

NORTH YORKSHIRE COUNCIL

AUDIT COMMITTEE

23 SEPTEMBER 2024

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 2024, prior to its submission to full 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 full Council.

Cllr Cliff Lunn

CHAIR 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

10 September 2024

PURPOSE OF THE REPORT

To provide Members of the Council with details of the work carried out by the Audit Committee during the year ended 30 September 2024. 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 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 5 occasions during the year. This has enabled the Committee to monitor the adequacy and effectiveness of the 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 former external auditors, Deloitte and the Council's current external auditors, Mazars.

The Audit Committee is satisfied that adequate and effective controls have been maintained throughout 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 (2022 edition)

The Committee:

External Audit

- 1 Received progress reports and updates from the former external auditors, Deloitte relating to the audit of the 2021/22 Statement of Final Accounts (SOFA) for the former County Council and the North Yorkshire Pension Fund. The completion of the 2021/22 audit had been delayed due to a number of issues including changes to the accounting treatment of infrastructure assets;
- 2 Considered the external audit plan presented by Deloitte for the audit of the 2022/23 Statement of Final Accounts (SOFA) and the review of the Council's arrangements for securing value for money. Deloitte have also provided verbal updates on the progress being made to complete the audit;
- 3 Considered the external audit plan presented by Deloitte for the audit of the 2022/23 financial statements for the North Yorkshire Pension Fund;
- 4 Considered the external audit plan prepared by Mazars for the audit of the 2022/23 Statement of Final Accounts (SOFA) for the former Selby District Council, and the review of the Council's arrangements for securing value for money. Mazars also provided updates on the progress made to complete the audits of the financial statements for the former Harrogate and Scarborough Borough Councils;
- 5 Considered the draft external audit plan prepared by Mazars for the audit of the Council's 2023/24 Statement of Final Accounts (SOFA) and the review of the Council's arrangements for securing value for money. Mazars have also provided updates on the progress being made to complete the audit;
- 6 Considered the audit strategy memorandum prepared by Mazars for the audit of the North Yorkshire Pension Fund for 2023/24;
- 7 Received the report prepared by Ernst & Young (EY) following the completion of the audit of the former Hambleton District Council's financial statements for 2019/20;
- 8 Received the report prepared by Grant Thornton following the completion of the audit of the former Ryedale District Council's financial statements for 2022/23;

Internal Audit

- 9 Continued to oversee the internal audit arrangements for the Council and North Yorkshire Pension Fund;
- 10 Approved the Internal Audit work programme for 2024/25. The work programme is designed to ensure 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 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 Council's priorities;
- 11 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 Council priorities, and monitored the progress made by management to address identified control weaknesses;

- 12 Received and considered the Annual Report of the Head of Internal Audit for 2023/24 which provided an overall opinion on the Council's governance arrangements and control environment. The Committee noted that the work of internal audit was primarily focused on those areas which represented the highest risk for the Council. The Head of Internal Audit confirmed that the Council's framework of governance, risk management and control provided reasonable 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. A number of areas were also highlighted by internal audit which require continuing attention including creditor payment systems, housing stock management, property asset management and information security. The Head of Internal Audit asked that these areas should be considered for inclusion in the 2023/24 Annual Governance Statement;
- 13 Considered the outcomes of the annual internal audit quality assurance and improvement programme (QAIP) and an external assessment of internal audit working practices conducted by the Chartered Institute of Internal Auditors (CIIA). The CIIA concluded that the internal audit service 'generally conforms' to the Public Sector Internal Audit Standards (PSIAS) and the International Professional Practices Framework for internal audit (IPPF). 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 Council;
- 14 Considered the award of a new contract for internal audit services;
- 15 Counter Fraud
- 16 Received regular reports summarising the work being done to prevent and detect potential fraud committed against the Council, and to investigate cases of suspected fraud which occur;
- 17 Approved changes to the Council's anti-money laundering and terrorist financing policy;
- 18 Considered the results of the annual fraud risk assessment and approved the Counter Fraud Strategy and workplan for 2024/25;
- 19 Received and considered the annual counter fraud report for 2023/24. The report summarised the counter activities undertaken during the year including the outcome of completed investigations. The Committee noted that council tax and business rates represented the largest proportion of cases although fraud had been detected across a number of other service areas. It was also noted that fraud investigations had delivered £82k in savings during the year;

Financial Statements

- 20 Received regular reports on the work being done to complete the Statement of Final Accounts (SOFA) and audits for the legacy North Yorkshire councils. With the exception of the former Craven District Council, all of the 2022/23 accounts have been approved. However, the accounts are still subject to audit by the respective external auditors. In addition, a number of accounts relating to the legacy North

Yorkshire councils are also outstanding from earlier years due to a combination of technical issues and capacity problems within the external audit teams. The accounts will be approved once those issues have been resolved and the audits completed;

- 21 Approved the amended Statement of Final Accounts (SOFA) for the former Hambleton District Council in respect of 2019/20, and for the former Ryedale District Council in respect of 2022/23 together with the respective Letters of Representation;
- 22 *Established a working group to review the draft 2023/24 Statement of Final Accounts (SOFA) for the Council and the associated governance documents. The SOFA incorporates the accounts of the North Yorkshire Pension Fund. The working group will report back to the Audit Committee in advance of the SOFA being approved;*

Risk Management

- 23 Continued to oversee the effectiveness of the Council's risk management policy and procedures. This has included considering the updated Corporate Risk Register and the associated mitigating actions. At the time of the report (in December 2023) officers highlighted three new or significantly changed risks. These were achieving net zero by 2030, delivering the North Yorkshire transformation and savings requirements, and property and housing regulation compliance. The Committee noted that a number of other risks had been downgraded and would now be managed at a directorate level;
- 24 Assessed the adequacy and effectiveness of each Directorate's risk management arrangements through consideration of the risks and mitigating actions identified in Directorate risk registers;
- 25 Noted the completion of two additional risks workshops relating to the Catterick Garrison Levelling Up Fund (LUF) project and the Libraries Improvement Fund (LIF) mobile library replacement;

Corporate Governance

- 26 Considered changes to the Local Code of Corporate Governance prior to its approval;
- 27 Received details of the latest update to the Corporate Governance self-assessment checklist. The Committee noted the changes made to the Council's governance arrangements during the year, and planned future developments;
- 28 Considered the annual partnership governance reports for the former County Council for 2022/23 *and the Council for 2023/24*. The reports included details of key partnerships, changes which had occurred during each year and the arrangements in place to monitor the management and performance of those partnerships. The Committee noted that none of the partnerships had been categorised as high risk and there had been no significant governance failures reported in either year. The Committee concluded that partnership governance remains effective, and the arrangements for overseeing these arrangements are proportionate and commensurate to the risks;
- 29 Received a report outlining the work of the Procurement and Contract Management Service (PCMS) during the year. The report noted that the PCMS had worked with

the directorates and service areas to ensure continuity of service following the creation of the new North Yorkshire Council, and to clarify roles and responsibilities in respect of procurement and contract monitoring. Work was also continuing to identify opportunities to consolidate existing contracts, update the Council's contracts register and prepare a forward procurement plan. The report highlighted the continuing challenges caused by inflation and supply chain resilience, and the lack of capacity within the corporate team caused by staff turnover. The Committee noted that the Council continues to work with the Go4Growth Programme, a partnership with other local councils, which invests in local business development. The Committee noted the support that had been provided to local small and medium sized enterprises (SMEs), and voluntary, community and social enterprises (VCSEs) as part of the re-procurement of the Social Care Approved Provider Lists. The PCMS also continues to play a leading role in developing regional and national strategy within local government. The Council is the deputy chair of the YorProcure Strategic Procurement Group and represents the region on the Local Government Association National Advisory Group for Procurement. The Committee also noted that plans are being developed ahead of the implementation of the new Procurement Act, which is expected to take effect from 28 October 2024;

- 30 Received and considered an updated Procurement and Contract Management Strategy. The revised Strategy is now aligned with the Council Plan and sets out the direction of travel for the next 5 years. It was noted that the Strategy will focus on measures to encourage sustainability and market stability, providing support to small and medium enterprises (SMEs) and the voluntary, community and social enterprises (VCSE) sectors, ensuring social value in the Council's supply chain and building a stronger economy in North Yorkshire. The revised Strategy will be implemented in line with a Strategy Action Plan;
- 31 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 raise awareness of 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 ensure the Council was compliant with the relevant legislation following local government reorganisation. This included reviewing processes, training and awareness raising. 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;
- 32 Received a report outlining the Council's business continuity arrangements following local government reorganisation. The report provided details of the updated corporate business continuity policy, programme and plan, and the emergency and major incident plan. These plans are intended to ensure a consistent and coordinated response to any emergency or incident. The report also outlined the work of the Resilience and Emergencies Team (RET) to raise awareness of risks and train staff within service areas to respond to incidents. Business continuity champions in each service area oversee arrangements, take ownership of the process and attend meetings of the Corporate Risk Management Group (CRMG). This approach helps to improve engagement, prioritise the allocation of resources and ensure consistency. Each service area is required to maintain a Business Impact Analysis which prioritises business functions and quantifies the impact of any loss of those functions,

and an Incident Management Plan which sets out the planned response to a range of possible incidents. Members of the RET review these plans and facilitate business continuity exercises to test their adequacy. The Committee noted that the RET is now providing support to the City of York Council which will allow a more consistent approach by the two councils and potentially improved resilience;

- 33 Received a report summarising the outcome of a review of the governance arrangements in place within the Council's Brierley Group companies. The report also set out the existing framework for the oversight of those companies. The review had taken account of relevant guidance issued by CIPFA. The guidance represents best practice for the establishment and monitoring of companies. It also identifies the possible risks and problems which can occur, highlighting some of the recent failures at other local authorities. The review had concluded that the governance structures in place are largely compliant with the guidance and considered to be robust and appropriate for each company. The report contained a number of recommendations covering conflicts of interest, the membership of company boards, the requirement for business plans to be prepared, external audit arrangements, compliance with Teckal rules and the maintenance of risk registers. The Committee asked the Shareholder Committee to consider its comments, particularly in respect of the role of Elected Members on company boards;

Financial Management

- 34 Received details of the outcome of the latest self-assessment of compliance with the 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. Inevitably there have been a number of issues with some aspects of financial management as a result of local government reorganisation. These have included the need for more intensive intervention from finance to support some budget managers, a number of systems and process issues which have required workarounds or more manual interim processes and delays in the full alignment of budgets to the new structures which have led to a greater reliance on ad hoc financial reporting. However, none of these issues have impacted fundamentally on the key financial management and control functions identified in the Code. The Committee noted the results of the self-assessment and those areas which had been identified as requiring further improvement;
- 35 Received details of possible changes to the CIPFA Code of Practice on Local Authority Accounting and the impact of these changes on the Council's accounting policies. Whilst no immediate changes were required to the accounting policies, the Committee noted that CIPFA had completed a consultation exercise on the planned adoption of IFRS 16 (covering the accounting treatment of leases) from 2024/25 onwards. This will have an impact on all the main elements of the Council's SOFA, including the balance sheet, comprehensive income and expenditure statement, and cashflow statement. A number of new disclosure notes will be required, and the reclassification of leases may also have implications for the Council's prudential borrowing;

Other

- 36 Continued to scrutinise the Council's treasury management arrangements. This included reviewing the updated Treasury Management Strategy for 2024/25. 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. The Strategy meets the requirements of the Local Government Act 2003, investment and MRP guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG), and the CIPFA Prudential and Treasury Management Codes;
- 37 Noted the outcome of the insurance tender exercise for the new North Yorkshire Council;
- 38 Considered a motion on the United Nations Sustainable Development Goals (SDGs) which had been referred to the Audit Committee by Full Council. The motion was also referred to the Transport, Economy, Environment and Enterprise Overview and Scrutiny Committee for review. The Committee debated the motion in detail and noted that the Council is already working towards delivering a number of the objectives set out by the UN. The Committee recommended that the Executive reviewed the motion with the aim of ensuring that its quarterly monitoring reports incorporate the Council's progress with respect to the UN Sustainable Development Goals;
- 39 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee;
- 40 During the year, the Committee continued to benefit from the attendance and participation of its two independent co-opted members, David Portlock and David Marsh. Following a recruitment exercise, both co-opted members were also appointed for a further term. 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;
- 41 No changes are considered necessary to the Committee's Terms of Reference at this time. The Committee intends to complete a self-assessment of its effectiveness in early 2025. This exercise may result in future changes being proposed.

Councillor Clifford Lunn
Chair 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 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 Procurement and Contract, Finance and Property Procedure Rules.

4. In respect of **financial statements**

For both the 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 Council's Corporate Governance arrangements
- to review progress on the implementation of Corporate Governance arrangements throughout the Council
- to approve Annual Governance Statements for both the Council and the North Yorkshire Pension Fund
- to liaise, as necessary, with the Standards and Governance Committee on any matter(s) relating to the Codes of Conduct for both Members and Officers
- to work with the Standards and Governance Committee to promote good ethical standards within the Council
- to review the arrangements in place for ensuring good governance in the Council's key partnerships and owned companies

6. In respect of **Risk Management**

- to assess the effectiveness of the Council's Risk Management arrangements.

- to review progress on the implementation of Risk Management throughout the 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 Council.

8. In respect of **Treasury Management**

- to be responsible for ensuring effective scrutiny of the 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 Council in securing Value for Money.

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