

NORTHUMBERLAND

Northumberland County Council

Internal Audit Final Report:

Review of Arch Arrangements

October 2017

Foreword

In the Summer and Autumn of 2017, the Internal Audit Service was commissioned jointly by the former Interim Chief Executive of Arch and the (then) Interim Chief Executive of Northumberland County Council to perform certain investigatory work into the Arch Group of Companies. This group of companies was wholly owned by Northumberland County Council and within the 'accounting group boundary' of the County Council.

The outcomes from Internal Audit's work as at the conclusion of the assignment in October 2017 are recorded in this report. Since completion of the work, a number of changes have occurred including the transition of a number of staff and changes in the legal identity and make up of the company. However, other than to change the tense utilised in introductory paragraphs of this report (to reflect that the Arch Group of Companies no longer exists), the status of the report regarding embargo (see below) and to record additional references to prime evidence, the outcomes remain as at the date the report was written i.e. 15 October 2017.

The report has been embargoed from publication at the request of Northumbria Police, pending their consideration of the matters contained therein. This embargo was formally lifted in February 2019 (confirmed in March 2019) by Northumbria Police.

Introduction – what was Arch?

Arch Corporate Holdings was a group of companies, wholly owned by Northumberland County Council.

Initially including the Northern Coalfields Property Company and Wansbeck Life Company (both of which were dormant), the group had expanded widely in its later years and comprised several other entities. These included Arch (Housing), Arch (Commercial Enterprises), Arch (Development Projects), and Arch (Financial Services). Some of these ‘newer’ companies were active, whilst others were dormant. A group structure chart is included at **Appendix A**.

Arch described itself as:

“a property investment, estate management and development company, building new homes for sale and to rent, attracting investment and business growth, managing delivery of major projects, providing a diverse portfolio to support businesses and regeneration, and helping you to find a place to call home.”

Much of the activity of the group of companies was in property – both residential and commercial – including building, acquisition, rental and management. The rationale for the existence of the companies is that if successful in such enterprises:

- the activities of the companies would represent investment in Northumberland and provide services and facilities of benefit to those living or working in the County
- profits could be returned to the sole shareholder (Northumberland County Council) for use in delivering Council services, or re-invested in other projects being led by the Arch group.

The Arch Vision, Mission and Values Statement stated:

“Arch operates on commercial principles, investing in, managing and developing property, and earning fees for managing construction and regeneration projects. We recycle profits from these activities and secure funding from external sources to resource our inward investment effort, work with key companies, and provide other business services.”

Background to this Audit

On 29 June 2017, Internal Audit was requested by the then interim Chief Executive of Northumberland County Council and the then interim Chief Executive of Arch to undertake an audit of five distinct aspects of Arch’s operations. The audit client for this work was joint, comprising both the then interim Chief Executive of Northumberland County Council and the then interim Chief Executive of Arch.

The initial scope of Internal Audit's work covered specific objectives in the following areas, which were set out in a detailed Terms of Reference described later in this report and included at **Appendix B**:

- Consultants and Contractors
- Employees
- Property Portfolio
- Hospitality and Gifts
- Award of Major Contracts

Initial audit fieldwork at Arch's Headquarters in Ashington began on 3 July 2017 and Internal Audit was on site there until 21 July 2017. In this three week period Internal Audit was able to perform substantial work in respect of the first four objectives set out above with findings recorded in an interim report dated 30 July 2017 issued on 2 August 2017. In this initial period, the 'Award of Major Contracts' objective was not examined (though our work on 'Consultants and Contractors' began to touch on this). Following review on 24 August 2017, Internal Audit resumed audit fieldwork from that date and completed work in respect of both the fifth objective and other additional concerns which were conveyed to us during the course of the audit (described below).

In addition to the main areas set out above, during the course of the fieldwork other very specific whistleblowing concerns were passed to Internal Audit regarding aspects of Arch's activities. These areas were included as part of Internal Audit's fieldwork where possible. Given the breadth and number of additional concerns referred, some areas would benefit from separate further review and this is explained later in this report. The main additional areas referred to Internal Audit were:

- The alleged purchase by Arch of the former Arch Chief Executive's home (included within our reporting on Section 3, 'Property Portfolio' below)
- Alleged benefits / privileges afforded to a specific contractor (included within our work on Section 1 'Consultants and Contractors' and Section 3 'Property Portfolio' below and referenced Consultant C)
- Concerns over the relationship between Arch and Ashington Community Football Club, and the propriety of financial support from Arch to the Club (included as Section 6 below)
- The relationship between Arch and a company providing / installing solar panels (included as Section 7 below)
- Whether work had been awarded by Arch to a former Arch Board member's relative, and if so whether the award of this work was proper and appropriate (included as section 8 below).

These specific areas have been examined with findings set out in this report.

Purpose of this Report

This report sets out, as at 15 October 2017, the work performed by Internal Audit and the findings from this work. This report therefore updates and supersedes the interim Internal Audit report (dated 30 July 2017 and issued on 2 August 2017).

The report also includes a schedule of recommendations.

Given the breadth and scale of the audit scope and the nature of the additional areas notified to Internal Audit, further work will be required by management in respect of all areas in order to fully understand and evaluate the arrangements in place and the events which have occurred.

It should be noted that the then interim Chief Executive of Arch was suspended at an early stage in Internal Audit's fieldwork and interim management arrangements were then put in place within the group of companies.

Internal Audit Opinion

There are two immediate primary areas of concern regarding propriety / probity. These relate firstly to the purchase of the former Arch Chief Executive's home, by Arch, at a price which appears to have been unrealistically high to deliver expected rental income yields; and secondly, to what appears to be an unduly generous benefits and remuneration package afforded to a specific contractor (referenced as Consultant C).

There is potential for criminality to be indicated in respect of each of these two matters, which were correctly referred by the County Council's then interim Chief Executive to Northumbria Police for further examination. Northumbria Police requested that absolute confidentiality should be maintained by the County Council / Arch, in order that any potential criminal proceedings would not be compromised. Lifting of this reporting restriction was notified to Northumberland County Council by Northumbria Police in February 2019 (confirmed in March 2019). The Police are responsible for determining whether any offences have occurred and if so, by whom; the Crown Prosecution Service would be responsible for assessing whether any prosecution would be brought.

In the remaining areas audited, findings indicate areas in which procedures need to be strengthened to protect the Arch Group of Companies and its primary shareholder Northumberland County Council.

During Internal Audit's fieldwork, several Arch staff voiced the opinion to us that 'Arch is separate to the County Council' and that 'Arch is a company and follows its own procedures, not those of the County Council'. While this is true, it would be expected that as a group of companies wholly owned by the local authority, Arch would understand the need to demonstrate appropriate and effective stewardship of public funds. Some of the decisions reviewed as part of the audit – specifically the two matters referred to above – do not appear to have been in keeping with Arch's own agreed procedures or expected financial returns; they appear unique and without a sound commercial basis. These examples do not reflect a sense of fiduciary duty to the shareholder when dealing with public monies, or a sufficiently robust commercial approach, by those involved in taking the decisions.

In the other work performed by Internal Audit as part of this investigation, there are areas in which we would recommend that procedures are strengthened. These are explained further in this report. Internal Audit has also identified as a specific risk that the nature of Arch Corporate Holdings – as a group of companies – further complicates investigative work. The completeness and reliability of records across the company group will need to be verified as additional work on the matters under examination is performed and concluded.

As part of our work to date in gathering and assessing evidence in respect of the specific objectives set out above, Internal Audit has not assessed the financial performance achieved by Arch to date, or the returns which it has delivered / is forecast to deliver for the shareholder. It is recommended that such an assessment is performed as part of any strategic review of Arch, to determine the profitability and performance of the group of companies and the accuracy of projected growth and income forecasts. In turn, this will help the Board and its primary stakeholder (Northumberland County Council) evaluate which activities are delivering well, and which should be continued; and which aspects of the group's operations are not adding value and which should cease.

During Internal Audit's work, we have begun to consider the matter of State Aid. This is a complex area which did not form part of the initial Terms of Reference for this work. It is recommended that this matter is kept under review and that appropriate legal advice is sought as required.

At this juncture, confidence in and reputation of the Arch group of companies would be enhanced by a more transparent approach, clear commercial acumen and demonstrable stewardship in all aspects of the Group's operations and decisions taken.

Format of this Report

The remainder of this report is set out in the following sections:

- A summary of each objective (from the agreed Terms of Reference for this assignment)
- The work performed by Internal Audit
- What Internal Audit would expect to see as a system / controls in respect of the area under examination
- Main findings

Section 1: Consultants and Contractors

Objective 1

Review and report on the decision making process for the engagement of all consultants and contractors (including the use of procurement and commissioning arrangements where appropriate)

Work Undertaken

The Group's Financial Regulations and Memorandum of Delegated Authority Policy (MoDA), both recorded as issued on 25th October 2013 and last reviewed in December 2016, were obtained. These documents set out the requirements in relation to procurement exercises generally and consultants specifically and have formed the basis of the work undertaken in this area.

There is no register of consultants, therefore Internal Audit carried out a range of other checks to compile a list of firms engaged on 'consultant' type work by Arch from 1 April 2015 onwards and performed a review of all payments made from 1 April 2015 onwards to establish payments made to 'consultant' firms. This was primarily based on a financial transaction list provided by the Arch Finance Team, that we were informed included all transactions from April 2015 to June 2017.

It should be noted that Internal Audit would recommend further checking to prime documentation (the Accounts Payable system and / or bank statements) to give confidence that the list of transactions provided is accurate and complete.

A selection of the highest earning 'consultant' firms were selected for further review to establish the decision making process resulting in their engagement.

Expected Controls/System in Place

The appointment of consultants is traditionally an area that carries reputational risks to organisations and key to mitigating those risks are strong controls surrounding the procurement decision making process. Accordingly Internal Audit would expect approval levels and processes to be clearly established in the organisation's main financial governance documents, Financial Regulations and Memorandum of Delegated Authority.

We would also expect that either corporately, or within each company, a register of contracts (including consultant appointments) would be maintained, supported by a repository of supporting documentation, appointment process (quotes, tenders, interviews) and contract/engagement documentation.

There should also be a clear understanding of the duties and outcomes required to be delivered by the consultant / contractor, documented in a clear written agreement between the organisation and the consultant / contractor, and in respect of which performance is measured and managed.

Main Findings

Financial Regulations and Memorandum of Delegated Authority Policy

There are contradictions between the Group's Financial Regulations and Memorandum of Delegated Authority Policy (MoDA):

- Fin Reg 3.3 (quotes for between £20k and £100k) requires approval of Director of Finance, Chief Executive, or Senior Leadership Team (SLT). However, MoDA also allows such exercises to be approved by Budget Holders.
- Fin Reg 3.4 specify OJEU limit of £164,176, however OJEU limits differ depending on what is being procured. Fin Regs specify anything in excess of £100k but below OJEU limit of £164,176 must be approved by the Group Chief Executive. However MoDA allows approval by Chief Executive or SLT up to £164,176 for service contracts (OJEU limits).

Which consultants / contractors have been used?

There is no schedule / register of consultants maintained by Arch.

There were payments to 35 companies identified as consultants by their company name. The total value of payments since 2015 has been £598,489 to these firms. Arch has had highest aggregated spend in this 27 month period as follows:

- Consultant A (£81k);
- Consultant B (£72k); and
- Consultant C (£64k).

The ten consultants from this list identified as having received the highest spend from Arch have been examined further.

Consultants on the Arch Staff Structure

This list includes four consultants identified on the Arch staff structure –

- Consultant D (Comms),
- Consultant B (HR),
- Consultant E (Legal) and
- Consultant F (Economic Impact).

Consultant F was appointed as an interim director on 18 April 2017 on a salary of £75k following the previous postholder's interim promotion. These engagements were discussed with the Arch HR Manager and the Marketing Manager who were able to give a brief overview of the role of these consultants in the organisation but stated that the appointment and management process was through the former Arch Chief Executives.

Consultant C (Public Relations)

The Marketing Manager confirmed that this was also the case in relation to the recruitment and appointment of Consultant C, although she was able to provide an advert for the role which stated this was a twelve month contract commencing April 2016, to be reviewed in December 2016. A screenshot of the advert on the Arch website was also provided to Internal Audit, dated 16 March 2016. Evidence of interest in supplying this PR Role was provided in relation to two companies, Consultant C (half a page of A4 setting out this provider's qualifications and previous experience and his self-employed day rate of £350 per day) and Consultant G (by comparison a much more detailed proposal, quoting £400 per day). There was no evidence of a value for money assessment of quality/price in respect of either proposal.

An e-mail conversation dated 21 March 2016 between a former Arch Chief Executive, the Marketing Manager and Consultant C was viewed. In the email exchange, the conversation is initiated by Consultant C where he is asking for "an update on a couple of things". The email, and the former Arch Chief Executive and the Marketing Manager's responses, appear to be written from the perspective of providing information to a contractor who has been appointed and who is obtaining the information they require for their role. For example there is a reference to a meeting the following day and developing a 'news grid'. The former Arch Chief Executive also stated in her reply "To complete our circle I'd appreciate it if you could return your response to the advert we put on the website as we want to ensure everything is covered off". This suggested that Consultant C had commenced the role prior to submitting an application. Evidence from the payment of invoices to Consultant C, covered later in the payment section of this report, suggests that Consultant C had invoiced Arch for work undertaken prior to submitting his

application and whilst the advert was still on the Arch website. Invoices were submitted by this contractor under a company name.

On 9 March 2016 a payment of £13,600 was made to Consultant C's company by Northumberland County Council. The invoice description was "County Lives May 2016 to May 2017". This was discussed in an email conversation between Consultant C and NCC's former Chief Executive on 8 March 2016. This email is included at **Appendix C**.

It could be interpreted that Consultant C is looking for an upfront payment partly to finance his move to Northumberland. There were no further payments made by NCC, all payments after this date were addressed to and paid by Arch.

Before her suspension in July 2017, the former Arch Interim Chief Executive advised Internal Audit that she had found the working relationship with Consultant C very difficult. She said that she had raised these difficulties with the former Arch Chief Executive, who had stated that this contractor needed to be kept on and that he himself would approve invoices. The former Arch Interim Chief Executive advised Internal Audit that she had raised concerns again, following her appointment as Arch Chief Executive, with NCC's former Chief Executive. The former Arch Chief Executive told Internal Audit that the then NCC Chief Executive had told her he would follow this up 'once the elections [presumed to mean the County Council elections on 4 May 2017] are over'.

Internal Audit has viewed an email from Consultant C to the Marketing Manager dated 4 May 2016. The email is in response to a request from the Marketing Manager for Consultant C to provide more detail in support of his invoices, namely a timesheet and car mileage form. Consultant C's email challenges the Marketing Manager's need for this information, and states:

"The contract requires me to invoice for days worked and doesn't account for hours worked. That was never part of the agreement with [presumably Consultant D] and [presumably the former Chief Executive]".

The same 4 May 2016 email from Consultant C goes on to state:

"As for the mileage claim form, I have a fixed amount in contract to cover travel and that includes the lease of a car. That hasn't been organised as yet and I'm funding my travel through the main contract for the moment. I will pick that up with [Arch former Chief Executive, NCC former Chief Executive, and former Leader of the Council] when [former NCC Chief Executive] is back from Dubai but in the meantime bare [sic] with the contract as it is until we can establish what the chaps want from me on this contract."

Later on 4 May, there is another email from the Marketing Manager to Arch former Chief Executive forwarding on the email from Consultant C and saying

“can we discuss this tomorrow – I think we are paying too much to [Consultant C]”.

This email goes on to explain that the Marketing Manager understands that Consultant C will be undertaking twelve days work per month (i.e. three days per week) but that he is being paid for eighteen days. This email from the Marketing Manager also states:

“I think there needs to be some guidance. I’ve had enough as this is not a working relationship”.

There is no further email correspondence in this trail that Internal Audit has found.

Other PR / Marketing Consultants

The Marketing Manager was unable to provide any information regarding the engagement of the remaining two PR / Marketing companies in the sample (Consultant H and Consultant I) as she advised these companies had been engaged by one of Arch’s former Chief Executives. .

A further 15 companies to whom payments had been made in the same period with ‘marketing’ in their title were then identified. Total aggregated value of spend with these companies in the period was £70,421. The highest value payments were made to the Consultant J £21,240, Consultant K (£10,800) and Consultant L (£17,394). Consultant J is a training provider and the total sum paid is made up of various training provisions. One was selected for further review and it was found that three quotations had been obtained and a full evaluation exercise undertaken. In respect of Consultant K, six firms were invited to submit quotations and two were received, and an assessment report and scoring matrix completed. The Marketing Manager advised that Consultant L was appointed by a former Arch Chief Executive to produce a magazine to all Northumberland residents that would help explain the work Arch does. However, Arch was not convinced that the firm could fulfil project beyond research stage and therefore paid for work completed to that point. No evidence was provided in terms of a procurement exercise.

Construction

Tendering exercises had been undertaken in respect of the three construction consultants sampled. The total spend with two of these companies was made up of a number of engagements during the period, all with Arch Development Projects.

Seven of these engagements were reviewed and it was found that on five occasions the engagements were made on the basis of a single tender due to the perceived price/quality these companies had delivered on previous Arch projects. For the remaining two engagements sampled, three quotes had been obtained and a price and quality evaluation undertaken to identify the best value for money provider.

The third construction consultant sampled was for work valued in excess of £20k, requiring three quotations. Three firms had been invited to submit quotes but only two of these firms had done so. Based on the sample of engagements reviewed, it seems the aggregate spend with potential contractors is not considered before decisions on the appropriate procurement route to follow are taken.

Consultants which were 'stood down' in May 2017

The former Arch Interim Chief Executive stated there were a number of consultants who had been 'stood down' in May 2017. We asked for a list of such 'stood down' consultants – a list of around 30 consultants, linked to ten projects, was provided. The majority of these 'stood down' consultants were for professional services, engineers, architects, planning and legal services. The procurement route for some of the firms was also identified on the schedule and there was a mix of NEPRO and NEPO procurements, but seventeen appointments where the procurement route was not specified. Included in these seventeen were three consultants not linked to a specific project, Consultant I (social impact surveys), Consultant H (PR), and Consultant C (PR & Communications). These three consultants are included in the sample of the top ten earning consultants identified for testing.

Legal / Accountancy / Surveying Firms

There were 22 legal/accountancy/surveying firms identified with expenditure totalling £187.895 million. It should be noted that a significant proportion of this is likely to be property acquisition costs, rather than legal fees. The three firms receiving most payments were Legal Firm 1 (£136.1 million), Legal Firm 2 (£26.7 million) and Legal Firm 3 (£18.6 million). These firms appear to have been used mainly for conveyancing / property acquisitions.

Testing demonstrated that the engagement of legal firms (and other professional firms) has not been in accordance with Arch's own Financial Regulations, and the Memorandum of Delegated Authority. Internal Audit was advised that such firms would be selected by the Arch Head of Investments using his knowledge and experience and that he would notify Arch former Chief Executive and Director of Finance verbally of his choice. As some of the acquisitions have been of significant value (e.g. Manor Walks with a purchase value of £82m – fees of circa £56k) there have been sizeable fee payments to solicitors and surveyors. Arch's Legal Advisor

is now developing a revised approach (utilising the NEPRO legal framework) which will need to be approved and incorporated within Arch's governance structures.

A surveying firm sixth on this list, received payments totalling £582k. Concerns were raised by Arch staff during the audit regarding this organisation's management of Arch's Executive Homes Portfolio (covered later in this report as part of Objective 12 within section 3). In particular Arch staff queried why the work done by this surveying firm was not done in-house by Arch Homes (in common with the approach for other properties). There were also concerns about this firm's invoicing for charges (an email dated 13 January 2017 from the Management Accountant at Arch to the Director of Finance). Emails on 20 May 2016 between Arch former Chief Executive and the surveying firm's Managing Director also gave an insight into the nature of the relationship between these two persons. In these emails the former Chief Executive states "*good to keep you in front of the guys*" and the surveying firm's Managing Director states in his reply, "*Have a good weekend mate. Grateful for what you are doing for me*".

What has Arch used this particular surveying firm for?

It appears that the surveying firm have been procured and utilised for different categories of work. For example, in addition to their work on the executive homes portfolio, this surveying firm has also been used to undertake asset valuation of Arch's residential and commercial property portfolios. This is described further under Objective 18 (Award of Major Contracts) later in this report.

Use of this particular surveying firm by NCC

This report is principally concerned with the use of consultants by Arch. However, as Internal Audit viewed email correspondence, indicating that there had been an introduction of this surveying firm to the County Council through that firm's work with Arch, some additional follow up work on the use of this surveying firm by NCC was performed and is included below for completeness.

The timeline of events regarding the surveying firm's interaction with Northumberland County Council appears to be as follows:

- 25 January 2016 and 22 March 2016 - Emails from the surveying firm's Managing Director to the former Leader of the Council which appear to be looking for business and stating that this firm has a very good relationship with Arch
- 23 March 2016 – E-mail from the former Leader of the Council to the former Chief Executive of the County Council referring to the above two emails and stating "this is the person I was talking about to help us run down [X's] Department or to replace [X] if he has to leave".

- 6 April 2016 - E-mail from a Senior Surveyor in NCC's Strategic Estates Management Property to NCC former Chief Executive thanking him for inviting to meet with the surveying firm (assumed to be the firm's Managing Director) and how this is an excellent opportunity to work with the surveying firm. The Senior Surveyor at NCC states she has spoken to the Head of Property Services at NCC, and that he was going to speak to the Head of Procurement to see how the surveying firm could be procured quickly. The email states the Head of Property Services thought this may be possible through Arch
- 6 April 2016 – Email from the surveying firms Managing Director to NCC former Chief Executive, cc the former Leader of NCC, “thank-you for your time this morning. I look forward to working with you. [Former Leader of the Council] once again many thanks for considering us”.
- 7 April 2016 – Email from the Head of Procurement at NCC to NCC former Chief Executive “Have agreed plan of action with [Head of Property Services at NCC?]) re: engaging the surveying firm and the next step is for him to approach them for a proposal, and then I will progress the waiver.”
- 25 April 2016 - E-mail from a Senior Surveyor at NCC to NCC former Chief Executive providing details of a meeting with the surveying firm's Managing Director, and another employee from the surveying firm where they had gone through 30 assets for disposal in detail, asked them to provide detailed marketing appraisals and negotiations on fees. NCC former Chief Executive forwards this email to the former Leader of NCC?, and Deputy Leader “for Information”.
- 27 April 2016 – report produced by the Head of Property Services at NCC seeking exemption from rule 4.4 of NCC's Finance and Contract rules from the Director of Corporate Resources and Chief Legal Officer to directly appoint the surveying firm as ‘commercial estates partner’. The report states that it has been prepared following consultation with the Head of Procurement at NCC, and NCC former Chief Executive. It states that the commission rates negotiated are 40% lower than average agency rates paid over the previous twelve months and that the appointment of this surveying firm will accelerate the Council's property disposal programme (reducing the number of buildings which NCC hold and maintain).
- The decision was to proceed with the direct award and appointment of the surveying firm as a partner at a value not to exceed £150k. This was signed by the Deputy Head of Procurement Shared Services, Legal Services Manager and Director of Corporate Resources. The total paid to the surveying firm since this appointment currently stands at £182,130 for services provided to NCC.

Comment /Evaluation

One of the biggest risks here is corruption / collusion. Without evidence of a sufficiently robust competitive process in any organisation, there is a risk that firms might be appointed to lucrative contracts inappropriately – or that this suspicion will fall on the company, creating reputational risk.

Documentation demonstrating a competitive process was available in five of the thirteen 'consultant' assignments sampled. However the robustness of the competitive process could be strengthened. For the remaining eight consultants, appointed by former Arch Chief Executive or the current Arch Chief Executive, no documentation could be provided. Some of these consultants have had long standing engagements with Arch over a number of years. The absence of information regarding the engagement exercises with a number of appointments made by Arch former Chief Executive and the current Chief Executive needs to be examined further.

Regarding the engagement with Consultant C, there are a number of documents which Internal Audit has viewed. Some of these, such as the one side summary of this contractor's skills and experience, refer to Consultant C. However invoices have been submitted under his company name (a company shown as no longer trading on Companies House website). Whilst there was evidence provided regarding a role being advertised and parties (including Consultant C) submitting 'bids' there was no evidence of a value for money review of quality and price. There is email evidence which suggests that Consultant C was operating in the role before he had applied for it.

The relationship between Arch and the surveying firm/ Northumberland County Council needs to be examined further as a separate piece of work, to more fully understand the nature of the relationship and services provided.

All consultants currently engaged by the Group should be reviewed to determine if these services continue to be required and if so whether a fresh engagement process is needed to ensure value for money is being obtained, the engagement process is transparent and financial regulations are complied with.

Objective 2

Review and report on the terms of engagement for all consultants and contractors with particular reference to the pay and reward schemes and any commitment to the supply of equipment and other non-pay elements.

Work Undertaken

The Group's Financial Regulations and MoDA, were key documents in this area of the review. These documents set out the requirements in relation to entering into 'contracts' and have formed the basis of the work undertaken in this area.

The thirteen companies selected for review in relation to the decision making continued to be our sample in relation to evidencing that terms of engagement were in accordance with Financial Regulations and MoDA.

Expected Controls/System in Place

We would expect that limits of authority to authorise orders and enter into contracts would be specified in Financial Regulations and MoDA.

We would also expect that the register of contracts (including consultant appointments) referred to in previous sections would include authorised contract/engagement documentation.

Main Findings

Inconsistencies between Financial Regulations and MoDA were highlighted in the previous section of this report, as was the absence of a schedule / register of consultants.

Paragraph 2.3 of the Group's Financial Regulations has a specific paragraph on consultants. This states that the Medium Term Financial Plan must be updated and Chief Executive approval sought prior to appointment, a Consultancy Agreement to be issued and if the appointment is for more than six months, the Group's Corporate and HR Policies should be issued. From our discussion with Arch staff, there appeared to be a lack of awareness in relation to these requirements.

In respect of the seven consultant companies sampled, no information regarding an engagement/contract could be provided. Internal Audit was advised that these engagements were entered into under the instruction of the former Arch Chief Executive and/or the current Chief Executive.

In respect of the construction consultants, authorised purchase orders had been issued. There was no commitment to the supply of equipment in these appointments.

For the three 'Marketing' companies sampled, purchase orders had been raised in relation to the two companies where quotes had been obtained and there was no commitment to the supply of equipment in these appointments. No evidence of a purchase order was provided regarding the engagement with the third company, Consultant L, appointed by former Arch Chief Executive.

Internal Audit was provided with a letter dated 15 May 2017 signed by five Directors of Arch. The letter stated “[*Consultant C*] has a reasonable expectation to continue to carry out contracted functions on a range of projects up to 2027 and that his agreement included the provision of a house on a ‘rent to buy’ agreement with Arch covering rental agreement costs up to the conclusion of his contract, and provision of a car under the same terms.” No written agreement codifying these terms has been located by Internal Audit.

The advert on the Arch website in March 2016 referred to in respect of objective 1 (which Internal Audit understands related to the appointment of Consultant C) set the timescales for the contract as twelve months from April 2016, to be reviewed in December 2016, although no formal terms of engagement were provided. This advert made no reference to benefits such as a house or a car for the appointed contractor, or to any guarantee of a longer term..

Comment/Evaluation

From the information provided and discussions with Arch staff, there is a lack of awareness of the requirements of Financial Regulations with regard to the appointment of consultants.

There was a lack of information regarding the terms of engagement with the majority of the consultants reviewed. With regard to any equipment/assets consultants are actually provided with, this is covered in a later section of this report.

The letter dated 15 May 2017 from then Arch Board Members would appear to be an extremely rare arrangement, and not likely to be typical. The scenario set out in the letter does not reflect the terms set out in the advert for this work published on Arch's website, from which Consultant C was appointed. Internal Audit has not found any evidence of similar arrangements afforded to any other contractor.

Objective 3.

Review payments made to all consultants and contractors with particular reference to: the terms of engagement and the evidence provided regarding the work undertaken and completed, and the authorisation process.

Work Undertaken

For the thirteen companies selected for review in the previous objectives, a sample of payments was examined. In the absence of clear terms of engagement Internal Audit were looking for evidence that service provision had been assessed and found to be satisfactory prior to payment, and that invoices were properly authorised.

Expected Controls/System in Place

Internal Audit would expect to see evidence that services had been completed according to agreed criteria and confirmation that the invoiced amount was within the available budget.

Main Findings

Payments to the following four long term consultants during 2016/17 were reviewed:

- Consultant B(Strategic HR), £850 per day
- Consultant D(Strategic Comms), £650 per day
- Consultant E(Legal) £500 per day; and
- Consultant F(Strategic Advisory Support), £400 day – however later appointed as interim Director following the Director of Business Strategy's promotion to Chief Executive In April 2017, in respect of which a salary is paid.

The invoices of these consultants contained little detail in respect of the services provided - for example, "Provision of ongoing Strategic HR Support", "Strategic Communications Support", or "Provision of Strategic Advisory Support". All four consultants on their invoices state the number of days of service provided, and the daily rate. Two of the twelve Strategic HR Support invoices provided were supported by timesheets providing details of the work undertaken and times.

Arch Finance Director has authorised invoices in relation to Consultant F. The former Arch Chief Executive has authorised the majority of invoices and retrospective purchase orders for the remaining three consultants.

Consultant F's invoices state a "draw-down" balance which would suggest a budget exists for payments to this consultant.

Copies of invoices from Consultant C's company all have the same wording, "Strategic PR advice and support" then specify the dates worked and are supported

by a purchase order raised after the invoice date. All are for £350 per day and a number include mileage at £0.58 per mile. A number of the initial and most recent invoices were authorised by the former Chief Executive, with the majority of the remainder authorised by former Arch Chief Executive with the following “Ok to pay” or “Ok to pay [initials of former Chief Executive]”.

The first invoice in respect of Consultant C was dated 23 March 2016 and was for 7 days @ £350 per day and £203 mileage. This invoice was authorised by the Marketing Manager. The advert for the position was on the Arch website on 16 March 2016 and there is evidence in an email between Arch Chief Executive and Consultant C on 21 March 2016 that at that point Consultant C had not submitted an application for the role, therefore by 23 March 2016 he could only have been appointed for a maximum of two days. In an email conversation between Arch Chief Executive and Consultant C on 24 March 2016, the Chief Executive states that the advert for the post was taken off website on 22 March 2016, therefore they cannot accept invoice for any work before this date. Consultant C replies that he included “last week because he was told to”. This invoice is the only one submitted by Consultant C that doesn’t specify the actual days worked in the period.

The Marketing Manager provided copies of the Press Releases that had come to her from Consultant C. Seven such documents were provided. This does not appear to be a significant return on the payments made, though the former Arch Chief Executive also advised Internal Audit that Consultant C ‘did some work in schools’. However, she advised that she could not state which schools, or when, and that she had been instructed by a former Arch Chief Executive or the former Leader of the Council to pay the invoices. The Marketing Manager stated in an email to Internal Audit that there was never any report or update sent to her by Consultant C, whom she explained reported directly regarding his work to the former Arch Chief Executive, former Leader of the Council and former NCC Chief Executive. There is an email from Consultant C to the Marketing Manager which appears to confirm these reporting lines (see Section 1).

We have also identified payments made to Consultant C’s through Northumberland County Council’s e-business system. In total between Arch and the County Council payments of £115k had been made to this contractor or his company which was subsequently struck off at Companies House.. Two of the orders were approved by the former NCC Chief Executive, and two state ‘goods received’ by the former Leader of the Council. The former Chief Executive signed two of the invoices and the former Leader of the Council signed one of the others. A further invoice for £27k was received in May 2017 by NCC and has not been paid. The Internal Audit team and NCC’s Corporate Fraud Team is investigating this matter further.

Comment/Evaluation

There is no segregation of duties in the payments to the four long standing consultants and a lack of evidence was provided in relation to the work undertaken. The daily rates are very high and we refer back to our previous comment regarding reviewing all consultants currently engaged by the Group to determine if these services continue to be required and if so whether a fresh engagement process is needed to ensure value for money is being obtained, the engagement process is transparent and financial regulations are complied with.

There is no process in place to verify the work undertaken by Consultant C. This would not be possible due to the apparent absence of any terms of engagement and the lack of detail on the invoices in relation to work undertaken. On the basis of the invoices reviewed it would appear that former Arch Chief Executive and former NCC Chief Executive were authorising the payments. There was little evidence of the work undertaken (seven press releases at Arch) in comparison with the remuneration to this consultant. There is evidence that the first payment relates to a period before Consultant C had submitted his application for the role / contract advertised.

In respect of the construction consultants sampled properly authorised orders and invoices were evidenced. For the two marketing companies where quotations had been obtained and purchase orders issued, evidence of monitoring progress and completed work was also provided along with authorised invoices.

Objective 4.

Is there an inventory of all other terms and conditions for each consultant/contractor available including all items of equipment within an individual's possession?

Work Undertaken

Discussed with Arch officers to determine the existence of an inventory of equipment and if they were aware of any equipment being provided to consultants.

Reviewed the schedule of vehicles prepared from the company asset registers to establish any vehicles that may be used by consultants.

Review the monthly mobile phone invoice to identify any consultants being provided with a company mobile phone.

Expected Controls/System in Place

An inventory of Arch equipment should be in place, and should include a description and value of the asset, identify the responsible employee (or consultant) for each asset, the location items are stored, date issued and date returned (if appropriate).

Main Findings

There is no inventory of assets in place therefore it is not known who has equipment owned by Arch, other than information obtained in discussions with members of staff and reviewing other information sources.

The former Arch Chief Executive stated that other than Consultant C being provided with a house in respect of which no rent has been paid, and a car, all other consultants provide their own equipment. The Finance Team advised that two of the long-term consultants, Consultant E (Legal) and Consultant F (Strategic Advisory Support) have been provided with a laptop in the same way that members of staff are. These two consultants carry out their work for Arch predominately at the Arch premises.

We reviewed the schedule of vehicles prepared from the company asset registers to establish any other vehicles that may be used by consultants. Other than the vehicle provided to Consultant C there were no other vehicles on the schedule that would fall into this category.

A review of the monthly mobile phone invoice did not identify any consultants being provided with a company mobile phone.

The provision of the house to Consultant C is being covered in the Property objective of this review (see section 3 below). A review of the Arch financial transaction listing identified the purchase of a Kia Sportage car, cost £18,456.67 + VAT. This was confirmed by the former Arch Chief Executive and Arch Management Accountant as being "Consultant C's car". The invoice was date 6 June 2016 with a registration date of 16 June 2016. The supplier invoice from the car dealership is not authorised, but there is an email from the Director of Finance attached to the invoice requesting a member of his finance team to make the payment. The former Arch Chief Executive advised that this car was returned by Consultant C on 5 July 2017. Internal Audit can confirm from our presence at Arch's offices during our fieldwork that this car has been sighted as parked in the Arch car park following this date.

Comment/Evaluation

The absence of an inventory of assets has hindered this aspect of the review and it is difficult to say with certainty that the information provided forms a complete record.

No consultants other than Consultant C appear to have been given a house / car. A decision is required in relation to what to do with the car, and its future value and use to Arch.

Objective 5.

Does Arch have the correct insurance cover for each consultant/contractor with regard to any Arch equipment within their possession?

Work Undertaken

Information obtained from NCC's Insurance Section and discussed with the Finance Team at Arch.

Expected Controls/System in Place

An inventory of Arch equipment should be in place, and should include a description and value of each asset. This document should be used by the finance team to ensure adequate insurance arrangements are in place.

Main Findings

NCC's Insurance Section confirmed vehicle registration number (the car used by Consultant C) was insured by Arch through their insurance cover with NCC from 16 June 2016. This agrees with the registration number and registration date on the supplier invoice for the Kia Sportage used by Consultant C.

Discussions with the Finance Team established that the company laptops are not insured, and the same applies to the laptops provided to consultants.

Comment/Evaluation

Once an inventory of equipment has been established, a decision should be made on whether or not insurance is required for any items held by consultants.

The purchase of insurance for the car used by Consultant C adds to an already substantial package of benefits enjoyed by this contractor and funded by Arch. It would be unusual to provide insurance in these circumstances.

Objective 6.

Have all benefits in kind to consultants/contractors been correctly accounted for and is all HMRC documentation in place.

Work Undertaken

Internal Audit has reviewed available information regarding provision of equipment to consultants.

Expected Controls/System in Place

Tax implications arising from provision of assets and equipment to consultants should be considered and evidence of the review recorded.

Main Findings

There is no evidence of notification to HMRC regarding the house (in respect of which no rent has been paid) and car provided to Consultant C, or the mileage rate of £0.587/mile. There is a concern that provision of a car, and the same mileage rate as employees, could be seen by HMRC as an indication of employed status. In an email dated 11 July 2017 from Consultant C to NCC's Revenues and Benefits Section, Consultant C stated that he had 'now been made redundant', a turn of phrase used only in respect of those who have a contract of employment rather than those who are self-employed. However Internal Audit has seen no evidence of a contract of employment between Arch and Consultant C and the email exchanges between the former Arch Chief Executive and Consultant C when he was 'stood down' in May 2017 state that his services as a contractor (rather than as an employee) are no longer required.

Comment/Evaluation

It is not known whether the tax implications of the provision of equipment and mileage payments to Consultant C have been accounted for correctly, or whether his status as a consultant is correct.

Section 2: Employees

Objective 7.

Review and report on the decision making process and arrangements for the engagement and termination of all employees.

Work Undertaken

A review of the initial appointments of a number of staff has been undertaken.

Expected Controls/System in Place

Internal Audit would expect standard recruitment procedures that ensure fairness and transparency in the recruitment process and safeguard the company against poor recruitment decisions. This would include pre-determined interview questions and scoring models and pre-employment checks to confirm essential qualifications, entitlement to work in the UK and references.

Main Findings

There was a lack of information provided regarding the recruitment processes followed in relation to the majority of the employees reviewed. The most recent new starter included in the sample commenced employment on 3 January 2017. For this employee an 'authority to recruit' form was provided (although this was unsigned), advert, job profile, confirmation of the four people interviewed, two references (although the second confirms dates of employment only), two forms of identification and offer letter confirming 3 January 2017 start date and a salary of £20k. Evidence of a completed induction was also provided.

Interim Director X

Previously working with Arch as a consultant (see Section 1), he was appointed to the role of Interim Director of X on 18 April 2017 (following the appointment of the former post holder to interim Arch Chief Executive from 3 April 2017). A contract of employment was sighted, signed by the former Arch Chief Executive and the employee, but nothing was provided to Internal Audit regarding Board or Remuneration Committee approval. The appointment is for 6 months. It is not clear why the post was considered necessary to be filled.

Regarding another senior employee, on 21 April 2017 the former Arch Interim Chief Executive emailed the Director of Finance stating "If I'm going to action a change in salary and job title for [name of employee removed] what is the process...". The Director of Finance's response is that "All your direct reports should go through

remcom” [i.e. the remuneration committee]. The HR system report does not show an increase to this senior employee after this date.

The Interim Director of X reports directly to the Arch Chief Executive. Therefore the guidance from the Director of Finance to the then Arch interim Chief Executive is as relevant to the appointment and remuneration of the Interim Director of X as it is to a proposed increase for the employee referred to in the email.

Property and Tenancy Executive

This employee submitted a covering letter and CV in June 2014. It would appear he was recruited as a graduate internship position in August 2014, becoming permanent one month later in September 2014.

Development Director

Appointed in January 2015, a signed contract was sighted. This includes relocation expenses of £3k. The Development Director appears to be still resident at the same address as recently as May 2016, when HR wrote to him in connection with a different matter. It is therefore not clear why relocation expenses of £3k would have been payable or if this sum was indeed paid.

Project Director (Commercial and Infrastructure)

The Project Director (Commercial and Infrastructure) was appointed in November 2014 on a salary of £75k. The post holder's cv indicates that he was carrying out an interim role for Arch prior to his appointment. It is unclear if this was as an employee or consultant, as the interim appointment does not appear on the report provided by the HR Manager. It is also unclear if this position was advertised.

Comment/Evaluation

There was a lack of evidence provided regarding the appointments of a number of the employees sampled. For the most recently employed member of staff in the sample a relatively robust process appeared to have been followed. This could have been enhanced further through checking the qualifications of the new employee.

A number of appointments appear to have been made without a competitive process being followed.

The offer of a £3k relocation package to a new Director already living in Morpeth at the time of his appointment would be difficult to justify, especially as the Director appears to be living at the same address as prior to his appointment. It was not established whether this payment was in fact made, or simply proposed.

Financial Regulations and MoDA do not specify anything in respect of salary decisions that are required to be considered by Remuneration Committee, other than MoDA specifying that in year pay increases to the Group Managing Director are to be approved at this committee. If the Director of Finance's email to the former Arch Chief Executive on 21 April 2017 regarding the requirement for Remuneration Committee approval for the Chief Executive's direct reports is correct there are further areas that need to be examined further, including increases to the Director of Finance and the Arch Chief Executive.

Objective 8.

Review and report on the terms of engagement for all employees with particular reference to the pay and reward schemes and any commitment to the supply of equipment and/or any other non-pay elements.

Work Undertaken

Information was reviewed in relation to the standard terms and conditions of employment and discussed with the HR Manager.

Reviewed the employee files for the sample of employees to identify any commitment to the supply of equipment or other non-pay elements.

Expected Controls/System in Place

Internal Audit would expect a salary scale to exist and new positions to be appointed on a salary comparable to other employees with similar levels of responsibility.

We would expect standard terms of conditions to exist, and that these would cover the supply of equipment and other non-pay elements.

Main Findings

There is no salary scale in place. This was discussed with the HR Manager who confirmed that salaries are determined 'based upon market value' and taking into account the salaries of other employees. There was evidence of a number of employees receiving pay increases outside of the annual pay increase.

Two 'Employee Benefit' documents were provided by the HR Manager which set out the benefits Arch has established to "enhance the remuneration package for employees". There is one document for all employees and one specifically for "skilled operatives". The only difference between the documents is that skilled operatives receive only 26 days leave, compared to all other staff receiving 31 days. The HR Manager confirmed these documents were accurate in that these were the employee benefits, although she was not aware of these documents being approved by Arch's Senior Team or Board. The benefits covered by the documents are:

- Mileage rates, £0.58 per mile, or £0.25 per mile for employees in receipt of a car allowance;
- 8% employer contribution to staff pension scheme;
- Mobile Phone (as required);
- Laptop;
- Regular Training & Development opportunities;
- Payment of professional membership fees;
- Healthcare Insurance with Westfield Health;

- Free fruit each week;
- Half Price gym membership at Active Northumberland;
- Bike2Work salary sacrifice scheme;
- Vehicle leasing salary sacrifice;
- Childcare vouchers salary sacrifice;
- Smart Holiday salary sacrifice;
- Paid time off for participation in Corporate Social responsibility initiatives; and
- Subsidised social events such as business dinners and Christmas celebration.

A number of payments were made to new starters in the Ascent Homes division of Arch Development Projects of £5,000 for a car allowance. The HR Manager explained that the decision to introduce such allowances was made at a regular HR meeting involving HR and the Arch Directors. These meetings are not minuted and Internal Audit has not been able to find any policy relating to the award of these payments.

A payment to a car dealership for £24,290.65 + VAT on 30 September 2015 was identified on the financial transactions report. The vehicle purchased was a Toyota Hilux. A discussion with the Management Accountant identified that this vehicle was used solely by the Construction Manager. There was nothing in this employee's HR file regarding the provision of a vehicle to undertake duties. It was not known whether the employee was allowed to use the vehicle for personal use. There should be a signed agreement between the employee and Arch regarding the terms and conditions of the use of the vehicle and each party's responsibilities, and this should be held on the employees HR file. Internal Audit are aware that other members of staff have company vans and this matter applies to them equally. The tax implications of these arrangements are covered later in this report.

Comment/Evaluation

The absence of a salary scale makes it difficult to ensure parity for roles of comparative levels of responsibility.

The provision of company vehicles to employees should be reviewed. Where it is felt beneficial for employees to have vehicles that they take home the terms and conditions of the use of the vehicle and each party's responsibilities should be formalised. The other vehicles used by staff appear reasonable given the nature of Arch's work, i.e. Citroen vans and a ford fiesta van. However, the purchase of a vehicle for £24,290.65 + VAT would appear at face value to be excessive. The invoice for this purchase is not signed / authorised.

The staff benefits should be reviewed taking into consideration that the company is owned by NCC. For example in the current financial climate within the public sector, it may seem extravagant for a company which is wholly owned by a local authority to have a subsidised Christmas party.

Objective 9.

Review payments made to all employees (including non-regular and routine payments) with particular reference to the authorisation process.

Work Undertaken

For the employees selected for inclusion in the review, Internal Audit examined the authorisation for any changes in salary following initial employment by the Arch Group.

We reviewed the monthly spreadsheet submitted from HR to notify Finance of new starters, leavers, promotions or salary amendments and sickness, to identify any unusual items for further review. This spreadsheet was introduced within Arch in November 2016.

Expected Controls/System in Place

Internal Audit would expect that all payroll payments would be authorised by an appropriate budget holder, and that at certain pre-approved levels authorisation would be restricted to Directors, and for the Chief Executive and his direct reports that changes in salary would require approval of Board. The various approval levels should be specified in Financial Regulations.

Main Findings**Former Arch Chief Executive**

A decision was taken at the January 2014 Remuneration Committee to increase the former Chief Executive's salary to £125,000 by October 2015 and £117,500 immediately (backdated to October 2013). However, on 1 October 2015 the former Chief Executive's salary was £129,923.88, as the 1 April 2014 and 1 April 2015 annual pay award to all staff was added to the approved salary of £125,000. In addition there was an interim salary increase on 1 October 2014 of £124,831.25 but it is not known how this figure was arrived at.

In June 2017 a payment to the former Arch Chief Executive was processed for 10.5 days untaken annual leave. This was based on three months untaken leave in 2017/18 (April, May and June) and three days brought forward from 2016/17. Evidence for this was email communication between the Director of Finance and the PA/Office Manager to the Chief Executive on 6 June 2017. It is understood that the former Chief Executive was on what is colloquially referred to as 'gardening leave' in this period; it is therefore uncertain if these payments are correct. If this payment is allowable then the calculation is incorrect as he left the company in mid-June therefore annual leave would only be accrued for April and May, i.e. eight days instead of the ten and a half paid.

Arch Chief Executive (formerly Director of Business Strategy)

The Arch Chief Executive was awarded a 3% pay rise 1 November 2013. There is nothing on the employee's HR file. The employee's contract of employment states salary will be reviewed annually in March. It would appear that the 3% pay award to all staff on 1 April 2013 has been awarded to this employee approximately 6 months after she commenced employment on 7 May 2013. The employee received a further 3% in April 2014 as part of the annual pay award to all staff.

The current Arch Chief Executive was appointed to interim Chief Executive from 3 April 2017 to 16 June 2017 (the former Chief Executive's official leaving date). The evidence of this appointment is an e-mail from NCC's former Chief Executive to Arch's HR Manager. A letter dated 4 May to Arch Chief Executive from the HR Manager confirms the interim appointment is to 31 October 2017, no further evidence behind this decision was provided.

Property and Tenancy Executive

This employee was promoted to Property and Tenancy Executive from 5 December 2016. Increase in salary from £19k to £30k. There is nothing on file regarding the recruitment process for this post.

Marketing Assistant

In April 2016 there was email correspondence between the HR manager, the Development Director, the then Director of Business Strategy and former Arch Chief Executive regarding a PA/Sales Admin role. The email suggests that the Development Director has felt pressured into accepting the Marketing Assistant into the role (one of the former Chief Executive's emails states, "we could have done without the job going to advert"), and that Development Director had some concerns regarding the appointment. The outcome seems to have been to continue with the PA/Sales Admin recruitment through the advertised position, but to discuss the potential for a new marketing role within the Ascent team, to tie in with the Marketing Assistant's return to work from sickness. Whilst there is no change in this employees salary at this time the email exchange suggests a willingness to find a new role for her.

In January 2017 a letter from the HR Manager was sent to this employee regarding 'Career Pathway'. This increased her salary to £21,000 from 1 January 2017 and said that 'driving lessons will commence in week commencing 16 January 2017'. Also on file is the Career Pathway for Marketing and Communications which sets out competencies and areas for development. This includes completion of driving test. Evidence of payment for one driving lesson was sighted, as well as Arch credit card transactions for one theory test and two practical tests (both failed) and an email from HR Manager confirming the Marketing Assistant will have to pay for her own driving tests in future.

Development Director

On file dated 13th May 2016 was a Variation to Contract letter - confirming entry to the pension scheme from 1 April 2016 and a £1,800 lump sum payment. The letter explains the Arch employer pension contribution increased from 6% to 8% in April 2015 and the Development Director's salary was not increased to reflect this extra 2% (up until April 2016 he had opted out of the pension scheme and took the additional 6% as an increase in salary). It is not clear whether this additional 6% was included in the salary or paid separately? If included this would raise the question of why the salary was not reduced by 6% when he joined pension scheme. There is nothing regarding this in the initial appointment which states a salary of £90k.

On 21 April 2017 the Arch Interim Chief Executive, emails the Director of Finance stating "If I'm going to action a change in salary and job title for [name removed] what is the process...". The Director of Finance's response is that "All your direct reports should go through remcom". The HR system report does not however show an increase to the Development Directors after this date.

Project Director (Residential and Construction)

On 1 April 2016 this employee was appointed to a Director position. There is an email from HR confirming recruitment was to be internal only. There is no evidence of any other interest, however an internal advert would seem to be restrictive for such a senior position.

Comment/Evaluation

There was a lack of evidence provided regarding the appointments to new posts of a number of the employees sampled.

A number of the pay enhancements reviewed appear to be unusual and require further examination by management.

Financial Regulations and MoDA do not specify anything in respect of salary decisions that are required to be considered by Remuneration Committee other than MoDA specifying that in year pay increases to the Group Managing Director are to be approved at that Committee. If the Director of Finance's email to the then Arch Interim Chief Executive on 21 April 2017 regarding the requirement for Remuneration Committee approval for the Chief Executive's direct reports is correct there are further areas that need to be examined further, including increases to the Director of Finance and former Arch Chief Executive.

Objective 10.

Is there an inventory of all other terms and conditions for each employee available including all items of equipment within an individual's possession?

Work Undertaken

Discussed with the HR Manager, Arch Management Accountants, and the Arch Chief Executives PA/Office Manager to determine the existence of an inventory of equipment.

Attempted to identify what equipment employees have through reviewing available documents and discussions with staff.

Expected Controls/System in Place

An inventory of Arch equipment should be in place, and should include a description and value of the asset, identify the responsible employee for each asset, the location items are stored, date issued and date returned (if appropriate).

Main Findings

There is no inventory of assets in place therefore it is not known who has equipment owned by Arch, other than information obtained in discussions with members of staff and reviewing other information sources.

The monthly mobile phone invoice is annotated with the names of staff who use the phones. There are approximately 90 mobile phones in use by employees and board members, despite a number of these individuals being office based. Internal Audit was advised that a number of other staff have mobile phones for security, for example when they are out visiting tenants. The monthly invoice was for £3,464.17 + VAT. A review of the invoice showed that the former Arch Chief Executive incurred charges totalling £128.20 for calls texts and data whilst outside the EU. The invoice is dated 15 June 2017 and we understand the former Arch Chief Executive was on 'gardening leave' in the period up to his official leaving date of 16 June 2017. This raises the question as to whether these charges were incurred on official Arch business or were incurred during a private trip.

The HR Manager suggested that Directors may have Ipads in addition to their work laptops, however, no evidence of this was provided. The Arch Chief Executive's PA/Office Manager stated that the former Arch Chief Executive had an Ipad as this was how he predominately worked, 'probably an old laptop' and a mobile phone. The Chief Executive's PA/Office Manager and the Finance Team were questioned regarding the return of this equipment. No-one was able to provide to provide any information regarding the whereabouts of this equipment. The Assistant Management Accountant stated she does not believe the mobile phone handset was

returned as the former Chief Executive requested a PAC code so he could transfer the number to a different provider.

Comment/Evaluation

The absence of an inventory of assets has hindered this aspect of the review. An inventory of equipment, particularly portable electronic equipment should be established as soon as possible.

The number of mobile phones in use appears to be excessive and could benefit from a review.

Internal Audit are of the understanding that the former Arch Chief Executive was on gardening leave in the period prior to him leaving the company in June 2017. This raised questions as to whether the charges incurred outside of the EU occurred in this period and if so whether he was on Arch business.

Objective 11.

Have all benefits in kind to employees been correctly accounted for and is all HMRC documentation in place.

Work Undertaken

Copies of the 2016/17 P11D forms were reviewed to identify benefits in kind declared to HMRC. This was compared to the Employee Benefit documents obtained from Arch HR Manager and other information obtained during the review in relation to potential benefits in kind provided to staff.

Expected Controls/System in Place

Internal Audit would expect a schedule of benefits in kind to each employee to be in place and for this to be reviewed to ensure all HMRC requirements are complied with and the accuracy of P11D returns.

Main Findings

There is no schedule of taxable benefits in place. Copies of the 2016/17 P11D forms were reviewed and discussed with the Assistant Management Accountant responsible for the payroll.

The P11D forms reviewed only appeared to include private Healthcare Insurance paid for by Arch, and salary sacrifice lease cars and home electronic vouchers.

We are aware that some equipment provided to employees is not required to be declared and this includes laptop computers and mobile phones. However, there are some areas where we consider these do need to be included on P11Ds.

The main area of concern relates to company vehicles used by Arch employees. We have identified the Construction Manager and Maintenance Manager are provided with vans. Arch Management Accountants confirmed these employees take the vehicles home. Also, there are a number of cars/vans used by site managers and these are also taken home by these employees. The Management Accountants are unaware as to whether these vehicles are used for personal use. For these vehicles to be exempt from being classed as a benefit in kind, employers must instruct employees not to use vehicle for private journeys and check that they don't (for vans commuting is allowed). The two Management Accountants are not aware of any checks in place to confirm that the vehicles are not used for personal use.

Other areas that did not appear to be on the P11D returns and require further investigation to ensure correct treatment are:

- Mileage payments – Arch’s rate of £0.58 per mile is above HMRC approved amount of £0.45 per mile (£0.25 per mile for employees in receipt of a car allowance);
- Payment of professional membership fees;
- Subsidised gym membership at Active Northumberland;
- Childcare vouchers salary sacrifice scheme; and
- Smart Holiday salary sacrifice.

Comment/Evaluation

The 2016/17 P11D return to HMRC is inaccurate in that it does not contain all the required information. The use of company vehicles by employees is a particular area of concern.

Further work is required by the company to ensure compliance with all HMRC requirements.

Section 3: Property Portfolio

Objective 12 To compile a comprehensive portfolio of properties purchased including the value and any other terms associated with the purchase, and, from whom the properties were purchased. If available, to review the evidence and documentation to support each purchase to assess whether each purchase has been processed in line with the governance structures of Arch.

Work Undertaken

Internal Audit's initial review has concentrated on a particular stream of properties known within Arch as the 'Executive Property Portfolio'. Internal Audit was advised that this portfolio was a comparatively recent property stream, aimed at acquiring higher value properties which were calculated to be likely to realise a higher income yield (and in time, a higher resale value) than the other property streams managed by Arch.

A list of those properties purchased by Arch as part of the Executive Property Portfolio was created by Internal Audit, using two files obtained from the Director of Finance's desk containing documents all entitled 'High Quality Residential Investments – Approval Documents'. This initial list of properties was compared to an extract from the financial system showing all payments made by Arch to Legal Advisor 1 (this is the firm which has undertaken conveyancing on behalf of Arch), and to bank statements and supporting payment documentation / completion statements.

Two properties were selected as a 'walkthrough' in order to determine the process of acquisition of properties through to subsequent rental. These properties were Property X and Property Y. Both of these properties were linked to concerns raised with Internal Audit at the commencement of our work and described at the beginning of this report.

In addition, a full list of other properties (non-commercial) was obtained from the Arch Rental Management System. The system identifies properties owned by Arch within the following categories –

- **Private Rental System (PRS);** properties purchased with the aim of private rental. There were 935 such properties acquired from 1 January 1989 (transfer of former aged miner's homes - 625 properties) and 19 June 2017.
- **Affordable Houses;** 56 Affordable Houses were purchased between 7 December 2016 to 16 June 2017; and
- **Executive Property Portfolio:** 46 executive homes were purchased from 27 June 2016 to 16 June 2017, as described in the first paragraph above.

A sample of PRS and affordable house purchases as recorded on the Rental Management System were traced through to the bank statements and supporting completion statements issued by Legal Law Firm (referenced 1), to determine accuracy.

Expected Controls/System in Place

A Property Investment Report was presented to Arch Group Investment Committee meeting on 26 May 2016 by the former Arch Chief Executive to request approval for the creation of a new “high quality investment strategy”. This was explained as to enable Arch to acquire large scale high quality dwellings to “diversify the residential portfolio”. The report states that the portfolio would be owned by Arch Homes but until fully established would be managed by a surveying firm (Chartered Surveyors and Estate Agents).

A further report presented by the former Arch Chief Executive to the Arch Board on 28 June 2016 sets out draft governance arrangements for the acquisition of high investment properties, with key points as follows.

Responsibility of the Executive Portfolio – although managed by the surveying firm – would be delegated to the Arch Director of Finance who would approve purchases and have oversight ensuring agreed governance arrangements and detailed criteria are followed.

- ‘Executive’ properties were to be identified for possible purchase by surveying firm, who would present proposals to Arch; surveying firm to complete approval records and provide valuation report;
- Proposal to be reviewed by Director of Finance (in his absence either Arch Chief Executive or Director of Business Strategy);
- Decision to be recorded upon an approval record;
- Decision to be ratified by alternate member of Arch Senior Leadership Team;
- Report to be produced for Investment Committee, stating commitments entered into to date/delegated acquisitions;
- Report to be produced for and presented quarterly to Investment Committee on portfolio performance; and
- Yields of 5% would be the norm.

Against these criteria, it would therefore be expected that documentary evidence showing compliance with the criteria would be held on file, with evidence of appropriate authorisation in line with that stated. Regarding ancillary financial processes – such as paying for the property acquisitions made – it would be expected that internal control process would be in place at Arch to ensure accurate payments are made to legal law firm contractor ref.1, based on approved and agreed purchase prices and an agreed schedule of fees with that firm.

Main Findings

It was found that a number of property completion statements appended to the CHAPS payment notification to legal law firm contractor ref.1 held within the Arch Housing bank account file, although annotated with an internal checking statement, were incorrect. Our sampling identified the following errors:

- Property 1: the completion statement showed a payment of £166,639.50 was due and was subsequently made by Arch. However Internal Audit's re-calculation of sums on the statement showed £116,639.59 as the correct amount due. This resulted in an overpayment by Arch of £50,000;
- Property 2: the completion statement showed a payment of £78,782.32 was due and this was subsequently made. However Internal Audit's re-calculation of sums on the statement showed £71,169.72 as the correct amount due, resulting in an overpayment by Arch of £7,612.60; and
- Property 3: the completion statement showed a payment of £88,550.50 was due and was subsequently made. However Internal Audit's recalculation of sums on the completion statement showed £103,093.25 was the correct amount due, resulting in an underpayment by Arch of £14,542.75.

Further enquiries of the Management Accountant highlighted that the fixed asset register was also incorrect (thought to be due to the double entry book keeping on each of the purchase transactions). The Management Accountant made enquiries to the legal law firm contractor ref.1 in response to Internal Audit's questions and advised us that the legal law firm contractor ref.1 were undertaking an internal review, as they had found inaccuracies within their internal processes. We were informed in September 2017 that the legal law firm contractor ref.1's review was concluded and that this had identified that £42k had been overpaid by Arch and needed to be returned. However it appears that Arch finance staff relied on calculations performed by the legal law firm contractor ref.1 rather than checking all transactions for accuracy independently of any checks performed by legal law firm contractor ref.1.

In relation to a fourth property, an overpayment of £10,000 was made by Arch to the legal law firm contractor ref. 1 on 31 October 2016. The completion statement showed a payment due of £166,142.16, which was subsequently paid, however a recalculation of the completion statement showed that £156,142.16 was the correct amount due. This overpayment was identified and corrected during January 2017. The Management Accountant advised Internal Audit his view that the legal law firm contractor 1's client accounts should balance to zero upon completion; hence there had been a reliance by Arch on this control to ensure that any errors were identified. Whilst one error has been identified and corrected after the event, the three errors detailed above have not been identified by any reconciliation of client accounts by the legal law firm contractor 1, nor by Arch. This demonstrates that Arch's reliance

on the control mechanisms of an external entity (legal law firm contactor 1) had not been effective and that more robust internal procedures are needed.

The delegations agreed by the Arch Board at its meeting of 28 June 2016 appear effectively to have been in practice before this date - between the Investment Committee meeting of 26 May 2016 and 28 June 2016. No completion of purchase took place in this period (i.e. before delegations were agreed by the Arch Board), although the approval to purchase properties (including Property X) was given under the assumed delegation during this period.

Issues were found relating to the acquisition of two properties, Property X – which was purchased by Arch from the former Arch Chief Executive, and Property Y, a property in respect of which a tenancy was given to Arch Consultant C. Further details on these properties are recorded under the Specialised Concerns heading below. Other than the purchase of Property X, no link or association to any other vendor of properties purchased under the Executive Homes Portfolio has been identified. In respect of one property – Internal Audit was informed that it was agreed that the proposed purchase should be stopped, during a meeting with the new Leader of the Council in May 2017.

Before her suspension in July 2017, the former Arch Chief Executive informed Internal Audit that she did not know whether the concept of the Executive Homes portfolio had been created before the former Chief Executive had ‘struggled’ to sell his property (Property X), or as a result of his difficulty in selling the property. This comment was not solicited by Internal Audit, but was ventured to us by the former Arch Chief Executive in our initial meeting.

Empire Court, Whitley Bay

Specific work was undertaken in relation to Empire Court as questions had been raised as to why Arch undertook this investment which is also part of the Executive Homes portfolio. Arch Homes Manager has been asked to determine what advice was taken to treat the purchase as a “land purchase then build contract”, resulting in a saving of £99,900 in Stamp Duty Land Tax (SDLT).

The history to this property is that on 27 October 2016, the Managing Director of the Surveying firm forwarded details of Empire Court to the former Arch Chief Executive stating "It's a really attractive scheme in a fantastic position. In [the Director of Finance's] absence could you give approval please for inclusion in the Executive Portfolio". A pricing schedule, approval document including SDLT illustration and relevant comparables for the acquisition was attached.

The approval document was signed by the Director of Finance and the then Director of Business Strategy on 2 November 2016 and records a purchase price of £3.7m. It records 13.65% discount on market value with an initial annual rental of £201.6k,

and a net annual profit of £10.665k. The legal law firm contactor 1 was the conveyancing solicitors and a contract was drawn up dated 6 April 2017.

There is an email trail that the contract was reviewed internally by Arch's Head of Commercial and Technical, Ascent Homes and that a JCT Design and Build Contract was then signed on 6 April 2017. The amount of £1,202,500 has been paid to legal law firm contractor ref.1 for purchase of the freehold. The JCT contract is for the value of £2,497,500 and was to be paid in stages as follows:

- £102,500 on completion of drawing up the contract,
- £822,500 on completion of the dry lining and
- £1,572,500 on completion of the works.

Arch Homes Manager has taken a report to Arch Investment Committee in August 2017 with options on Empire Court as follows:

- Retain as rental (externally managed) - net annual profit of £2,470;
- Retain as rental (internally managed) - net annual profit of £15,517;
- Dispose of as block - which forecasts a loss of £184,863 and
- Dispose of individually - which shows total profit of £225,473.

It is understood from the Homes Manager that there was approval to dispose of the units individually and that he is now in correspondence with solicitors to progress this.

As this scheme was put forward by the surveying firm as a "really attractive scheme in a fantastic position", it is not known why the developer decided to sell this property during the development stage. With the change in direction of now selling the property instead of it being retained part of the executive rental portfolio, it will never be determined whether the rental income recorded on the approval documents would have been attained thus making the investment viable. Also until all properties have been sold it cannot be determined if Arch will have made a profit or loss on this scheme. Reference to the saving of SDLT has been made in calculations forwarded by the surveying firm, however the Homes Manager cannot confirm whether legal advice was sought from Arch's solicitors as to whether this was an accurate treatment of these costs.

Internal Audit was informed there is not one definitive list of property purchase prices and that the asset register only takes into account current value as it recognises work completed in properties. This does not accord with expected controls.

Comment/Evaluation

Inaccuracies found in a number of banking transactions associated with property purchases result in a lack of confidence in the overall internal processes surrounding bank payments for properties purchased by Arch. We were informed in September 2017 that the legal law firm contractor ref.1 had concluded a review and that this had identified that £42k had been overpaid by Arch.

It is understood from the Management Accountant that clients' accounts at the Law Firm should all reconcile to zero once a property purchase is complete, which would have provided a further control, but should not have been relied on by Arch as the sole source of control.

The surveying firm appear to have received payments under a fee structure which sees a payment for identifying an executive property to be sold to Arch; a further payment for identifying a tenant to live in that home; and possibly other fees which at the current time are obscure. This does not assure value for money.

The decisions around the purchase and disposal of property at Empire Court in Whitley Bay do not seem congruent with the direction of other Arch acquisitions and developments. As we understand this property is now being disposed of, it will only be when all units are sold that the return on this investment can be evaluated. Further analysis on the treatment of Stamp Duty Land Tax (and professional advice on the treatment applied in this case) will be required.

Objective 13

To compile a comprehensive portfolio of all properties leased to tenants including all terms associated with the lease, and, to whom the properties were leased. If available, review the evidence and documentation to support each tenancy to assess whether a tenancy agreement exists for each tenant and whether the tenancy document is up to date. A summary of the status of the tenants account to also be reviewed.

Work Undertaken

As set out in respect of Objective 12, Internal Audit's initial tenancy review has concentrated on the Executive Property Portfolio managed by the surveying firm, who are a firm of Chartered Surveyors and Estate Agents. Leasing Agreements and rental statements were provided by Arch for these properties and reviewed.

Expected Controls/System in Place

A Service Level Agreement (SLA) with the surveying firm (Chartered Surveyors and Estate Agents) for the Executive Portfolio Management (amended March 2017) was provided. The Tenant Approval Procedure records that tenant referencing and overall decision on suitability is handled by the surveying firm with assistance from tenant referencing software OnBoard Pro.

The SLA also sets out the responsibility for Arch to be sent a signed copy of the tenancy agreement within 24 hours of move in. At commencement of tenancy, 'move in monies' (usually equivalent to two month's rent) are paid to the surveying firm. The deposit is to be held by them and rent, less fees, is transferred to Arch with a statement.

Main Findings**Executive Property Portfolio**

The surveying firm (Chartered Surveyors and Estate Agents) manage the Executive Property Portfolio on behalf of Arch and as part of the management agreement they are responsible for advertising for tenants, setting up leasing agreements and covering all checks associated with the tenancy and monitoring of rents received. It is understood from the Homes Manager that although rental monitoring reports are run to monitor private rental sector and affordable homes by Arch internally (as these property streams are managed by Arch internally), Executive Properties are excluded from the report as they are managed externally by the surveying firm.

Property Y

A review of tenancy agreements found that expected agreements were in place for all executive properties with the exception of Property Y. Internal Audit was advised that this property was allocated to Consultant C, as described earlier in this report. An unsigned copy of a tenancy agreement for this property was subsequently emailed to Arch by the surveying firm on 17 May 2017. The rental statement for this property showed arrears of £7,873.06 at that time with the first rental charge made to the property on 1 December 2016 and a monthly rental charge of £795 per month. No payments have been made since inception and keys to the property have not been returned. Rent arrears are now standing at £10,440. Further information on Property Y is detailed separately below.

The Arch Homes Manager told Internal Audit that he had been advised by the former Arch Chief Executive not to pursue recovery action as 'the whole arrangement with Consultant C is being reviewed'. However, in the Summer of 2017, a decision was made to instigate the usual recovery action regarding the arrears at this property. After taking independent legal advice, Arch was advised of an error regarding Land Registry details. Instead of the registration of the property being recorded correctly as owned by Arch, the Land Registry had the property recorded as owned by Persimmon Homes (from whom Arch had bought the property). Recovery action could not be initiated until the land registration details were corrected. In October 2017, Arch was advised that the land registry details were corrected and recovery action was initiated to recover the property from Consultant C. This recovery action is currently in progress. It is of concern that the Land Registry details were wrong.

Other property concerns

Arrears of £5,494.70 recorded on the rental agreement for an executive property were noted. Following a query raised by Internal Audit, the Homes Manager contacted the surveying firm and requested a copy of all referencing and vetting reports. It is the opinion of the Homes Manager that appropriate diligence had not been undertaken by the surveying firm as insufficient evidence of income and an unsubstantiated reference had been used as documents to approve the tenancy. The surveying firm were subsequently advised by the Homes Manager to issue a Section 8 which is a notice seeking possession of the property on the grounds of rent arrears.

Commercial Properties

Internal Audit requested tenants, arrears and sundry debtors reports in respect of both residential and commercial properties.

An initial review highlighted a number of units at Esther Court were not on the rent debit report but were on the arrears report as 'zero balance or zero rent property'.

This was followed up with the Arch Head of Estates, who explained that when Arch purchased Esther Court a number of tenants there were on long-term peppercorn leases with the existing landlord. This was because such tenants had made a capital payment when entering into long term lease arrangements. The Head of Estates advised that such arrangements are taken into account when considering acquisitions and significantly reduces the acquisition price due to the impact which peppercorn rents have on the overall rental yield of an acquisition.

Rent Free Properties – Hirst Residents Association, and Esther Court Ashington

One of the tests carried out was to match the tenants' reports with the respective Arrears report to identify any further properties with Zero rent for review. This data match identified one housing property where no rent was being charged. Arch Head of Estates advised this property was being used by the Hirst Residents Association in Ashington as part of the Hirst Strategy. He advised NCC were covering other costs and that they had requested Arch provide the building.

The match with Commercial properties identified 38 properties where rent was not being paid. 30 of these properties were similar to the Esther Court example above, whereby the tenants have paid a premium on entering into long term lease arrangements. These are located predominately in Alnwick, Amble, Blyth, Berwick and a small number in Ashington. More information has been requested regarding two properties as the initial feedback was that no rent was being charged in relation to these properties and that this was at the request of NCC as follows:

- One property was a lease that transferred to Arch from NCC as part of the "Kielder units". The Head of Estates advised that the Council agreed a long lease (25 years from 2008) at nil rent (rent would be £3,691 per the market) and Arch also pay Council Tax and Business Rates as per an agreement with NCC. The property is used as an Art Studio. The Head of Estates advised that Arch have had to continue under same terms.
- The second property is a charity and the Head of Estates advised Arch not charging any rent. This was because Arch were requested by NCC to accommodate the charity in one of Arch's buildings as the NCC building they were going to go into 'wasn't fit for purpose'. The agreement is from August 2017 until January 2018.

Arch Properties Rented to Arch Staff

Six Arch staff were identified as renting/or previously renting an Arch residential property. In all six cases the rent paid was at least the same as neighbouring properties. Two of the six are current Arch tenants and the rent accounts are up to date.

Two of the staff members who are former Arch tenants have a history of rent arrears. In one case the arrears have been cleared, partly through an attachment of earnings agreed between Arch Housing, Arch HR and the employee. In the remaining case there is a balance of former tenant arrears of just over £700 and these are being paid through an attachment of earnings agreed between Arch Housing, Arch HR and the employee. It was made clear to the employee that if they did not agree to this course of action then legal action would be undertaken to attach earnings.

Comment/Evaluation

Rental income monitoring appears to be disjointed with the Arch team monitoring private rental sector and affordable homes and the surveying firm monitoring the Executive Properties. Review of rental statements show high levels of arrears in some Executive Properties, suggesting that the surveying firm may not be managing this as effectively as would be expected.

There are weaknesses in the end to end process for all rental income monitoring. A review should be undertaken and a process determined which gives Arch assurance that there is a robust process in place across all the rental sectors.

It is of concern that the Land Registration details for the property Y were incorrect and in the name of Persimmon Homes rather than Arch, despite the conveyance having been performed by legal law firm contractor ref. 1.

Objective 14

To compile a comprehensive portfolio of properties sold including the value and any other terms associated with the sale, and, to whom the properties were sold. If available, review the evidence and documentation to support each sale to assess whether each sale has been processed in line with the governance structures of Arch.

Work Undertaken

Ascent Homes are the house building arm of Arch. Internal Audit had been advised that there are currently four Ascent Homes projects underway in varying degrees of completion. These are:

- Windsor – the database provided to Internal Audit records 24 houses proposed with one unsold, and 23 sold;
- Wayside – the database records 99 houses proposed with six reserved 0 completed and 93 unsold;
- Plessey – the database records 26 houses proposed with twelve sold and fourteen unsold; and
- The Maltings – the database records 37 – none recorded as sold.

A report was received listing all Ascent Homes properties sold and all houses / commercial properties sold by Arch Housing / Arch Commercial, who they were sold to and sale price. This information was reviewed in order to identify any potential areas of testing.

Expected Controls/System in Place

A complete portfolio database of Ascent Homes should be in place which records up to date details on all house sales/reserves/exchanges which would include details of buyers.

Main Findings***Part Exchange Governance Procedure***

A Corporate Report was presented to the Arch Group Board in December 2016 requesting approval for a “part-exchange governance procedure”, and agreement to a governance process for the potential sale of Ascent Homes properties to Arch Staff, Directors and Non-Executive Directors. This governance process was also to

be extended to Northumberland County Council Staff, Elected Members and staff of associated organisations. The Board approved the governance arrangements.

Ascent Homes

A report was obtained by Internal Audit which listed all properties sold, who they were sold to and sale price.

A review of the report did not identify any significant fluctuation in sale prices for similar property types. A specific three bed semi-detached houses on one estate was queried as it was sold for approximately £5k more than three similar properties. The Development Director confirmed that the more expensive property had a garage whereas the others did not. Purchasers of one of the three bed semi-detached houses without a garage, have the same surname as two Arch employees. However, given that the price paid was the same as for the other three bed semis without a garage this was not pursued further.

Arch Commercial Enterprise property disposals

The Arch Management Accountants provided a schedule of land/property disposals from this company. A review of the nine (value £2.9m) commercial land/property sales did not highlight any areas for further review on the basis of the asset sold or who it was sold to. All of the disposals exceeded or were at least equal to the value of the asset on the Fixed Asset Register at the time of disposal. The highest value disposal was for £1.825million and was transferred to another Arch Company, Prudhoe Estates LLP, a joint venture company with Northumberland Estates. There was a tenth disposal on the schedule - Asda land lease £2m accounting entry to recognise disposal of lease to Asda. An Arch Management Accountant advised this was the unwinding of a presentational accounting adjustment between Lease Creditor and Fixed Assets, therefore no cash impact. This was originally recognised in Fixed Assets in 2013/14 with the other side being a creditor, once the lease had been assigned we reversed the transaction.

Arch Housing property disposals

The Arch Management Accountants provided a schedule of property disposals from this company. A review of the seven houses sold did not highlight any for further review on the basis of the asset sold or who it was sold to. All seven were during 2014 and 2015, with three being sold to the same purchaser. The combined value of the sales was £242,500 compared to their combined book value at the time of £300,000. All the properties sold made a loss on disposal and two of the sale prices seem low compared to other properties sold at similar times, as per Right Move website. All sold for between £25k and £42.5k. The Homes Manager has advised that the disposals were to reduce the number of hard to let properties in these areas

and it was felt that the loss on disposal was less than the lost income/additional costs incurred from vacant properties. The Homes Manager further advised that significant due diligence was undertaken.

A Corporate Report was presented to the Arch Group Board in December 2016 requesting approval for a part-exchange governance procedure and to agree a governance process for the potential sale of Ascent Homes properties to Arch Staff, Directors and Non-Executive Directors, and also to extend this to Northumberland County Council Staff, Members and staff of associated organisations. The Board approved the governance arrangements

Comment/Evaluation

No significant issues were identified from this aspect of the review.

Specialised Concerns – Purchase of Property From / Occupation of Property by Individuals involved at a senior level within Arch

Concerns/Allegations

The Current Arch Chief Executive raised concerns regarding a conflict of interests which may have resulted in the former Chief Executive benefitting from his position in relation to the sale of his property (Property X), to Arch Homes.

Further concerns were raised regarding the provision of a house (Property Y) in respect of which no rent has been paid, and car to Consultant C as discussed earlier in this report.

Internal Audit was requested to investigate these allegations, as set out earlier in this report.

Work Undertaken

- ‘Approval to purchase’ documents were reviewed to determine who had approved purchase of the two properties in question;
- Bank Statements and legal law firm contractor ref.1 completion statements were checked;
- Email accounts were interrogated to determine any references to the two properties; and
- Timelines of events were established.

Expected Controls

Responsibility for the Executive Homes Portfolio, although managed by the surveying firm, is delegated to the Arch Director of Finance . This senior Arch Officer would approve purchases and have oversight of the service provided to Arch by the surveying firm. The Director of Finance would be responsible for ensuring agreed governance arrangements were met and that detailed criteria were achieved in the administration of the Executive Homes workstream. The process was expected to work as follows:

- Executive properties would be identified by the surveying firm who would present proposals for the purchase of these properties to Arch. The surveying firm would complete records for approval and provide a valuation report to Arch, setting out purchase costs and subsequent likely market rental costs and therefore the yield that purchase of the property would be forecast to generate;
- Each such proposal would be reviewed by the Director of Finance (or in his absence either the Arch Chief Executive or Director of Business Strategy);

- A decision would be recorded upon the approval record;
- This decision would be checked and if appropriate ratified by an alternative member of the Arch Senior Leadership Team;
- A report would be produced for Investment Committee stating commitments to date/delegated acquisitions;
- A report would be produced for and presented quarterly to Investment Committee on portfolio performance; and
- It would be expected that yields of 5% would be the norm.

The SLA also sets out the responsibility for the surveying firm to send Arch a signed copy of each tenancy agreement within 24 hours of move in by a tenant to an executive home. At commencement of tenancy, 'move in monies' – usually equivalent to two month's rent – are paid to the surveying firm (this amount comprises initial monthly rent payment + security deposit). The deposit is to be held by the surveying firm and rent, less fees is then expected to be transferred by the surveying firm to Arch with a statement.

Main Findings

Property X

A full timeline of events relating to the acquisition and rental of Property X is given in table A below. Key findings from that timeline are summarised below:

The Pre-Acquisition report from the surveying firm dated April 2016 states a market rent of £20,000 (£1,666 per calendar month (pcm)) for Property X could be achieved. The High Quality Residential Investments Approval Document for Property X records a higher value – an initial annual rental income of £21,000 (£1,750 pcm). Internal Audit perusal of 'like' properties for rental found 2 'like' properties as follows:

- 3 Bedroom barn conversion, Mitford Morpeth rent advertised £1,100pcm; and
- 4 bedroom barn conversion, Mitford, Morpeth rent advertised £1,250pcm.

The acquisition Approval document (used to determine if the purchase is a viable investment) records an initial annual rental income of £21,000 (£1,750 pcm). This calculation shows a forecast net annual profit of £597, and forecast gross yield of 5.02%, which is 0.02% above the 5% target. Had a forecast rent of £1,200, which appears to be a more realistic rent based on 'like' properties, been used then the net annual profit/loss would have resulted in a loss of £6,003 and an actual gross yield of 3.44%. This is well below the target yield of 5%. The property was ultimately rented out at £1,200 and subsequently £1,250 which is a much lower monthly cost than the initial approval document stated was achievable.

On 26 May 2016, a list of six properties was put to the Investment Committee as the initial properties proposed for development of a High Quality Residential Investment Portfolio (also known as the executive homes portfolio). Property X was omitted

from that list. However it is clear that discussions had already taken place for Arch to acquire the property in April 2016. This raises the question of why Property X was not included in the initial list.

An Email from legal law firm 3 to legal law firm 1 titled Property X states "I understand that the plan now is to exchange and complete on 29th July to obviate the need for your clients (buying the new build property) to source separate deposit funds. In view of the relationship between the parties, this would seem to be entirely sensible to me. I am therefore arranging to request the final redemption statement from my client's lender for completion on 29th July." It is uncertain if this is normal or if this has afforded the former Arch Chief Executive, a privilege which would not be enjoyed by others.

Internal Audit also viewed documentation which stated that solar panels had been fitted to Property X. There was a tacit suggestion that the addition of the panels had added direct cashable value to the property as the electricity generated would provide an additional income stream to Arch. However, Internal Audit has so far not been able to find evidence of any income being paid to Arch for solar energy generated at Property X. The surveying firm responsible for managing the Executive Homes portfolio advised the Homes Manager neither they nor the previous owner had been receiving this income. The Homes Manager was to follow this up directly with the energy company to establish the accrued income.

Property Y

A full timeline of events relating to the acquisition and rental of Property Y, is given in table B below. Key findings from that timeline are set out below:

A review of executive property tenancy agreements (for all Arch Executive Properties which have been rented out) found all were in place, with the exception Property Y. Despite attempts by the Housing Executive at Arch to obtain a tenancy agreement it appears no such agreement was forthcoming from the surveying firm. An unsigned copy was subsequently emailed by the surveying firm to Arch on 17 May 2017. This unsigned Assured Shorthold Tenancy agreement documents a rent of £870 per calendar month. The High Quality Investment Approval Document records an annual rent of £9,540 (£795). The Arch Rental Management system also records £795.

Northumberland County Council, Council Tax Service received notification of a change in circumstances from Consultant C for Property Y. This advised that he had moved out of his former residence in Durham on 15 June 2017 and into his new residence on the same day. The unsigned Tenancy Agreement provided by the surveying firm records tenancy start date as October 2016.

The latest rental statement for this property shows arrears exceeding £10k with the first charge made to the property on 1 December 2016 and a monthly rental charge of £795 per month. No payments have been made since inception.

When Arch attempted to initiate recovery of the property in the Summer of 2017, and on taking independent legal advice pursuant to this, it transpired that land registry records were incorrect. Arch had purchased the property as a new build from Persimmon Homes and the conveyance had been performed by legal law firm 1. However Land Registry details were still recording the owner of the property as Persimmon Homes, not Arch. Legal advice to Arch was that recovery action could not commence until the Land Registration details were corrected showing Arch as the owner of the property. This process takes fourteen -sixteen weeks and the correction to the Land Registry details was not effected until late October 2017. Following confirmation of this, Arch initiated the usual recovery action in cases with arrears and a letter was issued to Consultant C advising that Arch intended to take back possession of the property. This recovery action is ongoing.

The 'High Quality Residential Investments - Approval Document' for purchase of Property Y records a purchase price of £180,000. This document has been approved by the Director of Finance and the then Director of Business Strategy. Internal Audit have viewed an email from Persimmon Homes, the builder / vendor for Property Y, in which they advise Arch that the 'client' (assumed to be Consultant C) had requested substantial upgrades / changes to the finished property such as granite worktops, which ultimately added £15k to the cost of the property. There is no mention on the approval document of these 'extra' costs which total in excess of £15k (see timeline below). Had these 'extra' costs been included within the original approval document it would have reduced the actual gross yield to 4.16% which is below the target yield of 5%. This would have also resulted in higher loan repayments and an overall net annual loss of £360.

Comment / Evaluation

The involvement and interest taken by the former Arch Chief Executive in the purchase and subsequent rental of Property Y, demonstrated in emails regarding the property, appears inconsistent with his involvement in the purchase and management of other Arch properties.

Had the 'extra' costs been taken into account in the purchase of Property Y then calculation shows it would not have achieved the 5% gross target yield or a net annual profit and may/should not have been approved.

Had a more realistic achievable rental income been used in the calculation for the purchase of Property X then it would not have achieved the 5% gross target yield or a net annual profit and was unlikely to have been approved.

Observations

- Property X was not included within reports to the Investment Committee on 26 May 2016 requesting approval for the initial High Investment Property Portfolio acquisitions. Yet emails on 8 June refer to approving this acquisition. Why was it not included in the approval request to Committee?
- Email forwarded from Managing Director of surveying firm to former Arch Chief Executive on 22 August regarding Property Y. It is not known why the former Arch Chief Executive is taking an interest in this particular property? and what the relationship between Managing Director of surveying firm, former Chief Executive and Consultant C is?
- Email from surveying firm to Arch Housing Executive (Arch) 11 November 2016 states re Property Y, “we met [Consultant C] as soon as it completed as instructed (4.10.2016) - however he did say he'd already signed a contract with Arch which may pre-date this.....”. Do we know who the surveying firm was taking instructions from?
- On 29th April 2016 a pre-acquisition report produced by surveying firm outlines five properties and states ‘as per your instructions’. Approval requests which went to Investment Committee on 26 May 2016 did not include Property X, why has Property X been omitted from the request to approve on 26 May when it is clear the intention has been to purchase the property?
- Initial emails from Arch Housing Executive chasing up the tenancy agreement for Property Y were made during November 2016. Then there is no evidence until May 2017 that it has been chased up again and this chase up was then by the Homes Manager stating “[the Director of Finance] requires this asap.” Why was there such a gap in chasing up this tenancy agreement? And why did [the Director of Finance] require it asap?
- The unsigned tenancy agreement for Property Y in the name of Consultant C, forwarded by the surveying firm on 17th May 2017 to Arch Chief Executive (states at the Managing Director’s request). Why would the Managing Director of the surveying firm think the Arch Chief Executive of Arch would require sight of a tenancy agreement? Is it normal practice to send every tenancy agreement to the Arch Chief Executive?
- The unsigned Assured Shorthold Tenancy agreement forwarded by the surveying firm for Property Y records a rent of £870 per calendar month. The High Quality Investment Approval Document records an annual rent of £9540 (£795). The rental management system also records £795. What would be the ‘normal’ rental income for this type of executive property?
- The rental statement for Property Y, shows arrears exceeding £10k with the first charge made to the property on 1 December 2016 and a monthly rental charge of £795 per month. No payments have been made since inception. Why has this not been picked up? Whose role is it to manage the surveying firm’s SLA and ensure the contractor is fulfilling its role?

- Did the debtors reported in the annual accounts for the year ended 31 March 2017 include rental monies owned? What is the value of the Executive Properties debtors? Who had access to this information? Why wasn't it chased and who made that decision?

Table A

Timeline – Property X

	Key Dates	Key Details
TG 1	13 November 2014 to 9 July 2015 (dates not yet confirmed by Audit)	marketed by Rook Matthew Sayer for £429,995 until withdrawn.
TG 2	29 April 2016	Email from Managing Director of the Surveying firm to former Arch Chief Executive with attached surveying firms Pre-Acquisition Report dated 28 April 2016. The report states "Dear [name removed], Residential Dwellings at Morpeth, Hepscoth and Blyth. In accordance with your instructions we are reporting to you in connection with your proposed purchase of the above." The report outlines 3 properties.
TG 3	30 April 2016	Property X placed on RightMove by the surveying firm for £425,000
TG 4	7 June 2016 9:48	Email from the Director of Finance to the Managing Director of the surveying firm stating send through approval documents for properties we discussed
	7 June 2016 9:50	Email from the Managing Director of the surveying firm stating his colleague is working on it and it will include [name removed] [former Chief Executive's] house
TG 4	7.June 2016 12:39	Email from employee at surveying firm to Director of Finance "- Please find attached the approval docs for Holburn Avenue, Nursery Mews and Plots 211 & 220 Crofton Grange. (Internal Audit note: Property X not mentioned)
TG 4	8 June.2016	Email from the Director of Finance to employee of surveying firm cc Managing Director querying whether first or second offer had been accepted on Property X and asking that marketing details and rent comparators be included within the future
TG 5	8 June 2016	High Quality Residential Investments – Approval Document for Property X signed by the Director of Finance and the then Director of Business Strategy. Purchase price of £395,000.
TG 6	28 June 2016	Payment of £216,602 to legal law firm contractor ref.1 (17 Nursery Mews and deposit of £39,500 for Property X).
TG 7	14 July 2016	Letter from legal law firm contractor ref.1 to Director of Finance states "I am enclosing with this letter the contract and transfer documents that I will need you to sign on behalf of Arch". Letter further states the contract is acquiring the property from [names removed] for the sum of £395,000 with vacant possession. The letter further states "In order to exchange contracts on this I shall require the sum of £39,500 (being 10%) of the purchase price. As you may be aware the sellers have an onward purchase whereby they are acquiring a new build property therefore the completion date cannot at this point be set but once it is I shall let you have a completion statement showing the balance of the funds that I shall require from the company in order to complete the acquisition".. TR1 Registry transfer of whole of registered title. Forms notes transferor as [names removed and transferee as Arch (housing) Limited. Document appears to be signed by Director of Finance and witnessed by the Arch Management Accountant).
TG 8	14 July 2016 13:02	Email from legal law firm contractor ref.1 to Director of Finance "Just a heads up that I am sending the documentation out to you to sign for the purchase of 17 Nursery Mews and Property X tonight." "On the purchase of Property X, we are looking to exchange contracts next Friday (29 July)

		although that is yet to be confirmed as it is a new build that is being purchased by the seller. In order to exchange contracts I will need £39,500 (10% of the purchase price), I will send a completion statement for this once the completion date is set".
TG 9	18 July 2016 10:55	Email from Director of Finance to legal law firm contractor ref.1 " I am now in receipt of the documents and will return signed copies today. I haven't as yet received the completion statements. If you could follow that up it would be much appreciated as I'm unable to draw funds until I know the exact amount required."
TG 9	18 July 2016 11:03	From legal law firm contractor ref.1 "As for Property X, there is no completion statement as I am only requesting the 10% deposit (£39,500) from you at this stage. The full completion statement will follow once a completion date is set."
TG 9	18 July 2016 12:47	Email from Director of Finance to both the two Management Accountants "Can you draw down funds from NCC, if we can specifically reference the interest rate in the email that would be much appreciated. We will also need to add on the 10% deposit for Property X dwelling in the drawdown."
TG 10	18 July 2016	Email from Arch Management Accountant to NCC requesting loan drawdown of £216,602.16 for purchase of 17 Nursery Mews (177102.16) and 10% deposit for the purchase of Property X (£39,500, completion statement and remaining balance to follow)
TG 11	19 July 2016 11:20	Email from legal law firm contractor ref.3 (solicitors) to legal law firm contractor ref. 1 title Property X - "I understand that the plan now is to exchange and complete on 29th July to obviate the need for your clients (buying the new build property) to source separate deposit funds. In view of the relationship between the parties, this would seem to be entirely sensible to me. I am therefore arranging to request the final redemption statement from my client's lender for completion on 29th July."
TG 11	19 July 2016 12:28	Email from legal law firm contractor ref.1 and legal law firm contractor ref. 3 " I await confirmation from Bellway that they will agree to a simultaneous exchange and completion on 29 July 2016.
TG 11	20 July 2016 17:02	Email from Managing Director surveying firm to former Chief Executive titled Property X stating "All on track"
TG 12	20 July 2016	Report on the acquisitions of Property X from legal law firm contractor 1 attached to above email
TG 13	20 July 2016	Completion Statement from legal law firm contractor ref. 1 - Property X, Title Plan, N Power Document
TG 14	21 July 2016	Email from Arch Management Accountant to NCC states "Further to my email please can you transfer the remaining balance of £378,242.16 for the acquisition of Property X (completion statement attached).
TG 15	25 July 2016	Payment to legal law firm contractor ref.1 re Purchase of Property X for £378,242.16
TG 16	28 July 2016	Change of circumstances form completed for council tax - details of new property given as {address removed} Council tax system shows council tax paid from May 2013 to 28 July 2016 on Property X.
TG 17	28 July 2016	CHAPS payment to legal law firm contractor ref. 1 for £378,342.16
TG 18	2 August 2016	Letter from legal law firm contractor ref.1 to Director of Finance stating writing "to exchange and completion of Property X. Letter further states " I have completed it on the basis that Arch (Housing) limited have purchased the property from Persimmon Plc on 29 July 2016.Copy of the transaction return shows vendors [names removed]. Land Register document appears to signed by Director of Finance.. Blank HMRC attached to letter
TH 19 & TG 20	25 August 2016	First Tenancy Agreement states to commence from 25 August 2016 rent of £1200 in the name of {names removed}. The tenancy only lasted from August 2016 to December as these tenants complained of a rat infestation and were subsequently released from their tenancy agreement.
TG 21	July 2017	Rental statement for Property X in the name of [name removed] shows rental of £1,200 pcm charged

TG 22	July 2017	Rental statement for Property X in the name of [name removed] shows rental of £1,250 pcm charged.
	Additional Notes	
TG 22		Unsigned High Quality Residential Investments approval document within information from Arch Chief Executive states it is highly likely from the lower rent ultimately realised that this proposal would have been rejected. It is not known when or who has prepared this document.
TG 23		Internal Audit perusal of 'like' Property X properties for rental found 2 'like' properties as follows: 3 Bedroom barn conversion, Mitford Morpeth for rental of £1,100 per calendar month; and 4 bedroom barn conversion, Mitford, Morpeth for rental of £1,250.
		The Corporate Fraud Manager has confirmed Property X is registered to Arch Homes on the Land Registry

Table BTimeline - Property Y, Blyth

	Key Dates	Key Details
	26 May 2016	Investment Group minutes of 26 May 2016 identify an initial 6 properties for approval to start the High Investment Property Portfolio. Plot 220, Property Y is not included within the 6. The 6 properties are as follows: 9 Heather Lea, Blyth, 3 x St. Georges, Morpeth (show home leasebacks), Crofton Grange (recorded as no. 5), Blyth and Faldo Drive, Ashington.
KL 1	7 June 2016	Email from surveying firm to Director of Finance states "please find attached approval docs for Holburn Avenue, Nursery Mews and Plots 211 & 220 Crofton Grange".
KL 2	8 June 2016	Email from surveying firm to Director of Finance confirming plots at Crofton Grange are for immediate rent. The Director of Finance has requested in the response email a need to send through information to strengthen consideration for approval re: marketing details and rent comparators
KL 3	8.6.16	High Quality Residential Investments – Approval Document for purchase price of £180,000 signed by the Director of Finance and the then Director of Business Strategy. There is no mention on the approval document of the 'extras' totalling in excess of £15,000 (see reference to granite worktops below). Had these 'extras' been included within the original approval document it would have reduced the actual gross yield to 4.16% which is below the target yield of 5% and resulted in higher loan repayments and an overall net annual loss of £360.
KL 4	22 August 2016: 16:53	Email from {name removed} sales negotiator Crofton Grange Persimmons Homes titled Plot 220 to the surveying firm which has been forwarded to the Managing Director of the surveying firm who in turn has forwarded it on to former Arch Chief Executive. "Have spoken to my site manager re inspection of the property, as soon as worktop has arrived and been fitted I can advise you of a date (this was fitted however the client then chose granite) so we await the delivery of this which I have been advised will be a week and a half".
KL 4	23 August 2016: 8:22	Email from Arch Chief Executive to Managing Director surveying firm "Ta: Let's push on and get him in".
KL 4	23 August 2016: 8:27	Email from Managing Director surveying firm to Arch Chief Executive- "[name removed] is going to advise [name removed] [Consultant C] of a target date and arrange for him to sign a tenancy which can then be dated with move in date"
KL 5	15	Consultant C emails direct to surveying firm asking for an update on 220

	September 2016: 16:42	Crofton Grange and stating "I'm obviously keen to know when I can meet to sign and pick up the keys".
KL 5	15 September 2016: 16:57	Email from surveying firm direct to Consultant C giving update direct to him.
KL 5	19 September 2016: 10:31	Email from surveying firm forwarded on to the Managing Director of the firm who forwarded on to former Arch Chief Executive stating "no further forward on legal title enquiries" "FYI along with text"
KL 6	23 September 2019	Letter from legal law firm contractor ref. 1, with attachments of Contract, Land Registry and Stamp Duty Land Tax Return, all to be signed and returned. The copy on file has been signed by the Director of Finance and witnessed by the Management Accountant.
KL 7	29 September 2016: 13:38	Email from the Director of Finance to Arch Housing Executive,, Arch Housing Executive advising that completion date for 220 Crofton Grange (Property Y) on 30.9.16, financial appraisals attached.
KL 7	29 September 2016 14:31	Response from Arch Housing Executive (above) to Director of Finance acknowledging and stating she will inform insurance.
KL 8	3 October 2016	Payment to legal law firm contractor ref. 1 for £204,109.45.
KL 9	8 November 2016: 13:12	Email from Arch Housing Executive to surveying firm asking for tenancy agreements for a number of properties - Property Y included
KL 9	8 November 2016: 13:25	Email from surveying firm to Arch Housing Executive, with updates for Property Y it states "This is occupied by Consultant C an employee of Arch/NCC".
KL 9	8 November 2016: 14:36	Email from Arch Housing Executive to surveying firm asking for start dates for Property Y and copies of tenancy agreements.
KL 9	11 November 2016: 14:08	Email from Arch Housing Executive to surveying firm asking " any updates on the tenancy start dates for Property Y?".
KL 9	11 November 2016: 16:33	Email from surveying firm to the Arch Housing Executive " Property Y we met [name removed] as soon as it completed as instructed (4.10.2016) - however he did say he'd already signed a contract with Arch which may pre-date this....." "He's due to drop some documents off with us but I understand he's been ill recently. I'll chase him up and get to the bottom of it.
KL 10	10 May 2017: 14:19	Email from surveying firm states "Hi {name removed assumed to be Arch Homes Manager}, [name removed] is out of the office he said to speak to {name removed assumed to be Managing Director} in his absence about Property Y.
KL 10	10 May 2017: 14:27	Email from Arch Homes Manager to surveying firm asking "Do you have the signed Assured Shorthold Tenancy Agreement for this one you could send across please?"
KL 11	17 May 2017: 15:00	Email from Arch Homes Manager to surveying firm asking "are you able to provide the info below for me please, [name removed but assumed to be Director of Finance] requires it asap. Re: Address occupied by [name removed but refers to Consultant C], Copy of unsigned lease issued to [name removed but assumed to be Consultant C], date occupied from".
KL 11	17 May 2017: 15:02	Email from surveying firm to Arch Homes states "i've sent this to [name removed but assumed to refer to Chief Executive] at [name removed but assumed to refer to Managing Director of surveying firm] request: Property Y, 4 October 2016 unsigned AST attached" The unsigned Assured Shorthold Tenancy agreement states £870 pcm not £795 as per the original purchase approval document and rental statement on the rental management system.
KL 11	17 May 2017 15:45	Email from Arch Homes Manager to Director of Finance forwarding above email from surveying firm.

	Additional Notes	
	20 October 2016	Council tax screen shows liability for Consultant ref. C and one other from 20 October 2016.. Moved out of previous address on 14 June 2017 as per council tax screen and into Property Y on same date.
	24 July 2017	Discussion with the Corporate Fraud Manager at NCC confirmed that following enquiries Property Y is not registered with the land registry as titled to Arch, the land register shows Persimmons Homes as the proprietor. This anomaly is not limited to Property Y and this requires further investigation.
	22 June 2017	Change of circumstances sent into Council Tax by Consultant C stating tenancy started in October so liability from then. Yet date notified as moving into property as 15.6.17
	29 June 2017	Corporate Fraud Manager's contact at Durham has stated that as at 29.6.17 Durham had not been told of tenancy end at Durham and there is a benefit claim pending for (name removed) at the Durham address.
	6 July 2017	Rental statement for Consultant C for Property Y shows for the period 7 April 2016 to 6 July 2017 £7883.06 in arrears. There have been no payments made on the rental account at all.

Section 4: Hospitality and Gifts

15. Objective

Report on details of all expenditure in relation to hospitality and gifts paid for by Arch and names of individuals/organisations that benefitted from that hospitality including Arch employees and board members.

Work Undertaken

A picture of expenditure in relation to hospitality and gifts paid for by Arch was developed drawing upon information from several sources including the following:

- A listing of hosted events over the last four years obtained from the Marketing Manager, with dates, venues and attendees;
- A review of visa card payments made by Arch over the last eighteen months;
- Analysis of transaction listings obtained from the accounts payable system;
- Review of email pairings which reference potential hospitality (at this stage); and
- Discussions and additional information from relevant officers at Arch i.e. Marketing Manager, Head of Economic Growth, the PA/Office Manager to the Chief Executive, and Arch Maintenance Manager who have been involved in the organisation of events and hospitality.

Expected Controls/System in Place

Arch is a company established for the delivery of economic development and regeneration which it does through six key programmes i.e. investment, development, estate management, regeneration and infrastructure, inward investment and account management, and growth, enterprise and skills. Hosting of events and provision of hospitality is viewed by the Company as necessary in raising the profile of Arch, bringing contractors together (making introductions) and promoting inward investment.

Internal Audit would expect a strategy to be developed and implemented that maintains a focus upon the rationale for hosting events and providing hospitality with a view to avoiding related expenditure that does not contribute to the objectives of the Company. Features of the strategy would typically include identifying the types of events, the form of hospitality provided and the potential organisations and people to be invited to particular events. Following any event, best practice would include an evaluation of “success” factors and feedback of learning into the strategy for future events.

Main Findings

Analysis of transactional data to date indicates the overall level of expenditure on the provision of hospitality and gifts for 2016 and up to the Summer of 2017 could be a value of around £90k based upon visa card payments alone.

Internal Audit was informed that the purpose of Arch hosting events e.g. a table at a professional regional awards dinner is for stakeholder engagement and communications. It is to raise the profile of the Company, to position Arch within the business sectors within which it seeks to operate, to create partnerships and to network. A further aim is to support talent within the professions and support business growth. In addition to hosting a table, for example, at the RICS Awards Dinner North East (£1k), an award may be sponsored, for example at the Constructing Excellence North East Awards (£2.5k). Initially such activity was undertaken as a new company and as Arch grew and expanded into different areas, the hosting of events also moved into different areas.

The Chief Executive, or the Chairman, in the case of the Military Dinner, would suggest which events to take up. Alternatively if an approach was made directly to the Marketing Team, they would escalate the information to the Chief Executive enquiring if it was something they would like Arch to attend. The Chief Executive would decide who to invite.

The Marketing Manager maintains an events calendar on a spreadsheet. Once an event is agreed, her Team's role is to co-ordinate the event; book the table, invite the guests and arrange drinks for the table and taxis to get people there. Arch people are chosen to attend such events to help facilitate discussions. Arch people may also be chosen to attend if business invitees have dropped out. Internal Audit was advised that anyone attending does so from the perspective that it is a business event and not a social event.

Stakeholder engagement and promotions is an agenda item on the Board. Within the corporate communications paper, in the earlier days of the Company, a full schedule of proposed and upcoming events was reported upon in advance and again afterwards giving feedback on whether this was judged to be a success. As time went on, as the Company grew and with it the volume of business going to the Board, Internal Audit was advised that hosting became a reduced priority for Board consideration and reporting purposes and that only the larger events were reported and in not so much detail.

Internal Audit was advised that the events schedule goes to the Programme Boards so that senior managers know what is happening and when.

We were advised that the Head of Economic Growth fulfils the similar function with events aimed at promoting economic growth. An example followed through by Internal Audit with her was MIPIM Cannes where a delegation of four people from

Arch was sent to France to attend, in partnership with other organisations in the region (Invest Newcastle), an international real estate convention.

Further events noted were:

- A contractors' Christmas party at Ashington Community Football Club (approximately £3k plus taxis);
- A staff Christmas party at the Newcastle Assembly Rooms (approximately £2k);
- Attendance including travel, meals and accommodation by five people from Newcastle, and two people from Market Harborough without an overnight stay, to attend a sporting event at Wembley in May 2016 (approximately £3.5k); and
- A leaving event for the former Chief Executive (Hotel du Vin £842.50) which was subsequently cancelled but too late to avoid having to pay.

Comment /Evaluation

Points of good practice:

Internal Audit was informed that in the earlier years of the Company, the opportunities for hosting of events were more carefully considered with proposals going to the Board and a report of outcomes also going to the Board. It was the perception of the Marketing Manager that more recently as the Company grew and with it the volume of business going to the Board, hosting became a reduced priority for Board consideration and reporting purposes.

Internal Audit was shown an overall calendar of events (spreadsheet) and provided with detailed spreadsheets for the planning and monitoring of expenditure in relation to individual larger events which included MIPIM (Cannes) and the Tall Ships.

Areas of concern:

Due to the apparent lack of a strategy and reporting, it appears unclear what value is being gained from expenditure incurred; the rationale for hosting certain events, or the level of hosting if such events are to be attended (e.g. bar and travel to social or sporting events). There is a risk that expenditure may be incurred that does not contribute towards the objectives of the Company.

At the transaction level, all transactions should be properly supported with prime documentation regardless of the method of payment.

16. Objective

Report on all hospitality and gifts received by employees and Board members paid for by other organisations. Provide confirmation that declarations were completed by Arch employees and Board members.

Work Undertaken

There are three hardbacked 'gifts and hospitality books'. All three of these Arch gifts and hospitality books were analysed. These books appear intended to record offers of gifts and hospitality for Arch employees only, not Board members who are not Arch employees.

In addition Declarations of Interest forms for 2016/17 were reviewed. They are held for Board members, senior managers and all employees. The forms for Board members include a section relating to gifts and hospitality received over the past year. At the time of the audit, two NCC Cllrs had not returned their declarations to Arch. Declarations were held from a further two NCC Cllrs, which stated the following:

- Only attended when hosting on behalf of Arch; and
- Durham v Warwickshire 27 July 2016 Gosforth Cricket Ground Guest of Bradley Hall

For a more complete picture, declarations of offers of hospitality and gifts held at NCC by Board members who are also NCC members and the NCC Chief Executive were also obtained, in case these officers / members had made a declaration at the County Council rather than at Arch. The declarations were reviewed to determine if declarations had been made as an NCC person rather than an Arch person; as follows:

- The NCC Corporate Resources Officers' (which Internal Audit would expect to include the Chief Executive) Gifts and Hospitality Register was reviewed;
- NCC Members' Register of Declarations of Interests, Gifts and Hospitality for the previous Administration was reviewed; and
- NCC Senior Officers' Declarations of Third Party Interests was reviewed.

However no additional declarations were identified through this process.

A review of calendars and emails for references and communications relating to hospitality was undertaken to determine whether there were any additional hospitality and gifts not yet identified.

Expected Controls/System in Place

In a local authority control environment there would be an expectation of transparency, openness and lack of bias within all processes. A local authority would be expected to be alert to a heightened risk within some of its processes, e.g., procurement and award of contracts, where matters such as accepting gifts or hospitality may reasonably cast doubt on the impartiality / lack of bias demonstrated by those officers involved in contract award. It would be expected that a policy would be in place requiring that declarations are made of any offers of hospitality and gifts. It would be especially important that such declarations were made by those people who are, or may be perceived to be, making or influencing procurement decisions.

In respect of Arch, as a company wholly owned by a local authority, Internal Audit would expect a similar arrangement to be in place. We would expect that declarations would be made by all employees and Board members when offers of gifts or hospitality are received, or when an interest that could impact on the impartiality of those officers or members was in existence.

Internal Audit would expect the policy to require careful consideration by the Board member or employee around the “benefit” to be gained compared to the potential “costs” to the Company; and an approval process involving a more senior Arch employee (or in the case of the Chief Executive) for a person seeking to accept an offer. A best practice approach would include a template or proforma setting out the information to be considered by the individual and the approver.

Main Findings

The gifts and hospitality books are plain lined notebooks with no headings or other ‘prompts’ to ensure that all information related to the offer is captured. This means that such details as are logged are inconsistent.

A copy of the relevant policy, the Arch Group – Hospitality, Gifts & Benefits Declaration Policy, is attached at the front of each book; although it was not the most up to date version of the policy held in the current book. There is some question over whether the books are fully completed but such information as is there has been analysed.

Analysis of declarations in the gifts and hospitality books show the surveying firm to be the highest donor by volume with 40 invitations/offers (30 being accepted) and the next by volume are Contractor ref. 5 (26 with 14 accepted), legal law firm contractor ref. 4 (18 with 12 accepted), Contractor ref. 6 (18 with 4 accepted) and Contractor ref. 7 (17 with 13 accepted).

From the analysis undertaken the Director of Major Contracts has declared the most invitations/offers by volume with 74 invitations/offers (26 accepted; 48 declined), and

the next by volume are the Head of Investments) (61 with 55 being accepted, 6 declined); and former Arch Chief Executive) (48 with 21 being accepted, 27 declined up to 31 Dec 2016).

It is unclear from the entries in the first book when it began to be used for the declaration of gifts and hospitality but appears to have been used for several years. The second book covers the calendar year 2016, and the third is the current book for the calendar year 2017. The level of detail held in the books is very low being limited to date, event and donor. Only very few cases include a note that it has been approved by the former Arch Chief Executive and there is no record of the basis for decisions to accept or decline. There appears to be a lack of consistency in the approach taken in completing declarations; some may be contemporaneous entries but some appear to be entered from a diary perhaps in a response to a reminder and not necessarily by the individual themselves. This is further evidenced as there are no entries for the former Arch Chief Executive in the 2017 book.

The Hospitality, Gifts and Benefits Declaration Policy requires all offers of hospitality to employees to be considered by the Arch Chief Executive, however, it does not cover approval of offers of gifts and hospitality received by the Arch Chief Executive.

In respect of gifts and hospitality, it is not possible to compare the records of Board Members at Arch and the NCC Chief Executive with those at NCC as there aren't any records held at either organisation (apart from a single declaration by the Chairman at each organisation, which are unrelated to each other). This is poor and not the record keeping which would be expected. We were unable to find any declarations of hospitality and gifts for the former NCC Chief Executive held at NCC. We did view some emails relating to sporting events which had gone into former NCC Chief Executive's email account, and which had subsequently been forwarded on to what seemed a personal email address. This demonstrates an interest in the offer, but does not indicate whether or not the offer was taken up. Internal Audit has been advised anecdotally that some Arch Board members regularly accepted hospitality and events offered by Arch; if so, this is not reflected in the declarations held on file.

Internal Audit viewed a sample of calendars to ascertain attendance at hosted events. Whilst the presence of appointments observed in calendars is not conclusive evidence of attendance, it does demonstrate an interest in the offers.

From the work undertaken under Internal Audit's objective 15 above, it is likely that hosted events attended by Board/NCC members have not been declared through either the Arch or NCC policies and processes.

Comment/Evaluation

Under the Localism Act, elected members are required to comply with the Code of Conduct maintained by the Council's Monitoring Officer. It is the elected member's personal duty to declare interests. Clarification should be obtained from the Monitoring Officer as to which 'hat' elected members serving on Arch's board would be expected to be wearing when undertaking various duties and roles related to Arch, or accepting hospitality.

The risk is that acceptance of hospitality and gifts from, or interests with, those firms with which Arch contracted may have impeded the impartiality of decision-makers or been seen to impede that impartiality. At worst, there is a risk of corruption/collusion; and reputational risk to the organisation.

There is clearly a need to reiterate the duty on elected members and senior officers at NCC of their duty to declare in accordance with the County's codes of conduct.

There is similarly a need to make the requirement to declare by Board members at Arch more robust, and to enforce this more stringently.

17. Objective

Report on the register of interests completed by employees and Board members to identify whether this is in existence and has been updated regularly.

Work Undertaken

The latest declaration of interest forms and electronic register (spreadsheet) at Arch were obtained and reviewed.

For a complete picture, declarations of interest and offers of hospitality and gifts also held at NCC in respect of Board members who are also NCC members and the NCC Chief Executive were sought. These were reviewed to determine if declarations had been made as an NCC person rather than an Arch person.

Expected Controls/System in Place

Within a local authority control environment where transparency and lack of bias within processes for the procurement of services is expected by stakeholders, Internal Audit would expect a policy to be in place relating to and requiring that declaration of interest forms are completed on an annual basis by those people who are, or may be perceived to be, making or influencing procurement decisions. In respect of Arch, Internal Audit would expect declarations to be made by all employees and Board members on at least an annual basis, or when interests change.

Main Findings

Arch have a policy and an annual process for the completion and submission of declaration of interests and an overall register is maintained in the format of an excel spreadsheet. From accompanying documentation that is held with the register, it can be seen that this process is initiated by the Director of Finance in preparation for the External Audit of the Company's accounts. Specified forms are completed for (i) Board members, (ii) senior managers and (iii) all staff.

The register is used as a control and non-responders are chased up for their submissions. The latest request was initially sent out on 10 March 2017 and at the time of the audit all forms had been submitted by Board members with the exceptions of [name removed] and [name removed], and by senior managers with the exception of the former Arch Chief Executive.

As a sample test: the Maintenance Manager declared his brother is a subcontractor to Arch, decorating void properties. There are no standard prices for works and the processes for allocating works allow the Maintenance Manager to identify a preferred subcontractor. A review of the value of works carried out during 2016/17 did not indicate any bias towards the Maintenance Manager's brother's business. A number of changes are being implemented that will further reduce these risks.

Comment/Evaluation

Further to the lack of a separate process for the declaration of offers of hospitality and gifts by Board members throughout the year, as there exists for officers, it is apparent from the work undertaken by Internal Audit in relation to the hosting of events that the annual declarations are incomplete, specifically under the section 'Gifts and Hospitality'.

There had not been additional declarations made under the NCC policy and processes.

Section 5: Award of Major Contracts

18 Objective:

For all contracts awarded:

(a) Review and report on the decision making process for the award of all such contracts and the engagement of all major contractors (including the use of procurement and commissioning arrangements where appropriate).

b) Review and report on the terms of engagement for major contractors with particular reference to the pay and reward schemes and any commitment to the supply of equipment and other non-pay elements.

(c) Review payments made to all major contractors with particular reference to the terms of engagement, and the evidence provided regarding the work undertaken and completed, and the authorisation process.

(d) Is there an inventory of all other terms and conditions for each major contractor available including all items of Arch equipment which is within the contractors' possession?

Work Undertaken

As set out earlier in this report, the first objectives relating to consultants and contractors began to examine some aspects relating to the award of major contracts (particularly with regard to consultants and 'professional services' type firms).

A sample of major contractors was selected based upon value of payments, and with reference to those which had featured as donors in our work on gifts and hospitality, between April 2015 and June 2017. Having selected these contractors, potential contracts / capital projects were reviewed in detail from procurement through variation orders to monitoring and payment.

Expected Controls/System in Place

It would be expected that all awards of major contracts would explicitly follow agreed procedures established within Arch. Such procedures might be codified in the Financial Regulations, or held in separate procurement instructions which agree to the Financial Regulations.

It would also be expected that there would be a record kept showing cumulative amounts paid to individual major contractors by all companies within the Arch group.

Main Findings

Additional Use of Surveying Firm by Arch

In addition to the amounts paid to the surveying firm for management of the executive homes portfolio, it is clear that the surveying firm have also been utilised for other streams of work paid from different companies within the Arch group. For example approximately £40k has been paid to them for 'asset valuations' by Arch Housing, and a separate £42k has been paid by Arch Commercial in relation to asset valuations of commercial properties.

Arch Housing

In January 2015 the Head of Investments at Arch invited three companies to provide quotes to carry out the annual valuation of arch residential and commercial assets as part of the 2014/1 annual accounts process. The surveying firm won the contract on price with a tender of £31,750 with the second tender value of £46,000. The actual amount invoiced by the surveying firm was £38.5k.

In their quote, the surveying firm explained that that they would be able to offer discounts in future years. In reviewing the quotations Director of Finance stated that he is "dubious about extending the contract period until we know they can/have delivered". During discussions the Arch Head of Investments, it was explained that the Director of Finance had not been satisfied with how long it had taken the surveying firm to complete the work and a tender exercise was planned for 2015/16 (the Director of Finance had suggested splitting between residential and commercial so as not to burden one company). Arch Head of Investments subsequently received an instruction from the Director of Finance that the former Arch Chief Executive had stated the surveying firm would be doing all the asset valuations for 2015/16. The surveying firm also carried out the 2016/17 asset valuations. The surveying firm have been paid £44,260, for the 2015/16 valuations work, an increase of 15% from the previous year despite the original quote stating reductions in fees.

Arch Commercial

Arch Commercial have paid the surveying firm £91k (between February 2014 and March 2017), of which £42k relates to asset valuations (see above) and £35k relates to grounds maintenance.

Invoices from the surveying firm for this Grounds Maintenance work were discussed with the Head of Estates who advised that the surveying firm won the contracts to manage a number of industrial estates owned by Arch. A spreadsheet showing the three quotes received was provided and shows the surveying firm as the lowest on price. Arch Head of Estates was to provide the relevant supporting documentation in relation to these procurement exercises, however, these could not be located. Internal Audit was advised that these contracts are cost neutral to Arch, as costs are shared between the tenants as part of a management agreement. The invoices

sighted related to void properties on these estates whereby as landlord Arch incurs the service charge.

Arch Development Projects

Internal Audit was advised that Arch Development Projects had paid £110k to the surveying firm, regarding developments at Ellington Colliery and Potland Burn. We understand that this was in relation to a “land agency role, introducing land and assisting in negotiations”.

When Internal Audit enquired as to how the firm’s services had been acquired, we were informed by the Development Director that ‘initial discussions tended to be at CEO level’ at that the former Arch Chief Executive had handled the appointment of this firm for Ellington and Potland Burn directly. There is no documented agreement that we are able to find. We were also advised that in respect of land agency, it was very difficult to go through a competitive procurement given the nature of the supply (i.e. land). Internal Audit was also advised by the Development Director that a competitive procurement would be difficult as there were often tight timescales involved.

A service agreement was however viewed in relation to work involving the surveying firm and Mitford Estates. This was dated 10 March 2017. The basis of the fee arrangement was explained to Internal Audit as one in which provision for abortive fees, on a ‘quantum merit’ basis, was agreed.

Internal Audit was informed that the surveying firm “also undertake a Selling Agent role on the Maltings, Alnwick”. In terms of fees, the Development Director stated that instead of 0.75% of selling price per property, instead a flat fee of £1k per plot was agreed. This was anticipated to deliver a saving on fees. Internal Audit was provided with a photocopy of correspondence agreeing the services to be provided annotated regarding fees and initialled “[initials of former Chief Executive] OK”.

Additional Sampling

Additional high value spend was identified and sampled. The sample reviewed was

- Construction firm ref.8 (construction of Commissioners Quay Inn at Blyth) total spend £5.28m
- Construction firm ref. 9, total spend £443k, and Construction firm ref.10, total spend £435k(sub-contracted work packages at Ellington Phase 1 Ascent Homes)
- Construction firm ref.11, (sub contracted work packages at Plessey Green, Ascent Homes development at Blyth), total spend £2m
- Construction firm ref. 12 (for Plessey Green and Brockwell Court, both Ascent Homes developments at Blyth), total spend £1.4m

Main findings from this work were that:

The Memorandum of Delegation used by officers for reference and showing the areas and levels of responsibility within 'purchasing – provision of goods and services' appears stricter than the corresponding Financial Regulation 3.3. The summary states "Ensure that a minimum of three written quotes are obtained for purchases and contracts valued between £20k and £100k with the best value quotation being chosen." Financial Regulation 3.3 states "a minimum of three quotations wherever practical". Examples were reviewed where it had not been possible to obtain three valid quotes or tenders. The approaches taken as explained and evidenced with Internal Audit appear to be sound in achieving best value for money for Arch. It is recommended that a review is undertaken of the Financial Regulations and Memorandum of Delegation along with related procedures ensuring practicality (meeting the needs of the business at the same time as ensuring fairness in the market place), and clarity and consistency between the relevant documents.

In reviewing the payment of invoices, Internal Audit found errors in the invoicing from Construction firm ref.11. From the sample provided, there are some invoices where 20% VAT has been itemised when it should be 0% VAT. Further examination of the sample invoice also showed possible errors may involve Construction Industry Tax (CIT) calculations. As a legal document, it is important that any invoice itemising VAT incorrectly is returned to the contractor and payments are only processed in respect of correct invoices.

With regard to the surveying firm, as explained earlier, regarding work in respect of Arch Development Projects Ellington Colliery and Potland Burn, we were advised that the opportunities were introduced directly to the former Arch Chief Executive who also handled the engagement. It was not possible to obtain copies of these engagements if indeed any were documented. In respect of Mitford Estates an engagement letter was supplied and in respect of estate agency services a letter agreeing the services to be provided and annotated with the agreed fee rate was provided. No commitment to the supply of equipment or other non-pay elements.

Comment/Evaluation

The awarding of exclusivity arrangements to the surveying firm to act as agents and property management agents in relation to the Executive Homes Portfolio has not been tendered for in accordance with Arch's Financial Regulations and Memorandum of Delegated Authority, as described in Section 1 of this report. An assessment should have been made as to the estimated fees for the scheme should have been undertaken and the appropriate procurement method followed (for example the Director of Finance had delegated authority to £20m on Executive Homes, therefore it would have been easy to establish that the fees for finding and managing these properties would have been over the threshold requiring a full tender exercise).

Our earlier work in relation to the Executive Homes portfolio has identified concerns regarding the surveying firm's management of these properties and we are aware that the Head of Estates and the Homes Manager have written a briefing paper recommending the management of these properties is brought in house.

The award of the 2015/16 and 2016/17 asset valuation works has not been compliant with Arch's Financial Regulations and Memorandum of Delegated Authority as competitive quotes were not obtained and the services are in excess of £20k. Competitive quotes should be obtained prior to the award of these works for the 2017/18 annual accounts.

The annual costs of the estate management contracts is below the £20k requiring competitive quotes to be obtained, however as these contracts have been in place since 2015/16 it may be an appropriate time to obtain competitive quotes for the 2018/19 financial year.

Earlier in this report we have referred to the importance of estimating the costs associated with schemes to ensure the correct procurement routes are followed. This applies to individual schemes such as the large acquisitions of Potland Burn and Ellington Colliery as the fees incurred were likely to be significant given the value of the land being purchased.

No declarations were identified in relation to the engagements with this company. A number of emails were identified during the original review which indicated an apparent closeness between the surveying firm and Arch former Chief Executive (the former Chief Executive being referred to as 'mate' in one email).

Section 6: Ashington Community Football Club

Why did we look at this area?

A number of transactions at Arch in respect of Ashington Community Football Club (ACFC) have been identified during the review and it was considered appropriate to gain a greater understanding of the relationship between the two organisations and the transactions identified.

We were informed of an allegation that Arch had bought the house of a former football team captain. We do not have sufficient information regarding this allegation that Arch purchased ACFC's team captain's house to be able to fully complete an investigation of this allegation. However, we have identified that Arch appear to have bought an ACFC Board member's old house, but a number of months following a part exchange to Persimmon.

On 27 July 2017 the Interim Director of Business Strategy at Arch raised the following concerns in a meeting with the then Interim Arch Chief Executive, regarding the relationship between Arch and ACFC:

- ACFC has financial difficulties and Arch is assisting with cashflow, for example ACFC can't pay their utility bills so Arch pay them and recharge ACFC;
- There are apparently two members of the ACFC staff on Arch payroll.
- There are three directors on the club board which is apparently a company limited by guarantee. The directors are the former Arch Chief Executive, the MP for Wansbeck and a former Arch Board member.

This was followed up on 28 July 2017 with a more detailed briefing note from Arch Interim Director of Business Strategy regarding the above.

What work have we done?

- Researched the organisation on Companies House;
- Identified payments made to, or on behalf of, ACFC by Arch by filtering the Arch financial transactions report April 2015 to June 2017 prepared by Arch Management Accountant on via email on 5 July 2017;
- Reviewed the information provided by Arch Interim Director of Business Strategy.

What controls / systems would we have expected to find in place?

There are a number of different arrangements in place which would require different controls/systems:

- Arch leases the football club site and use of facilities to ACFC – Arrangements should be in place to monitor compliance with the terms of the lease;

- Arch make some payments on behalf of ACFC –We would expect a formal Service Level Agreement or contract to be in place between Arch and ACFC; and
- Arch provides financial support to ACFC through sponsorship – We would expect to see payments to ACFC against a pre-approved marketing/sponsorship budget.

What are the main findings from our work?

Ashington Community Football Club (CFC) was incorporated in 2008 following the club's move from its previous premises in Ashington following the sale of this site by the landlord Wansbeck District Council to ASDA. Part of this land deal included the relocation of Ashington football club and at the same time a new club was constituted. The four original Directors included the MP for Wansbeck (resigned in June 2012, returning as a director in November 2016 at the same time the former Arch Chief Executive was appointed to the Board) and a former Arch Board Member. The four current directors are the MP for Wansbeck, a former Arch Board Member, the former Chief Executive and a Senior Parliamentary Advisor.

In April 2012 an Arch Strategy and Business Plan was approved by the Arch Board. This recommended immediate regeneration priority areas of Ashington, Berwick and Blyth. In July 2012 the Board approved the Ashington Vision, Strategy and Investment Plan which included reference to the importance of Ashington Football Club as part of a community infrastructure in the regeneration of Hirst. In June 2013 the Board approved the principle of investment in the long-term sustainability of Ashington Football Club and Hirst Miners Welfare Club.

In March 2014 at Arch Investment Committee, the former Arch Chief Executive introduced the investment plan for Ashington Community Football Club and Hirst Miners Welfare and associated land. It was agreed to present further information on governance and process to the next Arch Investment Committee. Draft terms of reference were drawn up by Arch Director of Finance in May 2016, which included a Board of Trustees, Business Committee and Football Committee, although it is not known if these were approved.

Board approval for development at ACFC

On 22 May 2014, the Board approved £981,500 to support the development of Ashington Football Club (demolition of the existing facility and build cost, fees and contingency for a new facility). The minutes state that the interest repayments would be funded through pre-existing budgets within the approved medium term financial plan. Between October and December 2015 it was reported that Ashington Community Football Club new clubhouse and facilities were open.

On 20 January 2016 the Investment Committee approved an increase to the budget of £98,500, apparently under the Chief Executive's delegated authority, following the return of initial subcontractor packages to £1,080,000. At the same meeting an increase in costs of £180,000 for the Ashington Football Club development was

approved, advising the total cost to be £1,260,000. The same meeting noted progress made to date on strengthening the governance structure within AFC: and agreed the actions required to close the AFC project.

Expenditure on fixed asset development at ACFC

The asset is valued at £1,869million in Arch's Fixed Asset Register. The Management Accountants at Arch have provided a reconciliation of the fixed asset value to transactions in the Arch accounts. This shows £1.510m costs incurred by Arch Development Projects during the construction period (paid for by Arch Commercial Enterprise upon completion), £0.038m costs directly incurred by Arch Commercial Enterprise as the landlord (CCTV, loan interest repayments to NCC), £0.076million relating to the installation of solar panels in May and June 2016 (we have seen the invoices and are waiting evidence of the procurement process, covered under our review of Construction firm ref. 13 later in this report), and £0.245million arising from the March 2017 asset valuation which valued the asset at £1.869million (copy of the surveying firm's valuation has been provided by Arch). None of the expenditure in relation to this development was paid directly to ACFC.

The asset build cost of £1.51 million exceeds the £1.26m approvals noted in the Board and Arch Investment Committee minutes. This was discussed with Arch Management Accountant who explained that Arch were not able to recover VAT on the expenditure due to the failure to complete a 'barter transaction' for the land with NCC. If Arch had secured land ownership they would have been able to recover the VAT. The difference between the approved and actual spend is due to this (£1.26m plus 20% = £1.51m). Enquiries were made as to whether this was discussed and/or approved at Board or Arch, but no information on this matter has been identified to date.

Land & Leases

NCC's Strategic Estates Manager advised Internal Audit that ACFC ground is owned by NCC and is on a 99 year lease to Arch at £1,000 per annum (a copy of the lease agreement, dated 29 November 2016 has been provided). Prior to this the lease had been directly between NCC/Wansbeck District Council (prior to Local Government Reorganisation) and ACFC (it was confirmed this commenced on 27 March 2009, following the football team's previous venue being sold by the landlord, Wansbeck District Council, to ASDA). NCC's Strategic Estates Manager has confirmed Wansbeck DC owned the site prior to LGR when it transferred to NCC, adding it appears that Wansbeck acquired the land in May 1995 from British Coal. The land asset sits on NCC's fixed asset register with a value of £2.150 million for 14.35 Acres as of March 2017. This includes the ACFC site leased to Arch and a development site to the South of the ACFC site. He further advised there had been some discussions with Arch about them acquiring the development site at market value but this hasn't progressed.

NCC's Strategic Estates Manager advised that the clubhouse and stadium are owned by Arch who should have a lease agreement with ACFC. This was discussed with the Head of Estates at Arch who confirmed this was the case and provided a copy of the lease agreement between Arch and ACFC.

NCC's Strategic Estates Manager further confirmed that NCC own a number of sites that are leased to football clubs including, Morpeth Town, Blyth Spartans and Blyth Town. He has been requested to confirm who was using the land prior to it being developed for use by ACFC in 2008.

Payments from Arch to ACFC

A review of the Arch financial transaction listing showed that Arch have paid £39,200 to ACFC via Accounts Payable between January 2015 and March 2017. The majority of this expenditure (£22,618.35+VAT) was audited under the gifts and hospitality aspect of our review (described earlier) and relates to paying for tables at Sportsman Dinners, corporate evening for the opening of the new facility, and Christmas entertaining. This aspect of the review also identified payments by Arch to companies in relation to the annual music festival hosted at the football club. The balance relates to utility bills during the construction of the new facility (£9,554 +VAT), Alarm repairs (£1,053 +VAT) and a payment of £2,806 paid to Heineken.

Originally Arch invoiced ACFC to recharge for periodic statutory testing undertaken at the facility. The Head of Estates advised that under the terms of the lease this is the tenant's responsibility but Arch prefer to commission the work and recharge the tenant to ensure essential safety testing is undertaken at Arch's asset. The Head of Estates further advised that at some point it was agreed that Arch would pay ACFC's utility bills and then recharge ACFC for these amounts, to help ACFC with cash flow. However the Head of Estates advised that this arrangement was stopped approximately 3 months ago. ACFC has a debt outstanding to Arch of £38,113.06. The Head of Estates had met with an ACFC representative and a payment of £4,000 was made immediately with monthly payments to be made to clear the outstanding debt.

Payments by Arch on behalf of ACFC

As described earlier in this report, our audit identified two ACFC employees paid through Arch's payroll, namely:

- an Administrator and
- a General Manager.

Further review established there is no recharge to ACFC for these salary payments, which are therefore borne by Arch.

Payroll information received shows that the General Manager has received gross pay of £53,016 since April 2016 (we don't have earlier payroll records, but a search of the internet would date the appointment back to February 2015) and the Administrator has received gross pay of £14,276 in the ten months to date since commencing employment. When asked for the employee records for these two members of staff the Arch HR Manager stated that there are none as they are not Arch employees, Arch provide a payroll service. Internal Audit requested information regarding the arrangements for recharging ACFC and were referred to the Finance Team. The Assistant Management Accountant stated that there is no recharge for these costs. The interim Director of Business Strategy states in his briefing note that Arch are paying the salaries and providing payroll services for these two members of ACFC.

Comment / evaluation

The cost of the new stand and clubhouse by Arch and associated lease require review regarding the expenditure incurred and the financial viability of the project.

That the former Arch Chief Executive and a former Arch Board member are also ACFC Board members and there would appear to be a close relationship between the two organisations with Arch providing financial support to ACFC. Further review is required to establish whether this is in accordance with Board approval.

Arch has paid approximately £67k plus on-costs for 2 members of ACFC staff and in itself is a significant financial contribution to ACFC.

Section 7: Renewable Energy Company:

Construction Firm ref. 13

Why did we look at this area?

Concerns were raised confidentially by the Head of Procurement with the Head of HR regarding NCC's use of a company (referred to as Construction Firm ref. 13), thought to have a connection with Arch. In particular it was queried whether some payments had been made quite recently where it was suspected that potentially no goods or services had been received in return.

What work have we done?

We have undertaken the following checks in order to gather information relevant to the concerns raised:

- Review of Arch Declarations of Interests to identify possible relationship(s) with Construction Firm ref. 13, or similarly named company;
- Check with Companies House information to identify the company directors and possible relationship(s) with Arch or NCC people;
- Link back to Hospitality and Gifts work to identify possible relationship(s);
- Review of procurement documentation leading to the NCC contract with this company to determine whether there may have been influence;
- Testing of NCC payments to Construction Firm ref.13.

What controls / systems we would expect to have been in place

If there are any relationships between officers at Arch and at NCC with this company, it would have been expected that this should be declared as an interest and formally logged / evaluated. This would mitigate any perception of bias and promote transparency. Explicitly following established procurement procedures, co-ordinated and led by a specialist within the Procurement Service, would also give confidence that proper process has been followed.

Internal Audit would expect standard ordering and payment procedures to be followed as set out in the Council's Finance and Contract Rules and supporting guidance, or Arch's Financial Regulations (if payments are made via Arch).

Main findings

Arch Development Projects

Arch Development Projects incurred £2.2 m inc VAT (June 2014 to Mar 17) on solar panel installations or related work.

Minutes of the Investment Committee meeting on 26 March 2014 record approval for a Photovoltaic (solar panel) Project for the Hirst and West End in the sum of £2.32m together with agreement to give delegated authority to the Group Managing Director (Chief Executive) and Chair to award the PV contract subject to a full procurement exercise being carried out and a tender report completed.

Special Projects Consultants ref. M have carried out the tender exercise.

A copy of a covering headed letter from the construction and property consultants inviting tenders dated 7 March 2014, which is prior to the Investment Committee approving the project and delegating authority to the CEO, has been provided. It records a distribution list of:

- Tenderer ref.1 (address in Seaham)
- Tenderer ref. 2 (address in Cramlington)
- Tenderer ref. 3 (Address in Ashington)
- Tenderer ref. 4 (Address in Ashington)
- Tenderer ref. 5 (Address in Pegswood)

A brief review of the internet highlighted the following:

- There is no tender ref. 2 based in Cramlington but there is a company with a similar name. Tenderer ref. 2 is the name of a company based in Liverpool;
- Tender ref. 3 is a plumbing and heating merchants, and would not have been thought likely to engage in solar panel installation.
- Tender ref. 5 are recorded on Companies House as having been dissolved in April 2013.

A Report on Competitive Tenders (marked draft) by Special Projects Consultants ref. M, dated April 2014 states the following:

- Competitive tenders for the scheme were invited on 7th March 2014 from five tenderers;
- Four tenders withdrew from the tender process (three were fully committed on other work and one could not respond within the timescale);
- In accordance with the tendering procedure and instructions Construction firm ref. 13 returned their tender submission on 21st March 2014 to the offices of Arch (Development Projects) Ltd where the tenders were opened;

- There was one tender amendment issued during the tender period which has been incorporated within the tender submitted by Construction firm ref. 13;
- Whilst the tender submitted by Construction firm ref. 13 is the only tender received it is compliant and therefore in line with the defined evaluation criteria. It is considered to be the lowest compliant tender and thus is awarded full marks available within the price assessment criteria i.e. **60** marks.
- With only one tender being returned, Special Projects Consultants ref. M deemed it appropriate to compare the tender submitted by Construction firm ref. 13 with that of a tender sum for a very similar project that they had recently procured.
- This comparison revealed that the Construction firm ref. 13 tender appeared favourable and is considered to represent good value for money;
- Qualitative evaluation received from Construction firm ref. 13 details the score of 19.5 out of 40.

The report concludes the following : Special Projects Consultants ref. M consider the tender submitted by Construction firm ref. 13 in the sum of **£2,293,462.90** to be suitable for acceptance subject to provision of the following in an acceptable form:

- Contract Programme
- Priced Schedule of Activities
- Confirmation of the type of panel system to be installed

A signed contract was provided for phase one of the Hirst project for the sum of £947,194. The Arch Director – Major Projects has confirmed he has spoken to the employer’s agent (Special Projects Consultants ref. M) who advised that the initial contract was only signed for phase one of the works as they wanted to see how that initial phase went before committing to phases two and three.

A separate contract or deed of variation was not entered into but instructions to vary the initial phase one contract were made.

Arch Commercial

Arch Commercial have incurred approximately £701k as follows:

1) £455k (inc VAT) installation of solar panels on commercial properties.

Minutes of the April 2015 Investment Committee meeting records approval for a Photovoltaic (solar panel) project on Ashington and Wansbeck Workspaces and Wansbeck Network Centre in the sum of £372,399 and delegates authority to the Group Managing Director (Chief Executive) and Chair to award the contract subject to a full procurement and due diligence process.

A report by the former Arch Chief Executive dated July 2015 for Investment Committee reported that 5 companies were invited to tender. A web search showed

that all of these appeared to be trading at this time. A review of the returned tender documents found that these were opened by the Director of Finance and Programme Manager at Arch on 10 July 2015. Only two companies returned tenders (Construction firm ref. 13 and Construction firm ref. 14).

Construction firm ref. 14 were significantly cheaper (£264k compared to Construction firm ref. 13's £386k). A tender evaluation identified that Construction firm ref. 14 had failed to include a required provisional sum of £20k in their tender. Arch Quantity Surveyor carried out the assessment of the tenders on 15 July 2015. Special Projects Consultants ref. M were project managing the tendering/contract process on behalf of Arch and discussed the omission of the provisional sums with Construction firm ref. 14 on 17 July 2015, stating JCT Practice Note Alternative 1 applies which meant Construction firm ref. 14 had to either stand by its original submission or withdraw. A review of the Tender Enquiry Document has confirmed that Alternative 1 was stated therefore the correct course of action has been followed. Construction firm ref. 14 withdrew on 17 July 2015. This was confirmed via email to them on 10 Aug 2015, who were advised that Construction firm ref. 13 had been awarded the contract.

In an email to the Programme Manager at Arch on 10 August 2015, Special Projects Consultants ref. M advised that "we will also inform the other unsuccessful tenderers accordingly" and the Programme Manager replies "Thanks [name removed]". The Programme Manager has stated to Internal Audit that there were only two tenders received and she can only assume this refers to the other invited firms who did not submit tenders. The tenders were returned to the Programme Manager at Arch.

At this point Construction firm ref. 13 were the only company with a submitted tender, however, in an attempt to demonstrate whether or not this tender was value for money a comparison was undertaken against the withdrawn Construction firm ref. 14 tender. This identified that Construction firm ref. 14's submission was based on 768 panels compared to Construction firm ref 13's 934, Construction firm ref. 14 had a payback period of ten years, compared to Construction firm ref 13's seven years. An extrapolation of Construction firm ref. 14's cost based on 934 panels came out at £330k (scoring the full 60 points as per the predetermined tender evaluation process) compared to Construction firm ref. 13's £386k (51 points).

A quality assessment carried out before the cost was extrapolated came out at 11 (out of 40) for Construction firm ref. 14 and 23 (out of 40) for Construction firm ref. 13. Total scores were 71 Construction firm ref. 14 and 74 Construction firm ref. 13. However, with the extra panels this would have reduced the Construction firm ref. 14 payback period and therefore increased the quality score. Whilst this would reduce the difference between Construction firm ref. 13 and Construction firm ref. 14 on the overall scoring and may have resulted in an overall higher score for Construction firm ref. 14 this would still have shown that the tender submitted by Construction firm ref. 13 was competitive in comparison to Construction firm ref. 14.

As the next scheduled Investment Committee or Board was not until September 2015 the July 2015 report was circulated for virtual approval to Investment Committee Members, the then Arch Chief Executive, Director of Business Strategy and former NCC Chief Executive and cc'd to Board members by The Director of Finance on 27 July 2015. Approval emails were seen from former Arch Chairman (30 July 2015), former Leader of the Council (27 July 2015) and former NCC Chief Executive (27 July, who whilst approving the award, questioned "in the circumstances it is unusual not to permit a new tender"). Arch Director's PA stated there was no reporting of the decision taken to subsequent meetings of Investment Committee or Board. Arch Director PA further stated that this was sometimes done but not always.

A review of the tender submissions showed that former Arch Chief Executive's brother was to be the Construction firm ref. 13's Project Manager on this Project. This was not declared by the former Arch Chief Executive in the tender evaluation report prepared by the former Arch Chief Executive and circulated to Investment Committee by the Director of Finance for approval. Internal Audit has not found evidence that this relationship was declared in any other way.

Actual spend appears to have come in at £379k + VAT, slightly under the Investment Committee approved amount of £386k.

2) £90k (£76k net of VAT) May & June 2016 installation of solar panels at Ashington Community Football Club (ACFC).

This work was agreed to ACFC costs/Fixed Asset Register reconciliation prepared by the Arch Management Accountants. This was commissioned directly by Arch Commercials, outside of the Arch Project Developments build project for the new stand/facility. The Head of Estates advised that he understood this scheme to have been approved by the former Chief Executive under his delegation. The Head of Estates further advised that the Director of Finance would have provided the appraisals to the CEO who in turn would have approved the order. For expenditure between £20k and £100k Arch Financial Regulations require "a minimum of three quotes must be obtained wherever practical.....approval for any such tenders must be sought from either the Group Director of Finance, Arch Chief Executive or through the Arch Group's Senior Leadership team". No evidence has been provided that competitive quotes were obtained.

The Purchase Order number was given as 2016/17ACE131. Internal Audit has requested sight of this order, which is awaited.

3) Ground Source Heat Pump (GSHP) Wansbeck Workspace £121k+VAT. June to August 2016

Payment in respect of this scheme was made over three invoices, two at 35% of total project cost and the balance of 30%. The Head of Estates explained that NCC had

installed GSHP's to feed the part of the building not used by Arch (legs two, three and four). Arch then paid NCC for electricity and recharged these costs to the tenants of the building. This has been confirmed by NCC Project Surveyor and through reviewing the invoices paid by Arch and NCC.

Arch has installed their own GSHP to supply electricity to the part of the building they manage. The Head of Estates advised this was part of the office move from Ashington Workspace and was not something he was involved in. This was led by a member of staff who has since left Arch. Other than emails regarding the preferred method of financing the project (through NCC loan) no information could be provided regarding the procurement process or who authorised the order.

Arch Housing

Arch Housing - £48k – Responsive Repairs and Voids – central heating

£48k was incurred by this part of the Arch Group between 2013 and 2017. The Head of Estates explained that the 'voids central heating' was a test installation to determine if one GSHP could be used to feed electricity to multiple properties).

Declarations of Interest

- An employee of Arch, declares his "dad and cousin work for [Construction firm ref. 13]"
- An email invitation to contractors to attend the Arch contractors' Christmas party includes the former Chief Executive's brother at Construction firm ref. 13. A google search reveals that he is Project Manager with the company. As set out above, the Project Manager of Construction firm ref. 13 is the former Arch Chief Executive's brother. The former Arch Chief Executive has not submitted a declaration of interests form for 2017 and did not include a declaration relating to the involvement of his brother in the Construction firm ref. 13's company last year.

Northumberland County Council

- Construction firm ref. 13 is on the NCC Contracts Register under the CT0001 - Microgeneration Framework 2016-2020 with other contractors for an overall value of £50m which was procured through a tender exercise by NCC in 2016. There were fifteen different companies awarded contracts through this tender process. There was a challenge from an unsuccessful company regarding the scoring for Construction firm ref. 13 and there is an extensive response providing details of why Construction firm ref.13 scored well due to their good history.

- There were several payments to Construction firm ref.13 from October 2016 to date which from initial review appear to be for the above contract. Testing focused on May 2017 payments:

Invoice 29	Installation of ground source heat pump at Ashington Football Club	£95,324.39
Invoice 30	Installation of ground source heat pumps and wet system at Wansbeck Workspace	£30,630.70
Invoice 293	Remedial work on solar panels at various addresses (which appear to be housing)	£ 3,666.00

All of the above transactions have:

- purchase orders from NCC;
- invoices addressed to NCC; and
- iproc records initiated by procurement officers

Whilst it was initially unclear why NCC paid for work at Ashington Football Club and Wansbeck Workspace as they are Arch buildings held on the Arch Commercial Enterprises Ltd Fixed Assets Register, it has been established through discussion with NCC's Senior Commercial Procurement Specialist of the Commercial Team within the Procurement Service, that the installation of ground source heat pumps was part of a wider NCC initiative and that the income stream that will be generated from the Renewable Heat Incentive scheme, in addition to recharges to Arch for their energy usage, would come to NCC. The approved business case projects a net surplus of £288k to the Council over 20 years. Accreditation by Ofgem to the Renewable Heat Incentive scheme was obtained in July 2017. The first quarterly submission is due to be made.

There was further confusion relating to payments made by NCC and Arch to Construction firm ref.13 in respect of the installation of ground source heat pump at Wansbeck Workspace. Internal Audit were informed that the former Chief Executive of NCC, having seen Arch's proposal relating to the installation of a ground source heat pump for one 'leg' of Wansbeck Workspace, had instructed the Head of Procurement to undertake a project relating to the other 'legs' of the building in order to generate income (net surplus) to the County Council. A business case was prepared and approved via the relevant officer and member working groups and Cabinet. The project was completed and a final instalment paid in September 2017 taking the total to £393k and holding back a 5% retention sum.

Comment / Evaluation

From the information gathered at this stage in the investigation, the nature / extent of any relationship between Arch and Construction firm ref. 13 is unclear.

No evidence has been found of undue influence from Arch within the procurement process leading to Construction firm ref. 13 being included within the NCC framework contract.

A substantial amount of business has been awarded to Construction firm ref. 13 by Arch. While some of this has been the subject of competitive tender, in other cases it is unclear. With regard to the first (and largest) tender exercise the validity or suitability of some of the other requested tenderers appears doubtful.

Given the status and influence which the former Arch Chief Executive would hold, it would have been expected in the interests of transparency that the relationship with his brother (an employee of Construction firm ref. 13) would have been explicitly declared. This is especially so given the values paid to this company.

Section 8: Construction firm ref. 15

Why did we look at this area?

Internal Audit was advised that an allegation had been received that a relative of a former Arch Board member, had been appointed to undertake substantial plastering and tiling work on Arch's behalf. The inference was that this work may not have been awarded fairly.

What work have we done?

Internal Audit was advised that the firm concerned was called Construction firm re. 15. Internal Audit reviewed an extract of all payments provided from the Arch Accounts payable system, to determine whether any payments had been made in the name of the individual or the firm (or any likely variation of the name put forward).

Main Findings

From the information obtained, no payments in the period April 2015 to June 2017 had been made by Arch to the individual or to Construction firm ref. 15.

Comment / Evaluation at this stage in the investigation

At this juncture and based on the evidence reviewed above, it appears that this concern is without basis.

Payments made to & invoices received from Consultant ref. C

In addition to the work performed by Internal Audit set out in this report, primarily involving Arch records and transactions, simultaneously there has also been separate work performed by NCC's Counter Fraud team relating to invoices received by Consultant ref. C at NCC.

To try and capture this information in one place as part of this report, the Counter Fraud manager at NCC has been asked to provide an update in a similar format to that used by Internal Audit in the main body of this report. This information has been authored by NCC's Counter Fraud manager and is set out below.

Why did we look at this area?

The initial matter arose from an invoice presented to the Head of Procurement at NCC by the former Leader of the Council in May 2017 for £27,300. The concern was around the manner in which the invoice was present by the Councillor and also the distinct lack of detail and supporting evidence relating to the invoice. It was also identified that the Consultant ref. C's company had dissolved via a compulsory strike off at Companies House yet NCC were still receiving invoices appearing to be from this company.

What work have we done?

The Counter Fraud Team at NCC has undertaken the following:

- An examination of communications between NCC and Consultant ref. C.
- An examination of documentation submitted by Consultant ref. C to NCC
- An examination of contracts held by NCC
- An examination of documentation supplied by NEPRO.
- An examination of the internet on Consultant ref. C
- Interview with NCC Head of Procurement
- Interview with the former Leader of the Council
- Interview with former NCC Chief Executive
- Interview with NCC Communications
- Advice from Trading Standards
- Advice from Legal

What controls / systems would we have expected to find in place?

The normal procedure for Procurements between £10,000 and £50,000 are in the Finance and Contract Rules, part 4.9.4. These state:

- The Corporate Director shall obtain and consider at least three written relevant quotations from suitable third parties. In addition, where available, any in-house provider must also be asked to provide a quotation;
- Quotations should be sought via the Council's e-sourcing system and utilise the quick quotes functionality to ensure that where reasonably practicable at least one supplier is asked to provide a quotation;
- The contract should be awarded according to the most economically advantageous quotation. Where less than three quotations are received, or where the most economically advantageous bid is not selected, the reasons for this shall be documented and certified by the Corporate Director; and
- Quotations obtained through the use of a framework agreement via further competition must be managed by the Commercial and Procurement Services Manager. Details of these will be recorded on the Council's e-sourcing system and where appropriate the Council's contract register

What are the main findings from our work at this stage?

Findings to date show:

- The services of Consultant ref. C appear at NCC to have been specifically requested by the former Leader of the Council;
- There is no evidence to show that the correct procurement process was followed (there are no bids from any other parties and no selection criteria applied);
- Even though Consultant ref. C's company had dissolved in 2015, the use of the logo on invoices does not warrant any formal or further action and Trading Standards deemed this a trivial matter that would only warrant an advisory warning. However Legal have advised that payments cannot be made to a company which has been dissolved, as such payments become the property of the crown;
- The last two invoices could possibly be duplicates, requesting payment in respect of the same work;
- There is no evidence of what work is required from Consultant ref. C from April 2015; and
- There is little to no evidence of the work produced by Consultant ref. C from April 2015 to warrant payment of the invoices submitted

Comment / Evaluation – at this stage in the investigation

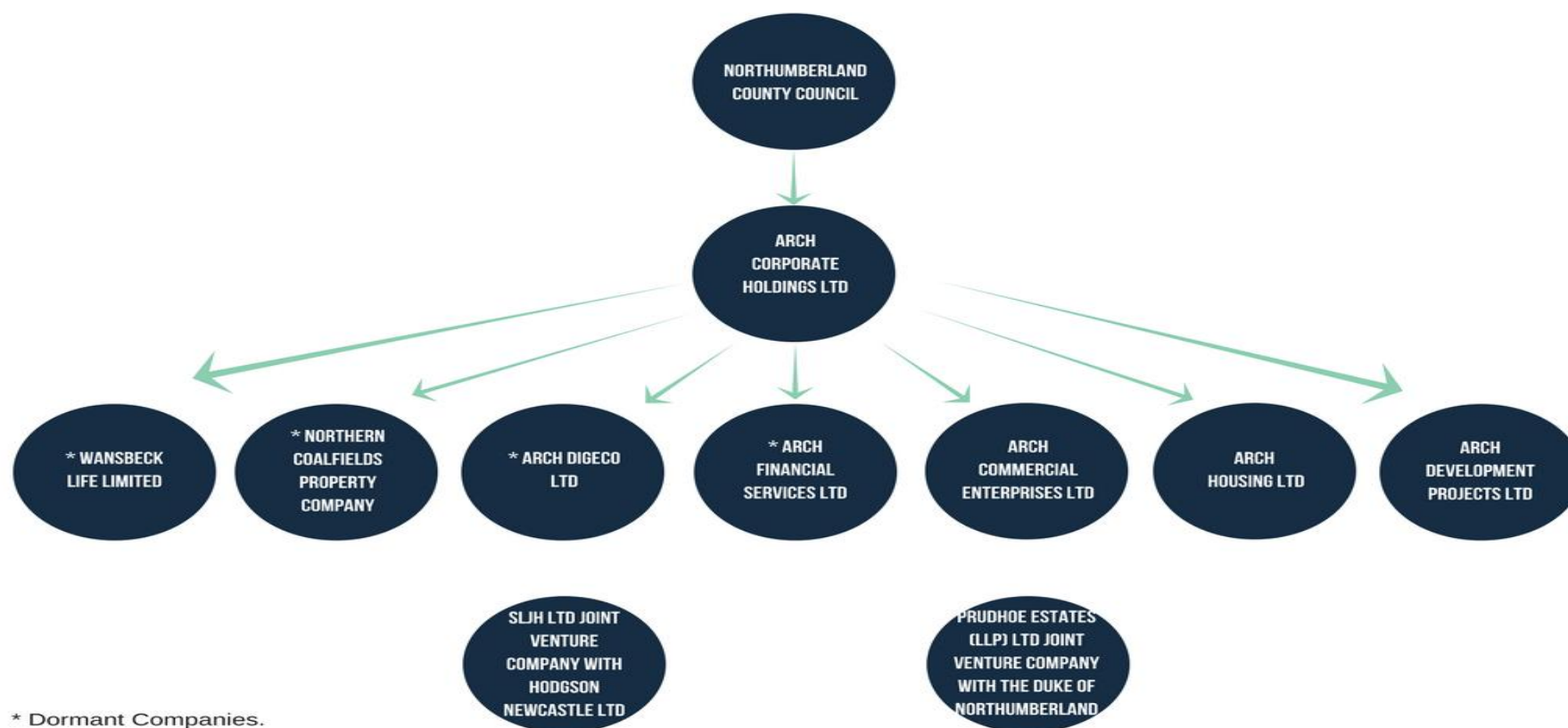
The work reported to have been done by Consultant ref. C is almost non-existent with the exception of three versions of 'County Lives' e-zine he has now provided NCC after being requested to do so in support of his most recent invoice. .

Focusing on the current invoice which raised this issue, the Counter Fraud Manager is of the opinion that this could be a duplicate invoice as it states the work done requiring payment is for, County Lives brand, online, advertising development for 2016-2017. The previous invoice dated 08/05/16 for £13,600 which has been paid also states the work done was County Lives May 2016 - May 2017.

Work still to be completed / Questions still to be asked

- What work has been carried out by the contractor?
- Who requested this work to be done?
- Evidence the work as per the invoices submitted.

**APPENDIX A:
ARCH GROUP OF COMPANIES**



**APPENDIX B:
TERMS OF REFERENCE****ARCH Review – Terms of Reference (June 2017)**

Covering a period of the last four years:

Consultants and Contractors

1. Review and report on the decision making process for the engagement of all consultants and contractors (including the use of procurement and commissioning arrangements where appropriate).
2. Review and report on the terms of engagement for all consultants and contractors with particular reference to the pay and reward schemes and any commitment to the supply of equipment and other non-pay elements.
3. Review payments made to all consultants and contractors with particular reference to: the terms of engagement and the evidence provided regarding the work undertaken and completed, and the authorisation process.
4. Is there an inventory of all other terms and conditions for each consultant/contractor available including all items of equipment within an individual's possession?
5. Does Arch have the correct insurance cover for each consultant/contractor with regard to any Arch equipment within their possession?
6. Have all benefits in kind to consultants/contractors been correctly accounted for and is all HMRC documentation in place.

Employees

7. Review and report on the decision making process and arrangements for the engagement and termination of all employees.
8. Review and report on the terms of engagement for all employees with particular reference to the pay and reward schemes and any commitment to the supply of equipment and/or any other non-pay elements.
9. Review payments made to all employees (including non-regular and routine payments) with particular reference to the authorisation process.
10. Is there an inventory of all other terms and conditions for each employee available including all items of equipment within an individual's possession?
11. Have all benefits in kind to employees been correctly accounted for and is all HMRC documentation in place?

Property Portfolio

12. Compile a comprehensive portfolio of properties purchased including the value and any other terms associated with the purchase, and, from whom the properties were purchased. If available, to review the evidence and documentation to support each purchase to assess whether each purchase has been processed in line with the governance structures of Arch.
13. Compile a comprehensive portfolio of all properties leased to tenants including all terms associated with the lease, and, to whom the properties were leased. If available, review the evidence and

documentation to support each tenancy to assess whether a tenancy agreement exists for each tenant and whether the tenancy document is up to date. A summary of the status of the tenants account would also be beneficial.

14. Compile a comprehensive portfolio of properties sold including the value and any other terms associated with the sale, and, to whom the properties were sold. If available, review the evidence and documentation to support each sale to assess whether each sale has been processed in line with the governance structures of Arch.

Hospitality and Gifts

15. Report on details of all expenditure in relation to hospitality and gifts paid for by Arch and names of individuals/organisations that benefitted from that hospitality including Arch employees and Board members.
16. Report on all hospitality and gifts received by employees and Board members paid for by other organisations. Provide confirmation that declarations were completed by Arch employees and Board members.
17. Report on the register of interests completed by employees and Board members to identify whether this is in existence and has been updated regularly.

Award of Major Contracts

18. For all contracts awarded:
 - a) Review and report on the decision making process for the award of all such contracts and the engagement of all major contractors (including the use of procurement and commissioning arrangements where appropriate).
 - b) Review and report on the terms of engagement for major contractors with particular reference to the pay and reward schemes and any commitment to the supply of equipment and other non-pay elements.
 - c) Review payments made to all major contractors with particular reference to: the terms of engagement and the evidence provided regarding the work undertaken and completed, and the authorisation process.
 - d) Is there an inventory of all other terms and conditions for each major contractor available including all items of Arch equipment which is within the contractors' possession?
 - e) Examine any necessary declarations in relation to contracts awarded.

From: [REDACTED]
Sent: 08 March 2016 11:45
To: [REDACTED]
Subject: [REDACTED]
Attachments: [REDACTED]

Re: Private and Confidential
 Invoice - Mar 2016 NCC.doc

Follow Up Flag:
Flag Status:

Follow up
 Completed

Categories: Green Category

Dear —

Thanks very much and you won't believe how excited I am about working with you guys and gals :) Without wishing to be pushy could you let me know if it would be feasible for the BACS payment to be with me as quickly as possible? If I can access it on Friday or before I can get moving on my stuff and that would be perfect.

Kind Regards

On Tue, Mar 8, 2016 at 11:30 AM, [REDACTED] wrote:

Thanks for the email. Please send me the invoice and I will sort out. Look forward to working more closely with you.

Best Wishes

From: [REDACTED]
Sent: 08 March 2016 08:39
To: [REDACTED]
Subject: Private and Confidential

Dear —

I hope you are well. I understand that Grant has spoken to you about my impending move into Arch and he has mentioned the need for me to access a car whilst I am preparing to move _____ dog and myself back to civilisation in Northumberland.

I want to outline the issues which are important to me in the transition. I'm aware you have a lot on your plate and my aim is to keep my needs to a minimum. I'm also aware you don't know a great deal about me. I'm really excited about the opportunity you, Grant and the others are giving me and you will get a really focussed job from me.

[REDACTED] (who I live with after my divorce) hasn't been too well and had a minor heart attack 5 weeks ago. [REDACTED] notable to do much and has heart appointments over the next couple of weeks which will determine how much she can do in the future. I've also got a (nearly) 12 year old weimaraner called Scooby who is my pride and joy. He's got his own health issues and is on more medication now. Between [REDACTED] and dog, I have commitments and I've worked out a way to manage them all. In short term it relies very much on a car. Grant has mentioned that I would be able to, most likely, access a lease car (I can only drive automatics) but I would need to access a hire car in the short-short term.

I have a proposal which may work out beneficially for us all. The County Lives contract is up for renewal in May 2016 and I wondered if we could activate the payment early to allow me to prepare for a number of things. Firstly, it would allow me to access a car whilst we worked out the best way to move that forward, secondly, it will allow me to bring someone in directly to 'manage' County Lives and it's website for the next year, thirdly it will smooth my transition to my new role and hopefully a new house in Northumberland.

The contract is worth £13,600 and the website will contain every monthly back copy of County Lives from the commencement of the contract in late 2013. It will provide a pictorial and narrative of the life of this administration and its achievements.

Grant suggested I talked to you about my proposal and I think he understands that I need a little help to establish myself both personally and professionally and that my proposal would take some pressure off all concerned.

I'm really looking forward to working a bit closer with you all and I feel that I have a lot to contribute to making sure we continue to punch above our weight.

In short I feel invigorated and I'd be massively appreciative if you could have a think about the feasibility of my proposal. I can supply you with an invoice as soon as you make a decision and I can hire a car on Friday to allow me to get up to Northumberland next week if that's in line with your thinking.

Kind Regards

[REDACTED]

