

**NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE**

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

PRESENT

Councillor G Hill (Chair)

COUNCILLORS

L Grimshaw
A Hepple
M Purvis

L J Rickerby
M Swinburn

CO-OPTED MEMBERS

A Hall

A N Haywood-Smith

OFFICERS IN ATTENDANCE

A Elsdon
A Hartwell
K McDonald
B McKie
C Mellons
A Mitchell
K Norris
V Soulsby
A Stewart

Service Director - Finance
Snr Mngr Safeguarding & Performance
Group Assurance Manager
Group Assurance Manager
Ernst & Young, External Auditor
Chief Internal Auditor
Democratic Services Officer
Senior Risk Advisor
Finance Manager

ALSO PRESENT

Councillor N Oliver, Portfolio Holder for Corporate Services & Cabinet Secretary

Press: 1

20. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor G Castle and Mr S Reid.

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21. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on Wednesday, 26 September 2018, as circulated, be confirmed as a true record and signed by the Chair.

22. REPORT OF THE EXTERNAL AUDITOR

Quarterly Sector Briefing

Mrs C Mellons, External Auditor EY, introduced the above report (a copy of which is attached to the signed Minutes as Appendix A).

The report was for information and brought together technical issues relevant to the Local Government Sector and wider matters of potential interest to the Audit Committee.

Questions were invited from members.

Reference was made to page 3. The Cabinet Member for Corporate Services said the Council's economic strategy was focussed on regeneration and forums had been set up in six towns. Vacancy rates were a risk to the local economy so significant work was being done to encourage development of excess capacity retail space for town centre living which would also boost the night time economy. There had been well documented Arch investments in Cramlington and units in Hexham but going forward Advanced Northumberland would be focussing on projects to provide capital growth.

With regard to social care, work was being carried out to build extra capacity within the county to save money on external suppliers. Changes were needed to address increasing pressures and sustainable changes in Germany and Japan and been noted with interest.

Reference was made to page 10, "Key questions for the Audit Committee" and in response to questions the following information was provided:

- In terms of social housing it was the administration's intention to build more Council houses and to increase social housing. In response to concerns about overcrowding and the need for 3 or 4 bedroomed accommodation, it was not known how many bedrooms the properties would have and that information would need to be provided after the meeting.
- Community led housing was of interest, it was outside of the Right to Buy scheme and returned money into the local economy.
- With regard to cyber security, the Council was very vigilant and proper systems were in place.
- There were different perceptions of what would happen with Brexit but it was predicted that there could be a decline in economic growth throughout the country in 2019/20. Sound treasury management was of key importance and

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Northumberland needed to have more housing to increase Council Tax rates and be a productive place for business in order to increase business rates revenue. Concerns of social unrest were also discussed.

RESOLVED that the report be received and noted.

23. REPORTS OF THE EXECUTIVE DIRECTOR OF FINANCE & DEPUTY CHIEF EXECUTIVE

Treasury Management Mid-Year Review Report for Period 1 April to 30 September 2018

Andy Stewart, Finance Manager, introduced the above report which provided a mid-year review of the activities of the Treasury Management function for the period 1 April to 30 September 2018, and performance against the Treasury Management Strategy Statement (TMSS) 2018-19, as approved by the County Council on 21 February 2018. The report provided a review of borrowing and investment performance for the period set in the context of the general economic conditions prevailing so far during the year. It also reviewed specific Treasury Management prudential indicators defined by the CIPFA Treasury Management Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code), and approved by Council in the TMSS. (A copy of the report is attached to the signed Minutes as Appendix B.)

It was reported that all activity within the period was carried out in line with the Council's approved Treasury Management Practices and within the Council's approved Prudential limits. Overall borrowing had decreased by £21 million due to loan maturities net of new borrowing. An early settlement of a £15 million LOBO loan would save the Council a significant amount of money and other opportunities were being sought to repay LOBO loans which would make savings on borrowing costs. The Weighted Average Interest rate payable on borrowing had dropped from 2.92% to 2.87% at 30 September and by the end of the year, due to slippage, borrowing would be around £61 million less than originally forecast, impacting on the amount of interest paid, which was forecast to be £1.81 million under budget.

In terms of investments, due to utilising internal borrowing, overall external investments had decreased during the first 6 months of the year from £150 million to £127 million. It was forecast that, by the end of the year, they would reduce to around £60 to £70 million. Investment income earned was forecast to exceed the Council's budget by £460,000.

Information on performance and benchmarking was also highlighted. In particular the Council had performed well against CIPFA benchmark group authorities.

In response to questions the following information was provided:

- Balances were made up of reserves and were used in lieu of borrowing.
- The level of overall Council reserves had not been reduced, as such, this was cash flow.

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- A list of reserves could be provided after the meeting.
- With regard to redemption of LOBO loans, there were numerous reasons why lenders were happy for loans to be redeemed, for example they could be looking to move away from that product and there were clauses within loan agreements for them to approach the borrower.
- Clarification was provided on how £6.5 million would be saved.
- With regard to the bar chart for the borrowing maturity profile, it dipped in the middle due to interest rates not representing value for money in this period, but officers would continue to look for attractive interest rates in this period.

RESOLVED that

1. The report be received and performance of the Treasury Management function from 1 April to 30 September 2018 be noted.
2. The report be presented to County Council.

24. REPORTS OF THE CHIEF INTERNAL AUDITOR

(a) Key Outcomes from Internal Audit Reports (Issued April 2018-October 2018)

Kevin McDonald, Group Assurance Manager, introduced the above report which advised members of key outcomes from Internal Audit reports issued between April 2018 and October 2018 (copy attached to the signed Minutes as Appendix C).

A summary of the findings of ten reports were provided for information in Appendix 1.

Section 5 highlighted the main outcomes including good practice, the main issues identified and progress made/action taken.

Where management had self certified that recommendations had been implemented, checks were undertaken to ensure they had been implemented correctly. A summary of information regarding the sample of evidence checking undertaken was provided in the table in paragraph 6.2 of the report.

Mr Haywood-Smith referred to the first item in Section 5, Public Services Network (PSN), and that Internal Audit had not been satisfied that risks had been mitigated on the PSN remediation plan. No further information had been provided to say the situation had been rectified. In response the Chief Internal Auditor stated that in the past there had been independent verification by external providers. The situation had been discussed at length and the committee could be assured that Internal Audit would check on progress made. If further information was required it would be appropriate for the Executive Director of Finance & Deputy Chief Executive and the Chief information Officer to be invited to a future meeting.

A member stated that there were three audits which had received an opinion of limited assurance, one of which was GDPR, and queried how members could be assured that

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issues had been addressed. The Chief Internal Auditor replied that five opinion classifications had been used but moderate had been removed so as not to 'sit on the fence'. Robust discussions had taken place with the Executive Director of Finance & Deputy Chief Executive regarding evidence for the 'Significant' classification and all recommendations had been set out where accepted. However, it was understood that Audit Committee had requested more assurance of follow up and a more detailed evidence check would be brought to committee before the end of March. In response to a further question it was stated that the details of each assurance level was set out on page 3 of the report.

Mr Haywood-Smith referred to item 3, Internet, and said the main issues identified had been given medium priority recommendations but no information had been included to summarise what had been done. In response the Chief Internal Auditor said the Audit plan had to move on. Discussion ensued and the the Cabinet Member for Corporate Services suggested that the Chief Information Officer be invited to a future meeting to address some of the issues raised. In response to a further question he stated that work was currently underway on finding a more modern alternative for IE8. Mr Haywood-Smith acknowledged that the Chief Information Officer could address issues relating to those particular items but felt there should be a general principle of follow up to Audit Committee reports.

The Chief Internal Auditor stated that it was about monitoring performance and a question of how to provide that information to Audit Committee on a timely basis.

RESOLVED that

- (1) the Chief Internal Auditor's opinion that the framework of governance, risk management and control is satisfactory overall at this stage in the year be noted.
- (2) The Head of IT be invited to a future meeting to provide further information on progress made.

(b) Strategic Audit Plan 2018/19, Interim Monitoring Statement

Kevin McDonald, Group Assurance Manager, introduced the above report which provided members with an interim (half yearly) monitoring statement and the levels of planned coverage achieved by Internal Audit. (A copy of the report is attached to the signed Minutes as Appendix D).

The Strategic Audit Plan was presented to, and approved by, the Audit Committee at its meeting on 28 March 2018. An Interim Monitoring Statement was provided outlining progress against it at the mid-year point of 2018/19 and was attached to the report as Appendix 1.

It was noted that, at the mid year point, 27 of the 50 programmed assignments were either complete or in progress, 28% had been concluded and issued with a further 26%

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ongoing or underway. A progress update for each assignment had been provided in the final column of Appendix 1.

The Chair referred to page 4 of Appendix 1 and said she assumed that work was ongoing regarding the Arch Group of Companies to ensure that Advanced Northumberland would not repeat the same mistakes. In response the Chief Internal Auditor said an Audit Committee for Advanced Northumberland would take place on Friday that week which would have a slightly different emphasis. The Cabinet Member for Corporate Services referred to new procedures in place stating that a transition group had been formed and work was almost complete regarding technicalities relating to legal and accountancy issues to ensure a proper process of governance was in place for Advance Northumberland going forward. The final operating agreement was currently being discussed.

In response to comments about restoring public confidence, it was stated that it was not just a name change, it was a new company with the subsidiary company transferred. Responsibilities for duties had been separated and the company would not invest in retail property or invest outside of the county. The focus would be on improving the lives of people living in Northumberland.

In response to a further question it was confirmed that some of the Directors on the Advanced Northumberland Board had been on the Board of Directors for Arch in May 2017 but the Board was currently being strengthened.

RESOLVED that the progress set out in the Strategic Audit Plan Interim Monitoring Statement attached to the report as Appendix 1, and the levels of planned coverage achieved by Internal Audit at this stage in the year be noted.

(c) Risk Management

Barbara McKie, Group Assurance Manager, introduced the above report which provided members with an update on progress with the development, implementation and embedding of risk management within the County Council (copy attached to the signed Minutes as Appendix E).

She stated that the risk management team consisted of herself, Vicky Soulsby, Senior Risk Advisor and Lynn Brown, Risk Management Officer. A refreshed risk management hierarchy had been established which identified, monitored and managed risks at three key levels - corporate, service strategic risks and service operational risks. The diagram in Appendix 1 showed the Risk Management Hierarchy 2018, working out which risks were at what level.

It was noted that there was a new format for documenting risks with the focus being on the future and desired outcomes. The new risk matrix and scorecard were included for information. Service risks were rated as red, amber or green, details of which were set out in Appendix 2 of the report.

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A member thanked the Group Assurance Manager for her clear, concise report. In response to queries it was noted that risks at service level could be escalated and a 6 months initial review of high risks was only a minimum guide.

The Chair thanked the Risk Management Team for their thorough and robust work.

RESOLVED that the contents of the report be noted.

25. REPORT OF THE EXECUTIVE DIRECTOR OF CHILDREN'S SERVICES AND EXECUTIVE DIRECTOR OF ADULT SOCIAL CARE AND COMMISSIONING

Review of External Inspection Reports - Adults & Children's Services

Alan Hartwell, Senior Manager Education and Safeguarding Performance, introduced the above report which informed members of the findings from external inspections that had taken place in the last 6 months (1st April 2018 to 30 September 2018) pertaining to Adults and Children's Services and to provide assurance that the resulting reports were receiving due scrutiny. (A copy of the report is attached to the signed Minutes as Appendix F.)

Front line services were inspected by outside bodies on a regular basis, details of which were outlined. The following information was noted:

- All inspected services in Adult social care remained compliant;
- All Children's homes and Kyloe House were inspected by Ofsted annually. Inspectors were very experienced and had judged all of the Council's residential homes for children and young people to be good or outstanding, with two being outstanding across the board.
- Very little notice was given prior to inspection and inspectors pushed managers and staff for concrete evidence that standards were being met.
- Action plans were in place to address any issues identified for improvement. These were on-going, used within team meetings and shared for good practice.
- In terms of school inspections, Ofsted had judged 85% of primary schools as good or outstanding which was just below the national average. Schools in the secondary sector were judged lower with 58% being good or outstanding. Although this was below the national average, key stage 4 results had improved in 2018 and judgment changes were determined in 3 year cycles.
- Feedback had not yet been received regarding the special educational needs and disability needs inspection which took place from 24 September to 5 October.
- The Adult Learning inspection took place in June with a judgement of good with outstanding leadership and management, which was the same as the previous inspection.
- There had been no inspections of Children's Centres, safeguarding, youth offending or social work but the ILAC was expected between January and the end of July 2019.

In response to questions and comments, the following information was provided:

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- There was not a percentage weighting given to the impact of GCSE results on a school's inspection judgement, but it was an important factor. Ofsted would look at a 3 year trend but one good year would still have an impact.
- Exclusions were a big issue for Northumberland secondary schools.
- Information could be provided to members for a comparison between academies and local authority schools.
- There were massive disparities across the County in education outcomes. The trend was improving but there were issues to be addressed.
- There was a need to attract high quality teachers to improve standards throughout the system. Buildings must be adequate but leadership was a key issue.
- In terms of academies and maintained schools, the Council held more information on maintained schools but academies were monitored. Improvements had been seen in both but 58% of good or outstanding schools in the secondary sector was not good enough and had to improve.
- The Family and Children's Overview and Scrutiny Committee had set up a Task and Finish Group to look at exclusions. The figures overall showed there were less than 10% of schools in Northumberland where there were concerns. The Task and Finish Group would look at what was done differently in those schools and every aspect of why exclusions took place.
- Although the report stated that 58% of secondary schools were good or outstanding, 64% of pupils in Northumberland attended a good or outstanding secondary school.
- Effectiveness of termly School Improvement Partners' reports played a significant role in identifying where the Local Authority needed to escalate any concerns; school action plans were assessed and work was done with Head Teachers and School Governors behind the scenes on an ongoing basis.
- A resilience programme was in place to support rural schools.

The Chair thanked the Senior Manager Education and Safeguarding Performance for his positive report.

RESOLVED that the report be received and noted.

26. REPORT OF CHIEF INTERNAL AUDITOR - FOR INFORMATION TOWN AND PARISH COUNCILS

Allison Mitchell, Chief Internal Auditor, introduced the above report which was for information (copy filed with the Signed Minutes as Appendix G).

Reference was made to the role of Town and Parish Councils. Paragraphs 12 and 13 were highlighted to be of particular importance as they provided details of the relationship between Town and Parish Councils and the County Council. It was noted that the County Council was a separate body but had a responsibility to levy and collect any precept notified to them by Town and Parish Councils. The Monitoring Officer maintained a register of members' interests and considered allegations of misconduct against Parish and Town Councillors in Northumberland. Town and Parish Councils could approach the Council to ask for additional services. Town and Parish Councils were not covered by the

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County Council's internal or external audit arrangements so auditors had no jurisdiction over their affairs and they were required to organise their own audit arrangements.

Reference was made to an email circulated to members that morning from Mr A Kell which raised concerns about potential financial risk to the Council and to a Public Interest Report relating to Rothbury Parish Council. The Chair stated that many Parish Councils were scarcely acting legally and gave examples of conflict situations. She asked what Northumberland County Council could do to help in those situations, many of which were governance issues.

With regard to allegations that calculations had not being done correctly for precepts, it was stated that was an issue of national policy and should be referred to the Secretary of State.

The Vice Chair said issues such as limits on Council Tax and of lack of limitation and overview had been raised a few years ago when authorities were devolved and it was about lines of communication and governance. The issue had also been raised at Standards Committee.

The Chair said she had attended a number of different forums where problems had been mentioned but felt there was a denial to address these from advisory bodies. The Chief Internal Auditor acknowledged the concerns but said the report made it clear that the Council did not have jurisdiction over the affairs of Town and Parish Councils.

It was suggested that the Audit Committee could write a letter to the Government Minister expressing its concerns.

Discussion took place about the Public Interest Report relating to Rothbury Parish Council and the Chief Internal Auditor acknowledged the concern of residents but said the Council could not get involved as there was specific guidance on what the Council could do.

Members commented as follows:

- Parish and Town Councils should abide by the same rules and there should not be special rules for smaller councils.
- Residents did not understand the different roles of Parish/Town Councils and Northumberland County Council. Educating the public and engaging with them about different roles should be addressed.
- Town and Parish Liaison meetings encouraged a better relationship between the Council and Town/Parish Councils.
- Social media was important for the public to have more power and influence about what was happening in their area.
- Councillors should be encouraged to go into schools and attend local democracy week.
- The public had the power to vote Councillors out at the next elections if they were not happy.

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Discussion took place about a letter being drafted for the Government Minister and what the content should be.

It was noted that a pro forma was sent out to all Town and Parish Councils requesting their precepts and currently there was no government cap on any annual increase.

RESOLVED that

- 1) The contents of the report be noted;
- 2) A letter be sent to the relevant Government Minister outlining the Audit Committee's concerns about guidance on governance for Parish/Town Councils.

CHAIR:

DATE:

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