

**NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE**

At a meeting of the **Audit Committee** held at County Hall, Morpeth on Wednesday, 28 March 2018 at 10.15 a.m.

PRESENT

Councillor G Hill (Chair)

COUNCILLORS

G Castle
A Hepple
L J Rickerby

E Simpson
M Swinburn
D Towns

CO-OPTED MEMBERS

A Hall

A N Haywood-Smith

OFFICERS IN ATTENDANCE

K Angus	Executive Director of Human Resources and Organisational Development
A Bridges	Head of Communications
K McDonald	Group Assurance Manager
S Dent	Finance Manager
B J McKie	Group Assurance Manager
C Mellons	Ernst & Young, External Auditor
S Lawson	Project Officer
A Mitchell	Chief Internal Auditor
K Norris	Democratic Services Officer
S Reid	Ernst & Young, External Auditor
A Stewart	Finance Manager
A Ward	Communications Lead - External

ALSO PRESENT

Councillor C Homer, Portfolio Holder for Culture, Arts and Leisure
Councillor N Oliver, Portfolio Holder for Corporate Services
Councillor R Wearmouth, Portfolio Holder for Economic Development and Chairman of Arch.

Judith Stonebridge, Vice Chair of the Board of Active Northumberland

Other Councillors: C Dunbar, B Flux, G Roughead
Press and public: 12

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35. CHAIR'S ANNOUNCEMENT

The Chair welcomed everyone to the meeting and said there would be a change to the agenda in order to discuss an item of urgent business relating to a report from the Arch Group Board. This would be discussed before agenda item 4.

36. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on Wednesday, 24 January 2018, as circulated, be confirmed as a true record and signed by the Chair.

37. DISCLOSURE OF MEMBERS' INTERESTS

Councillor Hepple declared a non prejudicial interest in agenda item 6 (1) The Annual Governance Statement as he was an executive director of Northumbria Healthcare NHS Foundation Trust.

Councillor Castle declared a non-prejudicial interest with regard to the item of urgent business as he was a director of Alnwick Youth Hostel, a business not for profit, of which Arch were owners of the building and landlord.

38. URGENT BUSINESS - ARCH GROUP BOARD, MATTERS OF CONCERN

A report from the Arch Group Board - Matters of Concern, was tabled at the meeting and the Chair allowed members 10 minutes reading time. (A copy of the report is filed with the signed Minutes.)

Councillors Richard Wearmouth, Portfolio Holder for Economic Development and Chair of Arch, and Councillor Nick Oliver, Portfolio Holder for Corporate Services were in attendance to present the report.

Councillor Wearmouth thanked the Chair for allowing the report to be discussed under Urgent Business, stating that it had been before the Arch Board the previous Friday and they were keen to share information which had come to light, and to provide assurance to the Council's Audit Committee in relation to addressing the identified matters of concern going forward. The report highlighted some governance matters which had been identified but there was some information which could not yet be shared due to an ongoing Police investigation.

Matters highlighted to the Audit Committee included concerns regarding hospitality which had been provided by Arch for delegates to MIPIM in Cannes, France and

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MIPIM events in the UK. Events had been attended by Arch Board members, Council Elected Members and guests, details of which were provided in the report and in Appendix 1. In addition to the large amounts of money spent on those events, it was stated that the overall level of expenditure on the provision of hospitality was significant for the Arch Group. It was suggested there had been a culture of entitlement to expensive trips and acceptance of hospitality, examples of which were set out in the report.

Audit Committee also discussed support to Ashington Football Club, details of which were provided on page 5 of the report.

There were also deep concerns regarding procurement of goods and services. In terms of people management, processes had been significantly lax, examples of which were provided on pages 5 and 6 of the report.

There had also been significant issues around delegated authority which had been insufficient for robust financial management and the adequacy of decision making which had taken place in support of a range of financial commitments or expenditure incurred by the Arch Group.

Councillor Wearmouth stated that the deficiencies highlighted would not be allowed to continue or happen again and asked for the Audit Committee's assistance to prevent it ever being repeated.

Councillor Oliver said that the report had been redacted and was only the tip of the iceberg. There was an ongoing Police investigation covering other matters, with which the Council would assist in any way it could. Matters were being brought before Audit Committee for transparency and so that Audit Committee could be aware of the concerns and how these might impact on the framework of governance and control, and how the concerns were being managed. The priorities going forward were to have a robust governance framework, get to the bottom of the situation and hold people to account. A range of approaches to ensure that standards in public life would be upheld were being considered.

With regard to accountability, it was asked whether Councillors and MP's who had attended MIPIM events could be named. The MPs who were known to have attended an event in London were mentioned, and reference was made to page 9 of the report which referred to the previous Chair of Arch and which events he had attended.

Questions were invited from Audit Committee members and responses given as follows:

- *What was the business rationale behind attending the MIPIM events?*

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This was unclear. The MIPIM Cannes event is an international property show, but the benefits of attending the MIPIM events could only be speculated upon.

- *Were there any business logs or bulletins for expenses relating to these?*
There had been a number of events over several years in Cannes and in London. One business case had been found to support attendance at MIPIM (UK) 2017 and MIPIM Cannes (2018), however, a decision was taken to withdraw from the event in Cannes. No tariff or set of rates had been found.
- *With regard to Arch Group Financial Regulations and Memorandum of Delegated Authority, who was responsible for ensuring it was sufficient for robust financial management?*

Directors of the company at the time, however the Board could only act with the information with which it was provided and not all of the Board Members had all of the information. Senior staff within the company had responsibility for establishing governance arrangements and for decision making within the governance framework on a day to day basis.

- *Arch is seen as part of Northumberland County Council and has been for a while. What were the audit procedures in place? How were these issues not identified beforehand and what was this committee's role beforehand?*

This Audit Committee raised concerns when it looked at the Arch report in December. Whereas audit provide a full opinion on the framework of governance, risk management and control within the Council, Arch as a company had not asked for a similarly wide-ranging coverage. Arch had instead asked for audit delivered as 'consultancy' which is permissible for a company, but means that the assurance provided was not as wide ranging and was limited to the small number of consultancy assignments which were requested by Arch management. This had been addressed however for 2018/19 and a full audit to support an opinion for Arch on the framework of governance, risk and control, allowing unrestricted coverage across all parts of the Group's operations, had been put in place. Internal Audit coverage would be unrestricted / unfettered and based on risk. -

- *Item 2, Amount of and Declaration of Gifts and Hospitality, paragraph 2 states Internal Audit had been able to obtain limited evidence, was that a small amount or a substantial amount?*

Internal Audit explained that spend on hospitality had been identified from records available but that some records were of poor quality or were not always available.

- *It appears that Arch valued Ashington Football Club on the rebuild insurable value so as an asset on the books it was not worth anywhere near what it appeared. Why was this?*

To say why the basis of valuation had been chosen would be speculative. However the valuation method was not a widely used method of valuation across Arch. There was a question as to why that particular Football Club had received the nature and level of support which it had, when other football clubs had not received similar support. For example Alnwick Football Club received loans which were still in the process of being repaid.

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- *There had been reference to 'bar bills, could some clarity be provided on the types of spend on bar bills.*

A categorical answer could not be provided as information on hospitality is recorded in different places, and receipts provided were quite faded. However, details of a bar bill for one event were read out as an example.

- *Members of Audit Committee expressed the view that it was an abuse of taxpayer's money, £58 for one bottle of wine was disgusting and there were no benefits whatsoever. The second paragraph of section 2 referred to a culture of entitlement, in private business you had to speculate to accumulate but Arch was a company owned by the Local Authority and should have upheld expected standards. Was there a breakdown of the money spent at the MIPIM events?*

Hospitality, travel and accommodation had been looked at, details of which were provided, and on the basis of the records available the events detailed in the report had incurred expenditure of £73k.

Investigations into the work done by Arch had raised some broader strategic questions.

The Chair then invited the press and members of the public to ask questions.

A member of the public, asked whether the activities identified suggested inducement. The policy had repercussions to the taxpayer and he asked if there was any intention to rectify misdemeanours?

Another member of the public said Arch and the Council had failed taxpayers very badly. Arch had been set up by the Council and should have had management procedures and systems to curtail expenditure so why had audits not picked this up?

In response Councillor Oliver said with regard to external suppliers, inducement was a strong word and he could not categorically give an answer. There were some names which repeatedly came up which would be looked at and if any evidence of wrongdoing was found it would be investigated. It was a peculiar situation in that it was a company owned by a public body with different audit procedures which were not as prescribed as those within a local authority and more flexibility for management to decide on what would be audited. It was important, however, to say that governance procedures could have been improved but that they were there and, if top people in the organisation chose not to follow them, it would always be difficult to identify what was happening. Going forward there would be a significant tightening up of procedures and responsibilities,

Councillor Wearmouth added that the sheer volume of data was taking a great deal of time to get through and only so much could be done when people chose to circumnavigate procedures.

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Councillor Towns asked if elected members had declared hospitality through Arch.

The Chief Internal Auditor said Declarations of Interest by staff members and elected members had been looked at but the level of disclosure had been patchy. In some cases declarations had been made, and in others not. There was some evidence that some hospitality had been received but it had not been declared.

Councillor Towns asked if a referral of any members to the Standards Committee would be appropriate. It was agreed that this matter would be referred to the Monitoring Officer for advice.

The Chair then went through the recommendations and members unanimously agreed recommendations 1, 2 and 3. On recommendation 4 it was agreed that the wording be changed to state an appropriate and suitably strong framework 'is now' in place rather than 'will be' in place.

Members also unanimously agreed that an extra recommendation be added to request the Monitoring Officer to consider the position of any elected members who appeared not to have declared hospitality received, and whether this had breached the standards expected of them.

RESOLVED that

1. the matters of concern had been highlighted to the Council's Audit Committee in relation to transparency of the management of the wholly owned subsidiary.
2. it be noted by Audit Committee that the Arch Group Financial Regulations and Memorandum of Delegated Authority were to be reviewed and re-submitted to the Arch Group Board for consideration and appropriate implementation based on the findings within the report.
3. it be noted by Audit Committee there has been initial remedial work undertaken in relation to these areas and immediate management arrangements are now in place to ensure that such practice does not happen in the future.
4. it be noted by Audit Committee that it was planned that a new organisation will be formed shortly and an appropriate and suitably strong framework is now in place to support ongoing robust governance and control arrangements for Arch Group going forward.
5. NCC's Monitoring Officer be requested to consider any evidence regarding hospitality accepted by elected members to see if they had breached the standards expected of them.

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At 11:37 am the Chair announced there would be a five minute comfort break. At this point Councillor Hepple left the meeting. The meeting resumed at 11:42 am.

39. STRATEGIC REVIEW OF ACTIVE NORTHUMBERLAND

The Chair referred to January's meeting when members had agreed to invite David Hall, the Chair of the Board of Active Northumberland to attend this meeting. Due to Mr Hall having a prior engagement, Judith Stonebridge, Vice Chair of the Board of Active Northumberland, was in attendance with Councillor Cath Homer, the Portfolio Holder for Arts, Culture and Leisure.

Ms Stonebridge circulated a progress report to the committee, a copy of which is filed with the signed Minutes of the meeting.

It was stated that a comprehensive, integrated operating and performance plan had been developed and agreed by the Board. All actions would be reviewed on a monthly basis and a detailed summary was set out in the table within the report. Members of the Board had met with the Council's Chief Executive to clarify and agree expected strategic contracting arrangements and expectations going forward. This included the provision of a formal operating agreement from April 2018 and recruitment of an Independent Chair and additional Board members.

In terms of organisation and strategy, a new Chief Executive of Active Northumberland had recently been appointed and would take up post in May. It was noted that the Board was keen to have him in post before agreeing a new strategy and business plan. It was also noted that effective communication systems and processes had been established between Board Members of Active Northumberland and staff and job evaluation which had been a long, complex process was now nearing completion.

The pricing policy review was also underway and a facilities review had been initiated with a view to improving customer engagement. With regard to governance and finance, finance and budget were standing agenda items with reports being submitted to the Board on a monthly basis. A risk management and policy assurance framework was being developed and standard contracts were now in place. With regard to marketing, an innovative campaign had taken place over Christmas which had resulted in increased membership. Further marketing strategies would be discussed with the new Chief Executive when he was in post and customer feedback would be encouraged.

Councillor Homer, as Portfolio Holder, said the strategic review had been a long and detailed piece of work and many issues had already been addressed. She wished to make it clear that, although the review had taken place between July and November, action had been taken before November as issues arose. One of the

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weaknesses identified had been the relationship between Northumberland County Council and Active Northumberland and it was stated that the operating agreement was not as it should have been. It was noted that as from April 2018 a new client relationship operating agreement would be in place and regular reviews would be carried out.

Questions were invited and responses given as follows:

- Clarification was sought regarding comparability between the Council's relationship with Arch and its relationship with Active Northumberland. In response it was stated that Arch was wholly owned by the Local Authority but Active Northumberland was a charitable trust and had a different relationship to the Local Authority. This was why a management agreement was so important. With regard to audit systems, because Active Northumberland was not part of Northumberland County Council, internal audit would not provide services but would look at the management agreement to see that it was operating satisfactorily from the perspective of the County Council.
- With regard to health and safety issues, the Board had considered written reports and a risk register was now in place.
- In response to a suggested recommendation that Active Northumberland be called into Scrutiny, the Chair said she would still like David Hall to attend a future meeting of the Audit Committee to answer questions from a historic point of view to see how things went wrong. Councillor Homer said, as well as being Portfolio Holder, she was a member of the Active Northumberland Board which was allowed to operate in its own right and could make its own decisions, however, if any of that business was linked to the Council it would answer to Scrutiny and Audit.

The Chair thanked Ms Stonebridge and Councillor Homer for their attendance.

RESOLVED that the information be noted.

Councillor Rickerby left the meeting at 12:01 pm.

40. REPORTS OF THE EXTERNAL AUDITOR

(1) Northumberland Pension Fund Audit Planning Report.

Claire Mellons, External Auditor EY, introduced the above report which had been before the Pension Fund Panel in February. (A copy of the report is attached to the signed Minutes as Appendix A.)

It was stated that the report was similar to those of previous years with no change in focus from last year.

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The identified areas of risk and focus were misstatements due to fraud and error and valuation of unquoted investments.

It was noted that, from January, Tyne and Wear Pension Fund had taken over the administration of the pensions payroll process but External Audit could still access everything needed for the audit process.

RESOLVED that the Northumberland Pension Fund Audit Planning Report for the year ended 31 March 2018 be received and noted.

(2) Certification of Claims and Returns Annual Report 2016/17

Mr Stephen Reid, External Auditor, EY, introduced the above report which summarised the results of their work on Northumberland County Council's 2016/17 claims and returns. (A copy of the report is attached to the signed Minutes as Appendix B.)

Mr Reid said he had nothing specific to highlight for members' attention and no significant issues had been identified.

Mr Haywood-Smith sought clarification regarding the indicative certification fee set by the PSAA. Mrs Mellons stated that it was an indicative fee which allowed scope for extra testing if required.

RESOLVED that the Certification of Claims and Returns Annual Report 2017/17 be received and noted.

41. REPORTS OF THE DIRECTOR OF FINANCE

(1) The Annual Governance Statement

Stuart Lawson, Project Officer, introduced the above report which provided members with a draft version of the Annual Governance Statement for their approval. (A copy of the report is filed with the signed Minutes as Appendix C.)

The introduction on page 5 of the report set the context of the draft statement with paragraphs 8 to 48 highlighting its principles. Mr Lawson drew members' attention to paragraphs 50 to 58 which set out developments in 2017-18 and an overall assessment of governance arrangements in place. He referred to Appendix C on page 20 of the report which set out the 2018-19 Improvement Plan.

Members were asked to approve the draft annual governance statement which would be brought back to committee in due course.

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The Chair said it was a very important report and members should give it careful consideration. She suggested that members should note it as a draft document at this stage and feed in further comments before consideration in July.

Some discussion took place and the following issues were raised:

- Assessment scores; Councillor Castle felt that some of them should have been marked as inadequate and the Chair agreed.
- The role of Town and Parish Councils; Councillor Swinburn said it was inaccurate to say they carried out complementary services as there were actual agreements in place for some shared services.
- Health partners; clarification was provided in paragraph 6 on page 5 of the report.
- The role of the Monitoring Officer and public interests.
- Whistleblowing and freedom of information
- It was important to look at the current position in comparison to what was previously in place.

Discussion took place about the timescale for approval and it was confirmed that the published accounts, of which the Annual Governance Statement formed a part, were due by the end of May.

The Chair suggested it may be beneficial to organise another session or circulate an email requesting comments. Mr Reid added that, as part of the external audit process, comments would be fed in regarding Arch.

Mr Haywood-Smith raised concerns about determining the interventions necessary to optimise the achievement of the intended outcomes and felt there should have been additional or background information.

RESOLVED that the Annual Governance Statement be noted as a draft document and circulated to members for comments.

(2) Statement of Accounts - Group Boundary Review

Andy Stewart, Finance Manager, introduced the above report which was tabled at the meeting. The report provided members with details of the boundary review which had been undertaken to determine whether or not Arch and Active Northumberland's financial statements should be consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2018 and future years. (A copy of the report is attached to the signed Minutes.)

The Finance Manager said the main issue was around the control element and there were various aspects to assess.

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The report had identified two main areas. With regard to Active Northumberland, it was concluded that the Council did not have significant control so the accounts had not been consolidated with the Council's Statement of Accounts. With regard to Arch, the position was different as the Council did have control over it and should therefore be consolidated into the Statement of Accounts.

In response to queries about Active Northumberland, the Portfolio Holder for Arts, Leisure and Culture said there was a report going to full Council next month regarding a gap in funding and emergency funding. Historically Active Northumberland had been a number of organisations brought together as one and going forward there would be a 3 year plan and a balanced budget. The Council had a management fee which would reduce in the second year and it was the responsibility of the Board to manage its budget.

Mr Reid, the external auditor, added that officers had provided evidence that the accounts should not be consolidated, however, from 2018/19 arrangements had been enhanced and it was up to the committee to decide if it was satisfied that there was significant control. Mr Haywood-Smith expressed concerns as to whether the issue of control, as formalised, met reality in terms of finance and queried if there would be liability to the Council should anything go wrong. The Portfolio Holder for Corporate Services said that, in the past, the Council had been prepared to make additional investment as it believed in the value of leisure services, however, that would not automatically happen going forward. There was a clear plan to turn the situation around to increase income and streamline services. The 2018/19 budget set out details of an SLA which would be paid to Active Northumberland to deliver services and the Board must report to the Council to confirm that was being achieved. It was noted that significant changes had been made.

RESOLVED that

1. the contents of the report be noted;
2. Arch's financial statements should be consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2018 and future years;
3. Active Northumberland's financial statements should not be consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2018 and future years.

Councillor Towns left the meeting at 12:40 pm.

42. REPORTS OF THE CHIEF INTERNAL AUDITOR

1. Strategic Audit Plan 2018/19

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Kevin McDonald, Group Assurance Manager, introduced the above report which advised members of the Strategic Audit Plan for 2018/19 and outlined the planned work of Internal Audit during that period. (A copy of the report is attached to the signed Minutes as Appendix D.)

The Chief Internal Auditor was required to provide an opinion and details of the planned internal coverage for the coming year were set out in Appendix 1 of the report. It was noted that the Chief Internal Auditor was completely unfettered on what she could look at within the County Council and Internal Audit had been working alongside counterparts in the Risk Management team to establish key risks for the organisation.

The Chief Internal Auditor stated it was very important for members to note that when an opinion was given by Internal Audit it must be based on evidence. Resourcing was also extremely important and the Chief Executive had been very supportive of ensuring that resourcing was appropriate.

The Chief Internal Auditor proposed that the Arch Audit Plan would be completed next month and would be an initial six month plan, in order to allow some flexibility to plan additional audits on emerging risks rather than have a fixed plan at the beginning of the year.

RESOLVED that the Strategic Audit Plan 2108/19, attached as Appendix 1 in the report, and the Internal Audit coverage set out therein be approved.

(2) Outcomes from the External Assessment of the Shared Internal Audit Service, February 2018

Allison Mitchell, Chief Internal Auditor, introduced the above report which advised members of the findings/outcomes from the external assessment of the Shared Internal Audit Service, which was performed in February 2018, in accordance with the requirements of the Public Sector Internal Audit Standards 2017. (A copy of the report is filed with the signed minutes as Appendix E.)

As agreed by Audit Committee, the external assessment of the Shared Internal Audit Service had been undertaken via a tripartite arrangement involving Northumberland County Council/North Tyneside Council, Newcastle City Council and South Tyneside Council. Under that arrangement, Ms Mitchell would assess Newcastle City Council and South Tyneside Council's Corporate Assurance Manager had undertaken the external assessment of the NCC/NTC shared service.

The external assessment had shown that the Shared Internal Audit Service was compliant with the requirements of the Public Sector internal Audit Standards and there were no areas of concern reported. Pages 5 and 6 of Appendix A of the

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report set out an Action Plan with recommendations and details of management's response. This was a good result for the organisation.

The Group Assurance Manager pointed out that the vast majority of recommendations by the external assessor had already been picked up by Internal Audit.

The Chief Internal Auditor referred to no. 6 which recommended that an audit of revised risk management processes be undertaken and said that revised responsibilities for Internal Audit and Risk Management within the Service had now been established.

RESOLVED it be noted that

1. the mandatory external assessment of Internal Audit took place in February 2018;
2. it was the opinion of the external assessor that the Shared Internal Audit Service was compliant with the requirements of the Public Sector Internal Audit Standards;
3. there were some small areas in which the external assessor had recommended that further action was taken to enhance compliance with the standards; and
4. the external assessor's recommendations would be implemented fully during 2018/19.

(3) Audit Committee Work Programme

Allison Mitchell, Chief Internal Auditor, introduced the above report which proposed an updated programme of core business for the Audit Committee for 2018/19, in line with its Terms of Reference as set out in the Council's Constitution. (A copy of the report is set out filed with the signed Minutes as Appendix F.)

Reference was made to pages 6 and 7 of the report which provided details of the proposed programme. It was noted that this was not set in stone and changes could be made.

RESOLVED that

1. the proposed 'core business' work programme set out within the report for 2018/19 be agreed;

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2. it be noted that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues, and to respond to emerging trends during the year; and
3. it be noted that the committee would receive additional reports on any ad-hoc items of business arising during the year, as those related to its responsibilities under its Terms of Reference, in the usual way.

43. EXCLUSION OF PRESS AND PUBLIC

RESOLVED that under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following item on the Agenda as it involved the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act and as indicated below

Agenda Item Paragraph of Part 1 of Schedule 12A

- 10 Information relating to the financial or business affairs of any particular person (other than the authority holding that information).
Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings;
Information relating to any action taken or to be taken in connection with the prevention or investigation or prosecution of a crime;
AND the public interest in seeking this exemption outweighs the public interest in disclosure because disclosure could adversely affect the business reputation or confidence in the person/organisation, and could adversely affect commercial revenue.

44. MINUTES

RESOLVED that the confidential minutes of the meeting of the Audit Committee held on Wednesday, 24 January 2018, as circulated, be confirmed as a true record and signed by the Chair.

CHAIR:

DATE:

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