



RESPONSE OF THE CHIEF EXECUTIVE

TO

"NORTHUMBERLAND COUNTY COUNCIL AUDIT RESULTS REPORT FOR YEAR ENDED 31 MARCH 2019"

Introduction

On 25 June 2019, Ernst and Young LLP (EY) contacted Northumberland County Council to explain that on 17 March 2019 they had received a complaint from a 'whistleblower'. EY sought confirmation that the County Council would authorise additional work (at an extra cost to be determined) which would be performed by EY pursuant to those 'whistleblowing' allegations. EY initially requested that the County Council fund an additional 15 days of external auditor time, at a daily price rate or final value of which was not disclosed to the Council until the final draft report was received from EY on 7 November 2019. The County Council agreed to fund the additional work requested by EY on 22 July 2019 without knowledge of the costs involved but known that it would be based on the estimate of 15 days additional external auditor time.

EY have confirmed in their report received on 7 November 2019 that '***From the additional procedures undertaken we did not find evidence to support the allegations regarding a lack of independence and integrity of senior management, bullying, or the inappropriate use of funds for political purposes.***'

The County Council recognise that the 'whistleblowing complaint' has now been fully investigated and is now concluded. This is recorded on the County Council's Whistleblowing Register to this effect.

Context

The County Council takes 'whistleblowing' complaints very seriously and at the outset of the call made to the County Council on 25 June 2019 acknowledged that the matters being raised, should they prove to be founded, would be of significant concern.

The County Council has responded to all requests for information and all staff that have been interviewed as part of the 'whistleblowing' complaint agreed to do so without knowing what the nature of the 'whistleblowing' complaint was and also what policy and procedures they were being asked to be interviewed in accordance with. The County Council requested that all staff being interviewed in relation to the EY 'whistleblowing complaint' were offered a notetaker and accompanied by a colleague or representative should they wish to have them present, EY allowed the interviews to take place on this basis. County Council staff who were interviewed received their

notes of the interviews which took place in August earlier this month i.e. on 5 November 2019.

EY have advised that they are unable to provide the County Council with a copy of their Whistleblowing Policy for commercial reasons.

Comment from Chief Executive – Findings

There are some specific matters that I would like to comment on in relation to the findings within EY's report which was received on 7 November 2019 and these are as follows:

Accuracy of the report

I have made EY aware that some parts of their report are factually inaccurate. EY have not corrected parts of their report to reflect the inaccuracies highlighted to them at this time. The report also does not reflect all of the supporting evidence which I have provided to them both verbally and as written or digital evidence. Based on this, it is my view that EY have also not sought to properly authenticate a number of the 'whistleblowing' claims made to them and have drawn their own conclusions on a number of matters which are unsupported by the evidence available. EY have furthermore not at any time sought to discuss these matters (or their report) with the County Council. This is not usual audit practice and carries risks that the External Auditor may have drawn conclusions which are fundamentally wrong.

Turnover of S151 Officers

Whilst the County Council strives to be an employer of choice, and attract and retain the highest calibre of officers, the County Council – as with all other organisations – is limited in what it can reasonably do to control staff turnover. The County Council has a well resourced central Finance team which includes several very senior, highly experienced Finance officers, including a Deputy Section 151 Officer who is a long serving employee and who has acted as Section 151 Officer throughout this period of time which demonstrates appropriate continuity. The County Council therefore is confident that it can demonstrate appropriate administration over its financial affairs; we have noted the praise imparted by EY over the course of the most recent audit fieldwork regarding the diligent handling of the Authority's financial management. As has already been notified to EY, we are pleased to report that a permanent appointment to the post of Executive Director (Finance) has been made with the postholder scheduled to take up their duties (subject to approval by the County Council) in December 2019.

Maintenance of a sound system of internal control

Contrary to what is stated in the Audit Results Report, the Chief Internal Auditor has not taken on those roles stated in the report which could be 'perceived as a management function'. In particular, the Chief Internal Auditor's attendance at meetings of the Executive Team and Transformation Board is in a capacity which is entirely consistent with the Public Sector Internal Audit Standards 2017 (and its related Local Government Application Note of 2019); and also the Chartered Institute of Public Finance and Accountancy (CIPFA) publication 'Statement on the Role of the Head of Internal Audit in Public Service Organisations' 2019. The Chief Internal

Auditor has not assumed any operational responsibility for work relating to complaints, but is undertaking a Value for Money review which is entirely consistent with her role and appropriate.

In November 2017 Audit Committee received an assessment of the Internal Audit Service's compliance with the Public Sector Internal Audit Standards, including those provisions relating to objectivity and independence. There were (and are) no concerns highlighted in this regard. In addition, Audit Committee at that meeting agreed the Internal Audit Charter which provides that if the span of management control of the Chief Internal Auditor were to dictate, separation of duties is enforced within the Internal Audit team to ensure sufficient independence.

There is only one duty which has been performed by the Chief Internal Auditor which may be perceived to represent a 'non-audit duty' which for the sake of full disclosure I report here. In 2017 the Chief Internal Auditor participated in the procurement exercise for the appointment of a local auditor under the Local Audit and Accountability Act 2014, as was made clear in a report to Audit Committee on 30 November 2016, and a further report to County Council on 5 July 2017. EY were aware of the Chief Internal Auditor's role in this process as she participated in their own clarification interview as part of this process (attended by the EY Key Audit Partner, Stephen Reid) which took place on 25 May 2017.

The Chief Internal Auditor's independence is safeguarded by a functional reporting line to the County Council's Audit Committee, again as set out in the Internal Audit Charter agreed by Audit Committee in November 2017. This is exemplified by the involvement of the Chair of Audit Committee in the Chief Internal Auditor's annual performance appraisal.

All appointments of staff within the Internal Audit team have followed the County Council's policies and procedures. Where any potential conflict of interest (involving any team member) is identified strict procedures are in place within the Internal Audit team to ensure that any threat to independence is managed appropriately.

Report Clearance

The County Council is aware that on a handful occasions in 2018, when the Section 151 Officer was unexpectedly absent, the acting officer's name was added to reports during the report clearance process in error. Once this was reported in 2018 the County Council introduced procedures to ensure that there has not been and there will not be a recurrence of this. This explanation was provided to the External Auditor.

Concluding Remarks

The County Council's Audit Committee, as part of its agreed Terms of Reference, is charged with maintaining oversight of the County Council's framework of governance, risk management and control. I consider my commentary above relevant to the Audit Committee in order to ensure that the Audit Results Report for year ended 31 March 2019 is viewed in a fair and proper context. As the 'client' for this report, I am unable to agree or support its conclusions which (as evidenced above) I consider to be in part disproportionate and without basis.

The Audit Results Report now indicates that at the time of writing, EY have incurred 26 days of time on this matter rather than the 15 days initially estimated and propose to charge the County Council £20,102 for this additional ‘whistleblowing’ assignment. I have already indicated to EY that I will require a detailed breakdown of this fee to ensure that the work incurred is evidenced accordingly and considered appropriate for approval for payment in line with the County Council’s financial regulations.

I would like to reiterate to the Audit Committee that the findings by EY in relation to the ‘whistleblowing’ complaint were that EY *‘did not find evidence to support the allegations regarding a lack of independence and integrity of senior management, bullying, or the inappropriate use of funds for political purposes’*.

Daljit Lally
Chief Executive Officer
27 November 2019