

## The Report of the Audit Committee

The Audit Committee met on 7 September 2017. Present:- County Councillor Cliff Lunn (in the Chair), County Councillors Karl Arthur, Margaret Atkinson, Robert Baker, Jim Clark, David Hugill, Don Mackay and Geoff Webber. In attendance:- Mr David Marsh and Mr David Portlock (External Members of the Committee).

**1. Annual Report:** 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.

The Audit Committee, on 7 September 2017, considered and approved its Annual Report for the year ended 30 September 2017. The Annual Report is at Appendix 1.

### **The Audit Committee RECOMMENDS:**

That the Annual Report of the Audit Committee, as set out at Appendix 1, be noted.

CLIFF LUNN  
Chairman

County Hall  
NORTHALLERTON  
31 October 2017

## 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 2017. 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) 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 four occasions in the year to 30 September 2017, 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, the internal auditors, Veritau and the external auditors, KPMG. 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 a number of emerging issues and priorities including funding challenges, devolution, the need for sustainable growth, health and social care integration, the risk of service failure in the social care sector, information security and safeguarding.

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.

The Committee:

### External Audit

- 1 Received and considered the external auditor's annual audit letter in respect of the 2015/16 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

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<sup>1</sup> CIPFA – Audit Committees Practical Guidance for Local Authorities and Police, 2013

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 Received and considered the external auditor's plan for the audit of the 2016/17 financial statements and the review of the County Council's arrangements for securing value for money;
- 3 Received and considered the results of KPMG's work in relation to the audit of the 2016/17 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. KPMG had also issued an unqualified value for money conclusion;
- 4 Held an informal private meeting with KPMG to discuss their work;

#### Internal Audit

- 5 Continued to oversee the internal audit arrangements for the County Council and North Yorkshire Pension Fund. This has included approving changes to the Internal Audit Charter;
- 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 2017/18. 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) and approved changes to the County Council's anti-money laundering policy;
- 10 Received and considered the outcome of the annual 2016/17 Fraud and Loss Risk Assessment. The Committee also reviewed the work of Internal Audit in respect of suspected fraud including the results of investigations into matters reported via the County Council's whistleblowing facilities or directly by management;
- 11 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 Committee also considered the breaches of the Council's Finance, Contract and Property Procedure Rules which had been identified during audit work. 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 issues related to information security, procurement and contract management within Health and Adult Services, access to IT systems by volunteers and compliance with the Payment Card Industry Data Security Standard;
- 12 Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2016/17, and considered the performance targets for 2017/18. The Committee also considered the outcome of the internal audit quality assurance and

improvement programme (QAIP). The QAIP is an ongoing process which helps to ensure internal audit work is conducted in accordance with established professional standards. The Committee was pleased that internal audit practices met the required standards and therefore continued reliance could be placed on the arrangements operating within the County Council;

- 13 Held an informal private meeting with the Head of Internal Audit to discuss the work of the internal auditors;

#### 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. The Committee recognised 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;
- 17 Considered the outcome of the insurance tender exercise. The Committee was pleased to note the overall saving of £104k pa (net of insurance premium tax) that had been achieved;

#### Corporate Governance

- 18 Considered changes to the Local Code of Corporate Governance prior to approval. These changes reflected the core principles and requirements of the recently published CIPFA/SOLACE 'Delivering Good Governance in Local Government Framework' (2016);
- 19 Considered and approved the Annual Governance Statement for 2016/17 of the County Council. The Statement had been updated so that it aligned with the new corporate governance principles and framework. The Committee also reviewed the progress made by management to address significant issues identified in the 2015/16 Annual Governance Statement;
- 20 Considered a number of recent developments to strengthen and improve corporate governance arrangements as well as future plans. The Committee was pleased to note the refresh of the Council Plan and the continued focus on the Medium Term Financial Strategy (MTFS);
- 21 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 Committee noted that none of the partnerships were identified as being high risk although 19 were classed as medium risk. The governance arrangements of all high and medium risk partnerships are monitored on a regular basis. The Committee consider that partnership governance remains effective and the existing arrangements are proportionate and commensurate to the risks;
- 22 Received reports on the progress made to update strategic plans and develop policies and procedures to reflect latest guidance and best practice on corporate governance, particularly in respect of information governance to reflect latest guidance and best practice. The Committee 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 also considered the results of

the information security compliance checks performed by internal audit and the causes of recent data security incidents. The Committee noted that the number of reported incidents has increased but recognised that this is likely to have been caused by heightened awareness of the issue. The Committee shares the view that information governance remains a key corporate risk;

- 23 Received a report outlining the progress made to implement improved business continuity arrangements across the County Council. The Committee was pleased to note that good progress continues to be made to develop effective systems and processes to reduce the risks of disruption;
- 24 Received reports detailing the progress made to implement the Corporate Procurement Strategy (2014 - 2020) and the achievement of procurement related savings. The Committee also noted a number of other developments including the establishment of the new Corporate Procurement and Contract Management Service following the decision to bring the service in-house, greater focus on market engagement, the implementation of a category management approach to cross-Council expenditure, improved contract management and increased collaboration with other public sector organisations;

#### Financial Statements

- 25 Considered and approved the Statement of Accounts for 2016/17 of the County Council and the North Yorkshire Pension Fund;
- 26 Received details of the revised Code of Practice on Local Authority Accounting which was issued by CIPFA in April 2016. Whilst no changes are required to the Council's accounting policies, the format of the 2016/17 Statement of Accounts will need to be amended. In practice this will mean that we will now be able to report income and expenditure by directorate. The Committee also noted a number of potential future changes to the Code of Practice including the anticipated change to the valuation of highways network assets from April 2017 onwards. This will represent a significant change in accounting policy and require separate disclosure of different categories of infrastructure (for example, carriageways, footways and cycle tracks, and street lighting). Other changes being considered include the extension of the definition of finance leases to include certain operating leases. This change, if implemented, could have an impact on the Council's prudential borrowing.
- 27 Received and considered proposed changes to the timetable for the preparation and approval of the Statement of Accounts and Annual Governance Statement. For the 2017/18 financial year onwards, the Council County is required to produce the annual accounts and governance statement by 31 May (one month earlier than previously) and to have published the audited and approved accounts and governance statement by 31 July (two months earlier than previously). This change to the timetable is challenging for both the County Council and KPMG. The Committee was therefore interested to understand the planned changes to approach that are considered necessary to meet the accelerated timetable. The Committee also noted that the timetable for the preparation and audit of the 2016/17 Statement of Accounts and Annual Governance Statement had been revised to meet the new requirements. This will allow any issues in scheduling to be identified early.

#### Other

- 28 Received and considered proposed changes to the Contract Procedure Rules prior to referral to the Executive and approval by the County Council. The changes included recognition of the new Corporate Procurement and Contract Management Service structure, improved procedures for the evaluation of OJEU tenders, greater clarity on the approvals required at each stage of the 'gateway' process, improved guidance for the administration of grants. Other changes included new requirements for when non-council employed workers are engaged (to

ensure compliance with the new legal requirement to deduct tax and NI), and measures to improve transparency and engagement by small and medium enterprises (SMEs);

- 29 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 2017/18. The Strategy incorporates a minimum revenue provision policy and a policy to cap capital financing costs as a proportion of the annual net revenue budget;
- 30 Received briefings from officers on issues facing the County Council including the measures being taken to promote information governance good practice and reduce the risks of cyber attack. Members also attended a seminar on the 2020 Modern Council;
- 31 Members also attended a training course in July delivered by CIPFA which highlighted the role and responsibilities of the Audit Committee. The course was a helpful induction for the new members of the Committee. It was also attended by audit committee members from other neighbouring councils which helped to provide an opportunity to compare practices and share knowledge;
- 32 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee;
- 33 Commissioned an internal survey to be undertaken into the effectiveness of the Audit Committee;
- 34 Reviewed the Committee's Terms of Reference. We concluded that no changes were required.
- 35 We welcomed a number of new members to the Committee in May this year. I was also appointed as the new Chair. I would like to thank my predecessor, Councillor Mike Jordan, for the enthusiasm and dedication he showed in the role and for ensuring the Committee effectively discharged its responsibilities.

Councillor Clifford Lunn  
Chairman of the Audit Committee

**AUDIT COMMITTEE  
TERMS OF REFERENCE**

1. In respect of **Internal Audit**

- to approve the Internal Audit Strategy, 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 review the effectiveness of the system of Internal Audit and the Committee itself on an annual basis.

2. To review the workplan and performance of External Audit.

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 review the annual Statements of Assurance provided by the Chief Executive, Management Board and Corporate Directors.
- to liaise, as necessary, with the Standards Committee on any matter(s) relating to the Codes of Conduct for both Members and Officers.

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 meet not less than four times a year on normal business and review its Terms of Reference on an annual basis.

11. 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.

12. 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).