

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

25 OCTOBER 2021

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 2021, 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

6 October 2021

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 2021. 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 5 occasions during the year. This had 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.

As would be expected, the Committee has focused attention on the impact of the Covid-19 pandemic on the Council's priorities and risks, and its framework of controls and governance. Despite the challenges caused by the pandemic, 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 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 2019/20 audit had been particularly difficult with audit work conducted remotely during lockdown and the Council's finance teams under pressure due to the additional tasks caused by the pandemic. The 2020/21 audit is progressing and the external auditors have not identified any matters of concern. However, it was noted that Deloitte would not be able to sign-off their audit of the accounts by the deadline of 30 September 2021 due to issues identified by the Financial Reporting Council's (FRC's) Audit Quality Team who had carried out an inspection of Deloitte's file for the 2019/20 audit. The inspection had identified a number of deficiencies in the previous year's audit which meant further audit testing was now required. The Committee expressed its disappointment for the delay and noted the impact it would have on the Council's finance teams;
- 2 Received and considered the Deloitte's report on the 2019/20 audit. The Committee was pleased to note that the external auditors had not raised any significant issues and intended to issue unqualified audit opinions for both the County Council and the North Yorkshire Pension Fund. Deloitte also intended to issue an unqualified value for money conclusion and an unqualified opinion on the Whole of Government Accounts return. It was noted that Deloitte also intended to highlight the uncertainties to the valuation of the Council's property portfolio caused by the Covid-19 pandemic;
- 3 Considered the external audit plan prepared by Deloitte for the audit of the 2020/21 financial statements and the review of the County Council's arrangements for securing value for money. It was noted that a new Code of Audit Practice had been issued by the National Audit Office which means the Annual Audit Letter will be replaced by a new 'Auditor's Annual Report'. The new Code will also mean that the auditor's conclusion on value for money will be replaced with a narrative commentary;

Internal Audit

- 4 Continued to oversee the internal audit arrangements for the County Council and North Yorkshire Pension Fund;
- 5 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;
- 6 Approved the Internal Audit Plan for 2021/22. 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;

- 7 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;
- 8 Received and considered the Annual Report of the Head of Internal Audit for 2019/20 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;
- 9 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;
- 10 Counter Fraud
- 11 Received regular reports outlining the key fraud risks facing the public sector and local government. The Committee also received details of the updated national strategy for managing the risks of fraud and corruption within local government; *'Fighting Fraud and Corruption Locally – a Strategy for the 2020s'*.
- 12 Considered the results of the annual fraud risk assessment and approved the County Council's updated Counter Fraud Strategy. The Committee also noted the results of the fraud investigations conducted during 2020/21 which helped to deliver savings of £93k.

Financial Statements

- 13 Approved the 2019/20 Statement of Accounts for the County Council and the related letter of representation;

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 and the relevant mitigating actions. At the time of the report (in December 2020) a number of the existing risks had been modified to reflect developments during the year including the impact of the Covid-19 pandemic and local government reorganisation. The Committee recognised that the Covid-19 pandemic had resulted in a significant level of strain being placed on the Council's normal operating arrangements. The pandemic had also had an adverse impact on the health and wellbeing of residents and staff, and resulted in potential damage to the local economy, the education of children and young people, and the financial position of the Council;

- 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 establishment of the NY Highways 'Teckal' company and the development of the new Middle Deepdale School in Scarborough);

Corporate Governance

- 17 Considered changes to the Local Code of Corporate Governance prior to approval;
- 18 Approved the Annual Governance Statement for 2019/20;
- 19 Received details of the latest update to the Corporate Governance self-assessment checklist, the improvements made to the County Council's governance arrangements during the year as well as future planned improvements, and the changes that were required in decision making due to the Covid-19 pandemic;
- 20 Considered the annual reports on partnership governance for 2019/20 and 2020/21. The reports included details of the County Council's current partnerships, changes which had occurred during each year and the arrangements in place to monitor the management and performance of key partnerships. The report included details of over 50 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 during either year. The Committee also noted a number of changes that had occurred during the last two years, including the creation of the North Yorkshire Safeguarding Children Partnership (NYSCP), the Harrogate Rural Alliance, the Borders to Coast Pension Partnership, the North Yorkshire Outbreak Management Board (in response to the Covid-19 pandemic) and the Market Development Board (for adult social care). The Committee concluded that partnership governance remains effective and the existing arrangements are proportionate and commensurate to the risks;
- 21 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 procurement of personal protective equipment (PPE) and the creation of a supply chain resilience process to ensure service continuity and to create the conditions to allow suppliers to resume normal contract delivery once the pandemic was over. Plans had also been developed to ensure continuity of supply in the event of a no-deal Brexit. The Committee noted that the Procurement and Contract Management Service continued to play a leading role in developing regional and national strategy within local government. The Committee was also pleased that the Service had been highly commended in the Team of the Year Award for Local Government at the GO National Awards;
- 22 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 UK General Data Protection Regulation (UK GDPR) and Data Protection Act 2018. The Committee was also informed of the work undertaken in response to the

Covid-19 pandemic which included updating privacy notices, preparing new data sharing agreements with partner organisations and issuing guidance on document retention and safe data protection practices to staff working at home. The Committee also considered recent data security incidents and the move to MS Office 365. The Committee shares the view that information governance remains a key corporate risk;

- 23 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 and how the County Council had responded to the Covid-19 pandemic and a number of other challenges;

Financial Management

- 24 Received a report outlining the new Financial Management Code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in October 2019. The Code applied from April 2020 onwards although the first year was considered to be a transitional period. The Committee noted the results of a self-assessment of the County Council's compliance with the Code. This showed a relatively high level of compliance but also identified some areas for improvement. It was noted that officers proposed to take further action to ensure full compliance in 2021/22;
- 25 Received details of possible future changes to the timetable for publishing the audited accounts. The Committee also noted that the anticipated change in the treatment of leases had been delayed until 2022/23 due to the Covid-19 pandemic. The change in treatment results from the adoption of IFRS 16, and will result in the reclassification of certain operating leases. This will impact on the balance sheet, the comprehensive income and expenditure statement and the cash flow statement. Additional disclosures will also be required. The change could also have an impact on the Council's prudential borrowing.

Other

- 26 Considered the County Council's arrangements for securing value for money. The Committee noted that the new Code of Audit Practice requires the external auditors to consider and report on the arrangements for achieving financial sustainability, good governance, and economy, efficiency and effectiveness in the delivery of services. 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, Beyond 2020 transformation programme, service planning arrangements and the quarterly performance reports;
- 27 Received a report outlining the outcome of the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting (the Redmond Review). The review was undertaken by Sir Tony Redmond and considered the effectiveness of the current arrangements for external audit including the fee structure, scope of work and the level of assurance provided. The review also considered the existing regulatory framework and the need to improve transparency of local government finance. The report provided details of the key findings and conclusions from the review and the recommendations made to the Government. The Committee considered the potential impact to the financial reporting process if

the recommendations contained in the report were adopted although it was noted that some of the recommendations would require changes to legislation;

- 28 Continued to scrutinise the County Council's treasury management arrangements. This included reviewing the updated Treasury Management Strategy for 2021/22. 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;
- 29 Considered proposed changes to the County Council's Property Procedure Rules;
- 30 Considered the results and recommendations from the member working group established to review the effectiveness of the Audit Committee. The working group concluded that the Committee adds value and is generally effective in promoting good governance and the maintenance of appropriate risk management and control arrangements within the Council. A number of areas of good practice were identified including the ability to question Corporate Directors, the appointment of independent Members to the Committee and the time allowed to discuss substantive matters. The working group also identified some areas requiring change or improvement, including the need to adopt a more structured approach to Member training and the need to do more to explain the role and purpose of the Committee to the rest of the Council, and the relationship between the Committee and the Council's Executive, Scrutiny functions and Standards Board;
- 31 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee;
- 32 Received briefings from officers on the governance of the County Council's owned companies and the pension fund;
- 33 During the year, the Committee continued to benefit 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;
- 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.