

**NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE**

At a meeting of the **Audit Committee** held at County Hall, Morpeth on Wednesday, 25 September 2019 at 10.15 a.m.

PRESENT

G Hill (Chair)

COUNCILLORS

G Castle
L Grimshaw
M Purvis

M Swinburn
I C F Swithenbank
D Towns (part)

CO-OPTED MEMBERS

A Hall

ALSO PRESENT

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

OFFICERS IN ATTENDANCE

| | |
|------------|--|
| K Angus | Executive Director of HR and OD and Deputy Chief Executive |
| A Elsdon | Service Director - Finance |
| B Haigh | Corporate Fraud Manager |
| D Lally | Chief Executive |
| A Mason | Finance Manager |
| K McDonald | Group Assurance Manager |
| B McKie | Group Assurance Manager |
| A Mitchell | Chief Internal Auditor |
| K Norris | Democratic Services Officer |

ALSO IN ATTENDANCE

D Lister, C Mellons, S Reid - Ernst & Young (External Auditors)

Councillor R Wearmouth, Portfolio Holder for Economic Development (observer) (part)

A Bridges, Head of Communications (part), Press: 1

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13. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor L Rickerby.

14. MINUTES

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

15. REPORTS OF THE EXTERNAL AUDITOR

(a) ISA 260 Annual Accounts

Mr S Reid, External Auditor, referred to the above report stating that Ernst and Young had completed the additional work required and had shared it with management on the Friday afternoon of last week. Comments had been received from management on Monday of this week to which the EY team had responded late yesterday. Subsequently, further comments were put forward by management and the EY team was currently working through them, therefore, despite all best endeavours, EY had not found it possible to provide the report to the County Council in time for it to be included on the agenda today.

He did not intend to go into further details until the report was finalised; the final report would then be issued to the Council and brought before the Audit Committee in due course.

The Chief Executive expressed her concerns and disappointment that work had not been completed on time. This was echoed by the Portfolio Holder for Corporate Services & Cabinet Secretary who said, at July's Audit Committee meeting, EY had stated that the matter would be prioritised and concluded before the end of August and reported to an additional meeting of the Audit Committee or, if not, to the meeting today at the latest. The next meeting was not scheduled until November and he would expect a report to an additional meeting before then as he was uncomfortable that the accounts had not been signed off due to the delay in EY completing their work.

Mr Reid agreed that an additional meeting would be appropriate but, in terms of delays, said the team had worked incredibly hard. The process had started in August, which was the holiday period, and with the complexity of the matter itself, it had taken a considerable amount of time. The aim and objective had been for the report to be considered at this meeting but unfortunately that had not been possible.

In response to a query about additional fees incurred, Mr Reid stated he could not give exact figures at present as he would need to review time charged by EY staff to the additional assignment and because EY's work was still on-going.

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A member stated that the External Auditors did an excellent job and, although it was disappointing that the accounts had not been signed off, there was a process to adhere to and it should not be rushed.

On a point of clarification the Chair confirmed that, once the report was finalised, an extra meeting of the Audit Committee would be arranged and members would receive a copy of the report 5 working days before the meeting in order to be prepared and put forward any questions they may have.

RESOLVED that the report be deferred to an additional meeting of the Audit Committee, date and time to be confirmed.

(b) ISA 260 Pension Fund Accounts

RESOLVED that the report be deferred to an additional meeting of the Audit Committee, date and time to be confirmed.

16. REPORT OF THE SERVICE DIRECTOR - FINANCE

Statement of Accounts 2018-19 and Pension Fund Accounts 2018-19

RESOLVED that the report be deferred to an additional meeting of the Audit Committee, date and time to be confirmed.

17. REPORT OF THE SERVICE DIRECTOR - STRATEGIC COMMISSIONING AND FINANCE

Corporate Fraud Team - Counter Fraud Annual Report

Mr B Haigh, Corporate Fraud Manager, introduced the above report which provided members with an update on work undertaken by the Corporate Fraud Team within the Council during the year ending 31 March 2019. (A copy of the report is filed with the signed Minutes as Appendix D.)

Mr Haigh said the team consisted of himself, 3 Corporate Fraud Inspectors and an Administrative Assistant. The year 2018-19 had been a success, showing gross savings in excess of £2 million.

It was stated there had been 15 referrals in relation to potential internal fraud, a third of which had been rejected and passed to management of the relevant department to deal with. Of the remaining referrals, 5 were looked at with no evidence of fraud being found, 3 had been closed with sanctions and cautions issued and one person had been successfully prosecuted. Four cases were ongoing, from these and earlier referrals, with 3 being considered for legal action and an update would be provided in the next report. In all cases, where there were monies to be recovered, agreements had been reached or the amounts had been repaid in full.

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With regard to external fraud, there had been over 1,000 referrals which related mainly to Council Tax and tenancy fraud. Ninety one of these had been forwarded to the DWP as they had involved Housing Benefit and passported DWP benefits. It was pointed out that some years ago the Council had worked closely with the DWP on benefit fraud and this arrangement had been reintroduced in May 2019. However, this was optional and, if it was found that too many resources were being used, there was a choice to opt out at any stage.

Information relating to overpayments of Housing Benefit, Council Tax Support and Single Person Discounts was provided and members were advised that the Council had invested in new IDIS software which had been very beneficial as it could cross check data held over all services and produce a report to highlight any anomalies. Details of work relating to Sanctions, Press Releases, Right to Buy applications, the Insurance Team and School Allocations were summarised, as detailed in the report, and it was noted that the breakdown of savings was Cashable £129,366 and Non-cashable £2,668.952.

Reference was also made to proactive counter fraud work and the key risk areas which were set out on page 7 of the report.

In response to questions the following information was provided:

- Members had expressed surprise about the number of Right to Buy applications withdrawn as a result of investigations and asked if any benchmarking work had been carried out. It was stated that the Council had set its own benchmarking levels and was in the process of comparing with other local authorities.
- Four cases of internal fraud were outstanding. These had been open prior to 2018/19 but were drawing to a conclusion. There were a number of reasons for the delay, often more events could unfold when investigating an in-depth case and there were time restrictions when other matters took precedence.
- The Corporate Fraud Manager confirmed he was in favour of promoting the implications of internal fraud and publicising successful prosecutions through as many avenues as possible.
- A member said he would be interested to receive a detailed breakdown of figures relating to withdrawn Right to Buy applications to identify if they were in a particular area. He suggested there could be an intention by some individuals to grow housing portfolios by gifting money to tenants. The Corporate Fraud Manager acknowledged the point made and said he would look into identifying areas for the next update. On a point of clarification he advised members that it was acceptable for a relative to legitimately gift money to a tenant to purchase their property but it could not be a loan.
- In terms of publicity to deter fraud, it was stated there would always be the potential risk for attempts at defrauding public bodies but officers could do their best to reduce that risk. The team worked very hard to produce these results. They attended tenants' forums, held a tenancy fraud week and issued press releases to put out as much information as possible.
- The Corporate Fraud Manager said he had submitted a proposal to fill the post made vacant when he became manager. In response the Chief Executive said she was happy to discuss that with him and referred to a graduate trainee or an apprenticeship as a possible way to take that forward.

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- The Chief Internal Auditor referred to the framework of governance, risk management and control and that effective preventative systems, to stop the potential for fraud, were essential. Under the three lines of defence model of assurance, the first line of defence was effective management and control which in turn was an integral part of preventing fraud from happening in the first place. In turn this helped the organisation to operate a strong framework of governance, risk management and control.
- In terms of figures in the report being taken at face value, it was stated that some of them would be notional non-cashable savings and would therefore not represent a cash value in the County Council's accounts. The report set out information in a fair way showing cashable and non-cashable amounts but further work would be carried out with the Corporate Fraud Team to provide more details for the committee.
- Newcastle, Gateshead and Durham Councils shared a data hub but currently there was no facility to cross data information held across the region. The possibility was being considered but costs and who would pay them needed further exploration.

Members thanked Mr Haigh for his report and conveyed their thanks to him and his team for doing an excellent job. They acknowledged the importance of fraud prevention across all sectors and getting the message across.

RESOLVED that

1. the progress in the work undertaken by the Corporate Fraud Team since the last report and the steps being taken to recover any monies owed to the Council be noted.
2. A detailed breakdown of figures relating to withdrawn Right to Buy applications be provided to November's meeting.

(Councillor Towns left the meeting at 11:16 am.)

18. REPORT OF THE CHIEF INTERNAL AUDITOR

Review of Audit Committee Arrangements

Mr K McDonald, Group Assurance Manager, introduced the above report, the purpose of which was to:

- (i) Present an initial assessment of current Audit Committee arrangements for Northumberland County Council with reference to 2018 good practice guidance recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA), for Audit Committee's consideration; and
- (ii) Highlight those areas where development work should be focused during 2019/20 to ensure that our Audit Committee arrangements reflect all parts of CIPFA's latest publication (or that there is a clear rationale for departure from the guidance, if appropriate).

(A copy of the report is attached to the signed Minutes as Appendix E.)

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Reference was made to page 6, Annex A, which set out an initial assessment of the Council's Audit Committee arrangements against the 2018 good practice guidance recommended by CIPFA.

The revised CIPFA Position Statement was set out on page 13 of the report as Annex B.

It was stated that Audit Committee arrangements did reflect a high number of good practice areas recommended in the latest CIPFA guidance, which was very positive for the organisation. There were some additional areas in which the committee may feel more development might be beneficial to reflect the good practice recommended by CIPFA.

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

- No formal annual report of the Audit Committee had been produced historically or currently, but CIPFA's latest guidance recommended that this was something which might be considered by local authorities. It was noted that minutes of Audit Committee meetings were presented to the next meeting of full Council ensuring visibility of the committee's business. The Chair noted that all Scrutiny Committees produced an annual report and members agreed that it would be appropriate for the Audit Committee also to do so which was acknowledged and endorsed as good practice by the Portfolio Holder for Corporate Services & Cabinet Secretary.
- In terms of new guidance from CIPFA on the ethical framework, this had not been a feature of CIPFA's previous guidance and was a new introduction. An updated Terms of Reference for the Audit Committee, as recommended in the report, would ensure that the committee's remit covered all appropriate areas as recommended in the new CIPFA guidance.
- The Independent member referred to item 14, Annex A, which was about CIPFA's guidance on the skills required of an effective Audit Committee Chair. The Independent Member commended the chairmanship of Councillor Hill at Audit Committee meetings, commenting that she was a very good Chair and demonstrated appropriate knowledge and skills for the role. He also stated that benchmarking would be helpful for some of the areas the committee looked at.
- The Chair welcomed the active participation which all members of Audit Committee demonstrated in meetings of the committee. She commented that every member of the Audit Committee asked appropriate and relevant questions to scrutinise and challenge reports. The Chair also drew attention to the two very experienced co-opted members who had an independent role and brought an additional challenge and perspective to the Committee. She stated that the role of the committee was well understood throughout the authority, which was very positive for the organisation.

RESOLVED that

1. The initial self assessment of the Audit Committee arrangements against the latest good practice guidance recommended by CIPFA, attached as Annex A, be endorsed.
2. It be noted that CIPFA had published a revised Position Statement on Audit Committees in Local Authorities, attached as Annex B, and that some future

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changes were likely to be needed to the current Terms of Reference to the Audit Committee as set out in the Constitution, to ensure that all aspects of the CIPFA's latest guidance could be reflected.

3. It be agreed that the Chief Internal Auditor work with the Chair of the Audit Committee to prepare a 2019/20 plan of any actions which may be needed to ensure that the Council's Audit Committee arrangements reflect, as far as practicable, CIPFA's latest guidance.

The committee adjourned for a short comfort break at 11:26 am and resumed at 11:34 am.

19. EXCLUSION OF PRESS AND PUBLIC

RESOLVED:-

(a) that under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following item on the agenda as it involved the likely discussion of exempt information as defined in Part 1 of the Schedule 12(A) of the 1972 Act, and

(b) that the public interest in maintaining the exemption outweighed the public interest in disclosure for the following reasons:-

Agenda Item 9, Paragraphs 3 of Part 1 of Schedule 12A

Information relating to the financial or business affairs of any particular person (including the authority holding the information).

20. REPORT OF CHIEF INTERNAL AUDITOR

Internal Audit Review of Street Lighting Modernisation Project

The Chief Internal Auditor introduced the above report which advised the Audit Committee of Internal Audit's proposed review of the Council's Street Lighting Modernisation Project, following discussion of the subject at County Council on 1 May 2019. The Internal Audit Project Brief for the assignment, which set out the Terms of Reference for Internal Audit's work, was attached at Appendix 1. (A copy of the report is filed with the signed Minutes of the meeting as Appendix F.)

The Project Brief set out background information and the objectives of the review. It was proposed that a draft report would be issued to the Chief Executive, the Audit Client, by 4 November and an assessment and report would be provided to the Audit Committee once that work had concluded.

In response to a question the Chief Internal Auditor said the review was not in conflict with work carried out by Scrutiny Committee as audit and scrutiny had different functions and objectives.

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Members discussed a number of issues relating to the contract and the Chief Executive provided information on the background to the audit review set out in the committee's papers.

It was noted that it was not a requirement for the contract to be complete before a review could take place.

In terms of the audit process, the Chief Internal Auditor explained that it was a system and controls based approach, evidence would be gathered and initial testing would be carried out followed by discussion with officers. If required, members would be consulted but that may not be a necessary part of the audit process.

In response to comments made by members, the Chair reminded all committee members that the work of Audit Committee was apolitical and that political views should not influence the consideration of matters by the committee regarding the Framework of Governance, Risk Management and Control.

Subject to the review being concluded in time, a report would be brought to November's meeting or, if not, to a subsequent meeting of the Audit Committee.

RESOLVED that the planned assurance coverage by Internal Audit in relation to the Council's Street Lighting Modernisation Project be noted and a further report be presented to the Audit Committee in due course.

CHAIR: _____

DATE: _____