the Council's finance teams at a time when they were preparing for local government reorganisation (LGR);
- 2 Received and considered Deloitte's report on the 2020/21 audit. The Committee was pleased to note that the external auditors had not raised any significant issues and had issued unqualified audit opinions for both the County Council and the North Yorkshire Pension Fund. Deloitte had also concluded that the Council had appropriate arrangements in place to secure value for money. In accordance with new Code of Audit Practice the auditors had provided a narrative commentary rather than an overall opinion. Deloitte also expected to provide an unqualified opinion on the Whole of Government Accounts return although further government guidance was required before this work could be completed;
- 3 Considered the external audit plan prepared by Deloitte for the audit of the 2021/22 Statement of Final Accounts (SOFA) and the review of the County Council's arrangements for securing value for money;
- 4 Considered the options for appointing a new external auditor to the Council (including the North Yorkshire Pension Fund) for the five year period from 2023/24. The Committee agreed with the recommendation of officers to opt into the sector led procurement process arranged by Public Sector Audit Appointments Limited (PSAA), subject to Council approval. It was agreed that this approach would be less burdensome and would likely produce better outcomes for the Council;

Internal Audit

- 5 Continued to oversee the internal audit arrangements for the County Council and North Yorkshire Pension Fund;
- 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 Approved the Internal Audit Plan for 2022/23. 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. The Committee noted that the plan is flexible and will be kept under review to ensure it continues to reflect the changing risk environment and the County Council's priorities. This flexibility will be particularly important in 2022/23 due to LGR. A significant proportion of internal audit work will be focused on providing assurance to the programme, and on ensuring the County Council's control environment remains effective through to vesting day. Internal audit work is also being coordinated with the other North Yorkshire councils where appropriate;

- 8 Monitored the delivery of the annual Internal Audit work programme through regular update reports presented by the Head of Internal Audit. Reviewed changes to the work programme to reflect new or changed County Council priorities;
- 9 Received and considered the Annual Report of the Head of Internal Audit for 2021/22 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 highlighted information security as being an area which required continuing attention;
- 10 Considered the outcome of the internal audit quality assurance and improvement programme (QAIP). 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;
- 11 Counter Fraud
- 12 Received regular reports outlining the key fraud risks facing the public sector and local government. The Committee also received details of the plans which have been developed to address possible fraud risks arising from the LGR process. The Committee noted that LGR will also provide opportunities to combat fraud through the increased use of data matching;
- 13 Approved updated whistleblowing and counter fraud and corruption policies;
- 14 Considered the results of the annual fraud risk assessment and approved the County Council's updated Counter Fraud Strategy action plan. The Committee also noted the results of the fraud investigations conducted during 2021/22 which helped to deliver savings of £74k.

Financial Statements

- 15 Approved the 2020/21 Statement of Final Accounts (SOFA) for the County Council and the related letter of representation;
- 16 Received and considered the 2021/22 SOFA for the County Council prior to audit by Deloitte. The Committee has established a working group to review the SOFA and the associated governance documents. The working group will report back to the Audit Committee in advance of the SOFA being approved;

Risk Management

- 17 Continued to oversee the County Council's risk management arrangements and strategy;
- 18 Reviewed the progress made by the County Council to identify and address corporate risks. This included consideration of the updated Corporate Risk Register and the relevant mitigating actions. At the time of the report (in December 2021) officers highlighted two risks which had changed. The first related to workforce

pressures in adult social care which had increased significantly in the period. The same pressures were also a factor in failures in the wider care market. The second related to the LGR change programme;

- 19 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;

Corporate Governance

- 20 Considered changes to the Local Code of Corporate Governance prior to approval;
- 21 Approved the Annual Governance Statement of the County Council for 2020/21 which formed part of the 2020/21 Statement of Final Accounts (SOFA);
- 22 Received details of the latest update to the Corporate Governance self-assessment checklist, the changes made to the County Council's governance arrangements during the year following the Covid-19 pandemic and the governance arrangements introduced to support the LGR programme;
- 23 Received a report outlining the work of the Procurement and Contract Management Service during the year. The report included details of the actions taken in response to the Covid-19 pandemic, including the ongoing procurement of personal protective equipment (PPE) and the arrangements in place to maintain stability and resilience in the Council's supply chain. The Committee noted that the Council had joined with the City of Bradford Metropolitan District Council, Calderdale Metropolitan Borough Council and Barnsley Council to invest in local business development through the Go4Growth Programme. The Programme includes support to help small and medium sized enterprises to bid for contracts in the public sector. The Procurement and Contract Management Service has continued to play a leading role in developing regional and national strategy within local government. The Service has also worked to build contract management capacity in the Council through training and the launch of a dedicated toolkit. Three contract management boards have also been created and it is expected that some existing contract management staff will move into the central team. The Committee noted that LGR will provide an opportunity to rationalise contracts, consolidate expenditure and deliver cost savings. The priority is therefore to establish a consolidated contracts register and to identify all the contracts which will be inherited by the new Council;
- 24 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 comply with the requirements of the UK General Data Protection Regulation (UK GDPR) and Data Protection Act 2018. The Committee was also informed of the work being undertaken to prepare for LGR. This includes reviewing the existing policies and processes for each of the North Yorkshire councils and adopting a standard framework. Support is also being provided to the LGR programme to ensure data protection risks are being identified and managed. The Committee also considered recent data security incidents and the move to MS Office 365. The Committee considers that information governance remains a key corporate risk;

- 25 Received a report outlining the County Council's current resilience and business continuity arrangements. The report provided details of the Business Continuity Policy and Plan. The report also outlined the work of the Resilience and Emergencies Team (RET) to raise awareness of risks and train staff within directorates to respond to incidents. Each directorate has a business continuity champion to oversee arrangements, take ownership of the process and to represent the directorate at meetings of the Corporate Risk Management Group (CRMG). During the pandemic, the County Council worked collaboratively with partners through the Local Resilience Forum (LRF) to ensure actions were coordinated and critical services were maintained. The lessons from this approach are being incorporated into future practice. The risk of cyber-attack has increased so this is now a focus for planning. Workshops are being organised to ensure relevant cyber security plans are updated and tested;

Financial Management

- 26 Received a report detailing the results of a self-assessment of compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code. The Code is intended to support good practice in financial management and to help local authorities demonstrate financial sustainability. The Code requires local authorities to assess compliance with the Financial Management Standards and to report this as part of the Annual Governance Statement. The Committee noted the results of the self-assessment and those areas which had been identified as requiring some improvement. It was noted that officers propose to use the LGR process as a way to address most of the required improvements as this will make best use of limited resources;
- 27 Received details of proposed changes to the Code of Practice on Local Authority Accounting and the likely impact of these changes on the Council's accounting policies. The Committee noted that CIPFA was consulting on a number of time limited changes to the Code of Practice to help alleviate delays to the publication of audited financial statements for local government. These included deferring the planned adoption of IFRS 16 (covering the accounting treatment of leases) and a pause in the completion of professional valuations of operational plant, property and equipment for up to two years. It was also noted that the 2021/22 Statement of Accounts would again require disclosure notes to explain the financial impact of the Covid-19 pandemic on the Council. The deadline for publishing the audited Statement of Accounts will be 30 November 2022;

Other

- 28 Considered the County Council's arrangements for securing value for money. The report outlined the existing framework for planning, decision-making, managing resources and reporting outcomes in respect to service delivery. This includes the Council Plan, Medium Term Financial Strategy (MTFS), service planning arrangements, the quarterly performance reports and various qualitative measures;
- 29 Continued to scrutinise the County Council's treasury management arrangements. This included reviewing the updated Treasury Management Strategy for 2022/23. The Strategy includes details of treasury indicators covering the investment of surplus funds, the future investment and borrowing strategies, capital financing and expenditure plans and the associated prudential indicators, and a minimum revenue provision (MRP) policy;

- 30 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee;
- 31 Agreed to extend the term of appointment for the existing independent co-opted members from 31 July 2022 to 30 November 2023, subject to approval. This extension was recommended due to the anticipated additional work caused by LGR and in recognition of the sector wide delays in the audit and approval of local government accounts;
- 32 Received briefings from officers on cyber and information security, LGR and the medium term financial statement (MTFS). The new members of the committee also received induction training;
- 33 During the year, the Committee continued to benefit from the attendance and participation of its three independent co-opted 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 diligence, enthusiasm and support during the period;
- 34 No changes are considered necessary to the Committee's Terms of Reference

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.