

**NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE**

At a meeting of the **Audit Committee** held at County Hall, Morpeth on Wednesday, 23 January 2019 at 10.15 a.m.

PRESENT

Councillor G Hill (Chair)

COUNCILLORS

G Castle
L Grimshaw

L J Rickerby
M Swinburn

CO-OPTED MEMBERS

A Hall

A N Haywood-Smith

OFFICERS IN ATTENDANCE

A Elsdon
B Haigh
K McDonald
B McKie
C Mellons
A Mitchell
K Norris
A Stewart

Service Director - Finance
Corporate Fraud Manager
Group Assurance Manager
Group Assurance Manager
Ernst & Young, External Auditor
Chief Internal Auditor
Democratic Services Officer
Finance Manager

ALSO PRESENT

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

Councillor B Pidcock (observer)

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27. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Hepple, Purvis and Towns.

28. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on Wednesday, 28 November 2018, as circulated, be confirmed as a true record and signed by the Chair.

It was noted that in relation to Minute no. 26, due to unforeseen work taking priority, a letter had not yet been sent to the relevant Government Minister outlining the Audit Committee's concerns about guidance on governance for Parish/Town Councils but this would be done as soon as possible.

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

(a) Treasury Management Strategy Statement for the Financial Year 2019-20

Mr A Stewart, Finance Manager, summarised the above report which set out the Treasury Management Strategy, Treasury Management Policy Statement, the Annual Investment Strategy for the Financial Year 2019-20, Prudential Indicators 2019-20 to 2021-22 and the Minimum Revenue Provision Policy 2019-20. (A copy of the report is filed with the signed Minutes as Appendix A.)

It was noted that the Local Government Act 2003 required the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy, which set out the policies for managing investments and for giving priority to the security and liquidity of those investments. The Council had nominated Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policy.

It was highlighted the the strategy was driven by the economic position and the expectation for interest rates.

Reference was made to the table in paragraph 3 on page 6 of the report which gave a view of interest rates for 2019-20 from Link Asset Services, the Council's treasury advisor. A longer term view and more detailed forecast was set out in Appendix 1. The Finance Manager said it was very difficult to forecast interest rates in the current economic climate, with outside influences and Brexit weighing on the UK, and any change could alter interest rates and therefore the Strategy.

In terms of borrowing, It was stated that, the position at 30 November was £707 million, the year end figure was expected to be around £746 million after repayments and anticipated future borrowing. This would increase going forward as a significant amount of external borrowing would be required to fund the proposed capital programme and by 2020-21 this

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would be £950 million. It was envisaged that would be met from medium to long term borrowing, however, the Section 151 Officer had delegated power to borrow and would consider the most appropriate terms should there be value in the short term, so the policy was flexible. There was a £130 million borrowing requirement within 2019-20.

With regard to investments, it was stated at 30 November the Council had £110 million of investments, this was forecast to fluctuate between £60 million and £100 million within 2019-20. It was stated that the Credit and Counterparty Criteria List set out in Appendix 2 had not changed since the previous year.

Details of the Estimated Capital Prudential Indicators 2019-20 to 2021-22 were set out in Appendix 4 and were designed to ensure the capital plan was affordable, prudent and sustainable.

The Annual Minimum Revenue Provision Policy Statement for the repayment of debt was attached at Appendix 5. One amendment was proposed from the previous year regarding historic/supported borrowing. Currently, charges for this were calculated using the 4% reducing balance method but from 2019/20 it was proposed to change the calculation basis for supported borrowing and historic debt prior to 2007-08 to a straight line method over 50 years, which was considered to be more prudent. The Policy would go before Council in February for approval.

In terms of Treasury Management Practices, one alteration was proposed to reflect the Section 151 Officer responsibility in terms of the Capital Strategy.

Reference was made to paragraph 11 of the report regarding International Financial Reporting Standard (IFRS) 9 'Financial Instruments' which was formally adopted by CIPFA in April 2018. The new standard introduced new requirements around the classification of financial instruments and Council policies would be updated to reflect correct practices. Officers would work with Earnest Young, the Council's external auditors, to ensure this reporting standing was interpreted and applied correctly for the 2019-20 accounts closedown.

In response to questions the following information was provided:

- On a point of clarification it was confirmed that Section 5 on page 12 of the report should read the Annual Investment Strategy 2019-20 and not 2018-19 as stated.
- Concerns were raised that there seemed to be a considerable increase in Capital Financing Requirement (CFR) over the next 3 years. The Cabinet Member stated that the CFR was greater than the actual borrowing requirement due to internal borrowing and this was a much more measured programme than there had been previously. In terms of policy, the investment would be focussed to where it could make a difference to the county and a long term view must be taken. There would be significant investment in projects which would reduce revenue costs so it was about balancing proper investment with prudent financial management and delivering an ambitious programme with caution and proper scrutiny of investment decisions.
- With reference to the table on page 18 of the report, a question was raised regarding perceived public perception about some of the borrowers listed. In response the

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Cabinet Member said the loans were risk free and were for genuine projects which would provide community benefits, they were not speculative money making schemes. Newcastle Airport was the nearest facility for Northumberland and the Council owned shares in it. It was highlighted that there had been a refinancing of the airport previously by the shareholders including some of the North East authorities and this loan was for that purpose.

- With regard to the merger between Northumberland and Sunderland colleges, the Cabinet Member said discussions were on-going and he could not go into detail, however, the key focus was to see a thriving college within Northumberland whilst protecting the Council's financial assets.
- It was pointed out that page 17 of the report referred to Appendix 6 but this was not attached. Following an explanation that Appendix 6 was part of another report, the Chair asked that it be noted in the Minutes that members had not had sight of Appendix 6. It was agreed that Appendix 6 would be circulated, but noted that the Committee was not been asked to approve Appendix 6.
- Clarification was requested regarding the Area of Responsibility for Scrutiny of the Treasury Management Strategy, as set out in the table on page 23 of the report, and it was confirmed that it was a CIPFA recommendation that the Treasury Management Strategy could be considered by either of these committees. The Council took the report through it's Audit Committee as Risk Appraisal Panels were held in private.
- In terms of lending to third parties, it was stated there was now a different approach and money would not be set aside for speculative investment. It was noted that £22 million per annum had been identified for this over the next three financial years, this was in comparison to £450 million over a previous three year period.
- Reference was made to page 3 of Appendix 4 which stated CFR was increasing by £247 million over the next 3 years. It was clarified that £247 million was a NET figure. The 2018-19 estimate for overall CFR was £982 million so that was an increase of 25% over 3 years. The Cabinet Member reiterated his earlier comments and Mr Hall, Independent Member, requested that it be recorded in the Minutes that members had a cautious concern about interest rates increasing and the considerable increase in capital spend.

RESOLVED that

- (1) Audit Committee recommend that County Council approve the Treasury Management Strategy Statement which includes the Treasury Management Policy Statement, the Annual Investment Strategy and Borrowing Strategy for the Financial Year 2019-20.
- (2) Audit Committee recommend that County Council approve the Prudential Indicators (Appendix 4) for three years 2019-20 to 2021-22 to ensure that the Council's capital investment plans are affordable, prudent and sustainable but it be noted that they had a cautious concern about potential interest rates changes due the current economic climate and the considerable increase in capital spend.
- (3) Audit Committee recommend that County Council approve the Minimum Revenue Provision Policy (Appendix 5) 2019-20.

(b) Statement of Accounts 2018-19

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Andy Stewart, Finance Manager, introduced the above report which provided the Committee with an overview of the timetable for publishing the 2018-19 Statement of Accounts and reporting to Audit Committee; the Accounting Policies to be adopted and an update regarding the anticipated outturn position for the Council. (A copy of the report is attached to the signed Minutes as Appendix B.)

It was stated that there were three key elements to the report:

- The time table had not changed and officers were working towards publishing the draft Statement of Accounts on 31 May 2019 and the final audited Statement of Accounts by 31 July 2019. There would again be two drop in sessions in the last week of June where Audit Committee members could have a brief overview of key issues and the opportunity to ask questions or seek clarification about any issues they may have. It was confirmed that these sessions would take place on Tuesday, 25 June (10 am to 12:30 pm) and Thursday, 27 June (1:30 pm to 4:00 pm).
- There were two key changes around IFRS, as detailed on page 3, and officers would be working closely with Ernst Young in that regard.
- The latest forecast outturn position.

A concern was raised that, in the past, the Statement of Accounts had been sent to members late and they had not had sufficient time to go through it. A request was made that members receive it at the earliest opportunity.

RESOLVED that

- (1) The timetable for publishing the 2018-19 Statement of Accounts and the reporting to Audit Committee be noted.
- (2) The Accounting Policies for the 2018-19 Statement of Accounts be agreed.
- (3) The anticipated outturn position for the Council and the anticipated movement on reserves and provisions be noted.

(c) Corporate Fraud Team - Interim Fraud Report

Barry Haigh, Corporate Fraud Manager, introduced the above report which provided members with an update on work undertaken by the Corporate Fraud Team within the Council during the period April 2018 to September 2018. (A copy of the report is filed with the signed Minutes as Appendix C).

It was stated there had been six referrals in relation to potential internal fraud within the period, three of which had been the subject of investigation. This was a drop from last year which was seen as a positive result.

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With regard to external fraud, it was noted that referrals were generated by various reporting mechanisms and a number continued to be forwarded to the DWP. At present updates were awaited for in excess of 270 which had been passed over since 2016.

Details of sanctions, Council Tax support claims, single person discounts, Right to Buy applications, recovery of Homes for Northumberland properties and work carried out for Karbon Homes were provided.

Reference was made to proactive counter fraud work as set out on page 5 of the report and it was noted that, as part of the Tenancy Fraud Awareness Campaign in February, a Tenancy Fraud Awareness session would be held in County Hall, to which all members were invited and encouraged to attend. Details would be emailed to members shortly.

In response to questions the following information was provided:

- Information about suspected fraud was received in a variety of ways, it was sometimes received direct from the Council Tax department, neighbours or social landlords. There was a hotline for reporting suspected fraud for single person discount as well as online mechanism. The Fraud Management System had an internal data hub which could cross-check against other data and had direct access to credit agencies.
- Legal advice would be sought to clarify if, in law, it was considered to be an abuse of their access to the electoral roll if a member was to report that more than one person lived in a property which was recorded as having single occupancy.
- The Corporate Fraud Manager said he could not comment on insurance premiums and if they would be reduced as a result of internal investigations and subsequent information being passed to Zurich, the Council's insurers. The Council and Zurich were attending Insurance Forums and had agreed to help each other.

Councillor Grimshaw encouraged members to attend the Fraud Awareness Session which she had attended the previous year and found to be extremely interesting and beneficial.

The Chair and members thanked the Corporate Fraud Manager for his report and commended him and his team for their good work.

RESOLVED that the progress in the work undertaken by the Corporate Fraud Team since the last report and the steps being taken to recover any monies owed to the Council be noted.

30. REPORT OF THE CHIEF INTERNAL AUDITOR

Preparation of the Strategic Audit Plan - 2019/20

Kevin McDonald, Group Assurance Manager, introduced the above report which outlined the approach to preparing the 2019/20 Strategic Audit Plan, for consideration and endorsement by the Audit Committee. The report also ensured the Audit Committee, as a key stakeholder of Internal Audit's work, was engaged at an early stage in the planning process. (A copy of the report is attached to the signed Minutes as Appendix D.)

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Reference was made to the Public Sector Internal Audit Standards (PSIAS) which set out the professional standards which Internal Audit must apply when planning the use of its resources. Details were set out at the top of page 3 of the report.

The Strategic Audit Plan would be presented to the Audit Committee for approval in March and would set out Internal Audit’s planned coverage for 2019/20.

It was queried if Internal Audit was satisfied it was covering all areas of the Authority. In response the Chief Internal Auditor emphasised the importance of engagement as Internal Audit could only report on issues of which it was aware, however, unplanned work and emergency risks did occur. She referred to the assurance map and three lines of defence in order to assess different risks as follows:

- 1. Internal mechanism;
- 2. Any corporate oversight function;
- 3. Independent line (Internal Audit/External Audit)

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

- Contingency time was put aside for unplanned audit requests.
- Audits were carried out on other organisations, for example Active Northumberland, to check if they were delivering strategic objectives, performance management, value for money etc to the Council.
- Audit was about seeing if the Council’s best interests were being served and putting the correct controls in place.
- Reference was made to major disruption in a neighbouring authority due to SPAM. It was stated that if the correct procedures and controls were in place within the Information Services department it would be more efficient and audits were carried out in that regard.
- It was important to demonstrate to the public that the Council took issues seriously.

In summary the Chief Internal Auditor said if any member had any concerns, at any time, they should raise them and any seriously emerging issues would be looked at.

RESOLVED that the committee endorse the approach to the preparation of the 2019/20 Strategic Audit Plan.

CHAIR: _____

DATE: _____

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