

**NORTHUMBERLAND COUNTY COUNCIL  
AUDIT COMMITTEE**

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

**PRESENT**

G Hill (Chair)

**COUNCILLORS**

G Castle (part)  
L Grimshaw  
M Purvis

M Swinburn  
I C F Swithenbank  
D Towns

**CO-OPTED MEMBERS**

A N Haywood-Smith

**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<br>Chief Executive |
| A Elsdon   | Service Director - Finance                                    |
| A Hartwell | Snr Mgr Safeguarding and Education<br>Performance             |
| D Jackson  | Service Director - Education and Skills                       |
| 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                                   |
| A Stewart  | Finance Manager   |

**ALSO IN ATTENDANCE**

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

A Bridges, Head of Communications  
C Angus, Scrutiny Officer (observer)

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Press: 2

Public: 1

## **21. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor L Rickerby and A Hall, co-opted member.

## **22. MINUTES**

**RESOLVED** that the minutes of the Audit Committee meeting held on 25 September, as circulated, be confirmed as a true record and signed by the Chair.

At that point the Chair reminded members that the rules of purdah applied. In terms of the agenda she asked that it be re-ordered to discuss item 4a, followed by item 5 then back to item 4b. The committee agreed to the request.

## **23. REPORT OF THE EXTERNAL AUDITOR**

### **(a) External Audit Report - Audit Results Report for year ending 31 March 2019**

Mr S Reid, External Auditor from Ernst and Young (EY), introduced the above report which summarised the findings and results from the 2018/19 external audit of the Council (a copy of which is filed with the signed Minutes of the meeting as Appendix A).

Mr Reid referred to the Audit Committee meeting of 24 July, when Mr Reid had explained his view that he was unable to issue an opinion on either the financial statements or a value for money conclusion. Mr Reid explained that this was because on 17 March 2019 he had received allegations relating to senior management and others who had significant roles of internal control. On 24 July 2019 Mr Reid told the Audit Committee that he had decided that these allegations were to be treated by EY as a whistleblowing disclosure and investigated as such. After completion of the work by EY, draft reports were shared by Mr Reid with the Council on 20 September and 24 September. The Council responded with comments on 23 September, 24 September and 1 October. A further draft report was issued by Mr Reid to the Chief Executive on 6 November.

In respect of Value for Money, Mr Reid had concluded there were significant risks in relation to taking informed decisions, details of which were provided on page 7 of the report. In terms of the conclusion Mr Reid said he expected to issue a modified opinion on the Council's Annual Governance Statement following the Council's decision not to amend it further in relation to Value for Money.

Mr D Lister then provided some background information stating that EY's Forensic Team had been asked to undertake some additional procedures to help determine the impact of the allegations and a work plan was put in place. He emphasised the importance of making the committee aware that EY's work was not a whistleblowing investigation on behalf of the Council or Ernst and Young. Whistleblowing in terms of their work was in relation to the parties who came forward. This was instead a 'protected disclosure'. For a period of six weeks they had reviewed material and interviewed employees of the Council.

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As highlighted in the report Mr Lister stated that their findings were limited by the Council insisting that Council representatives and notetakers be allowed to attend those interviews.

From the additional procedures undertaken EY stated that no evidence was found to support the allegations regarding a lack of independence and integrity of senior management, bullying or the inappropriate use of funds for political purposes. However, several areas were identified for Ernst and Young to take forward.

The Chair then invited the Chief Executive to respond.

## **24. REPORT OF THE CHIEF EXECUTIVE**

### **Northumberland County Council - Audit Results Report Year Ended 31 March 2019**

The Chief Executive introduced the above report (a copy of which is filed with the signed Minutes as Appendix C) in response to the EY report 'Northumberland County Council Audit Results Report - Year Ended 31 March 2019 – Report of the Chief Executive'.

The Chief Executive referred to the Audit Committee meeting on 24 July when Ernst and Young had requested additional time to complete the 2018-19 accounts due to whistleblowing allegations they stated that they had received in March 2019. As the local authority took all reports or allegations very seriously, it supported EY to take swift action in that respect. Whilst officers were keen to sign off the outstanding financial statements for 2018-19, it was important to officers that the allegations received by EY were investigated robustly and transparently.

Having received the draft report from EY which covered their work regarding the allegations they said they had received, the Chief Executive said she had made EY aware that some parts of it were wholly factually inaccurate and that the EY report made no reference to supporting evidence which she had provided to them and which clearly rebutted several aspects of the EY report. She was further concerned that EY had not, at any time, sought to discuss these matters, or their report, with the Council which was a highly unusual audit practice and heightened the risk that the External Auditor could draw conclusions which were fundamentally wrong. She would have welcomed the opportunity to have a discussion with EY about their report, rather than discussing this with them solely at Audit Committee, but EY had not at any time sought to hold a conversation with her about the draft report. It had left the Chief Executive disappointed that the high standard of probity and confidence which she expected from the Council's External Auditor had been significantly diminished by that process.

In addition the Chief Executive noted in the report that EY had commented on correspondence they had received subsequently from the Council proposing to remove EY as Local Auditor. What EY had not outlined was that they had failed to meet the statutory deadline set out in the relevant regulations by which date they were required to submit their response to the proposals. Instead EY had requested an extended deadline which then meant that the Council did not have enough time to follow agreed procedures and take those recommendations for removal to County Council in November 2019 as had been originally planned. The Chief Executive also informed Audit Committee that a preparations to propose the removal of EY had begun in April 2019, several months before

the County Council had even been made aware by EY that EY had received allegations which they advised in July 2019 they were choosing to classify as 'whistleblowing'.

It was also pointed out that correspondence had been exchanged between the County Council with EY since October 2017 outlining concerns the Council had regarding EY's performance and behaviour of certain key officers within EY and requesting a change of lead personnel from EY. Those issues however remained unresolved by EY despite several attempts to do so by the Council. Given that background whereby the County Council had previously expressed its concerns about EY's performance as far back as 2017, the Chief Executive questioned the independence and integrity of the report brought to Audit Committee that day.

Notwithstanding that, EY had stated in their report *"from additional procedures undertaken we did not find evidence to question the independence and integrity of senior management in the Council, of bullying, or the inappropriate use of funds for political purpose"* and that was unsurprising but welcomed. The Chief Executive said she was therefore very concerned that EY had gone on to question the management and integrity of the Council, in a series of statements apparently based on their perceived opinion and views, rather than evidence gathered or based on fact. That was contradictory given that they had clearly stated they had found no evidence as mentioned previously. The report was inconsistent, incoherent and filled with subjective statements, many of which were neither qualified, had context nor were based on fact.

The Chief Executive did, however, accept that the Council needed to respond to some of the issues raised by EY, and reassured the Audit Committee about the following issues:

#### **Turnover of S151 Officers**

- Whilst the Council aimed to be an employer of choice, and retain the highest calibre of officers, like all other organisations it was limited in what it could do to control staff turnover.
- The Council had a well resourced central Finance Team which included several very senior, highly experienced finance officers, including a Deputy Section 151 Officer who had over 30 years experience in the organisation, and provided continuity throughout the Section 151 officer changes.
- The Council refuted any suggestion that it was not able to demonstrate appropriate administration over its financial affairs; to the contrary, it 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 had already been notified to EY, a permanent appointment to the post of Executive Director of Finance and Section 151 Officer had been made, with the postholder scheduled to take up duties in December 2019.

#### **Report Clearance**

- The Council was aware that on some occasions, when the Section 151 Officer was unexpectedly absent, the name of the deputy Section 151 officer was added to an internal report during the report clearance process in error.
- Procedures had been introduced over a year ago to ensure that didn't happen again and a robust internal sign off process had been implemented.

#### **Maintenance of a sound system of internal control**

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- Contrary to the report, the Chief Internal Auditor had not taken on roles 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 was in a capacity which was 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' 2018.
- The Chief Internal Auditor had not assumed any operational responsibility for work relating to complaints but was undertaking a 'value for money' review which was entirely consistent with her role.
- 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 no concerns highlighted in that regard, nor had there been any since.
- In addition, Audit Committee at that meeting agreed the Internal Audit Charter which provided that if the span of management control of the Chief Internal Auditor were to dictate, separation of duties was enforced within the Internal Audit team to ensure sufficient independence.
- There was only one duty which had been performed by the Chief Internal Auditor which may be perceived to represent a 'non-audit duty' which for the sake of full disclosure the Chief Executive said she was happy to outline. Back 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 Full Council on 5 July 2017. EY was aware of the Chief Internal Auditor's role in that process as she participated in a clarification interview as part of the process (attended by the EY Key Audit Partner, Stephen Reid) which took place on 25 May 2017.
- The Chief Internal Auditor reminded EY of that role during her recent interview, but EY did not include it in the Audit Results Report.
- The Chief Internal Auditor's independence was safeguarded by a functional reporting line to the Council's Audit Committee, again as set out in the Internal Audit Charter agreed by Audit Committee in November 2017. That was 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 had explicitly followed the Council's agreed recruitment processes, with the involvement of the Human Resources team.
- Where any potential conflict of interest, involving any team member, was identified strict procedures were in place within the Internal Audit team to ensure that any threat to independence was stringently managed.

### **Process and Transparency**

- The Chief Executive said she remained concerned at several aspects of EY's approach and the process which had been followed. She found it disturbing, and contrary to the rules of natural justice, that the nature of the whistleblowing allegations had never been put to the Council, and it did not know what had been alleged.
- The Council had been denied the opportunity to respond to any allegations or to evaluate and learn from any views which had been expressed.

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- The Council had been advised that the matters had been examined under EY's own whistleblowing policy, but EY had consistently refused to provide a copy of that policy. The Council was therefore unable to determine whether the policy had been followed which was not open or transparent. The Chief Executive expressed dismay that, contrary to what had been stated repeatedly by EY up until the actual Audit Committee meeting, EY were now saying that their work did not in fact comprise a 'whistleblowing investigation'. The point was made that this was very late in the process for EY to be changing its stance on this matter.
- Areas which the External Auditor initially indicated would be examined by EY were not; instead, other areas appeared to be added into the External Auditor's coverage which compounded the lack of transparency inherent in the process adopted by them.
- Contrary to assurances provided by EY to the Audit Committee on 24 July, EY did not prioritise that work and interviews were only arranged with staff at the Council's insistence three weeks later.
- The conduct of interviews was questionable. Interviews were cancelled by EY on several occasions at short notice. EY initially stipulated that Council officers could not be accompanied in their interview, and must attend alone, however, they did allow interviewees to be accompanied in the end. They demonstrated a clear lack of local government knowledge, for example not knowing what a 'Section 151 Officer' was.
- All information requested was supplied to EY as quickly as possible, with final information requested by EY as late as 9 September 2019; which was supplied on 10 September 2019 - there were no delays from the Council.

In summary the Chief Executive said the Council was an open and transparent organisation. Since her appointment in 2017 it had sought to encourage staff, elected members and all stakeholders to speak out if there was any concern that wrongdoing may have taken place. She had been clear that the Council would always operate lawfully, transparently and in the interests of the communities it served. The 'Safecall' confidential reporting hotline had been introduced expressly for that purpose. It must, however, always be borne in mind that some whistleblowing allegations may not be correct and some may be motivated by bias, malice or other vexatious intention on the part of the 'whistleblower'. For those reasons, it was essential that the rules of natural justice must prevail, and that it could be assured that all concerns were investigated appropriately and with recourse to the relevant due process, and that the process itself was transparent.

The Council's Audit Committee, as part of its agreed Terms of Reference, was charged with maintaining oversight of the Council's framework of governance, risk management and control. The Chief Executive said she considered her aforementioned comments essential in order to ensure that the EY Audit Results Report for the year ended 31 March 2019 was viewed in a fair and proper context.

As the 'client' for that report, she was unable to agree or support the majority of its conclusions in terms of the additional procedures which, as evidenced above, she considered to be wholly disproportionate and without basis or evidence. She also reiterated that EY had stated in their report "from additional procedures undertaken we did not find evidence to question the independence and integrity of senior management in the Council, of bullying, or the inappropriate use of funds for political purpose" and said, for her, that should be the end of the matter. She was very proud of the significant progress the Council had made as an organisation over the last two years, which in turn had

improved the overall performance of the Council and she would not have that derailed by a series of unsubstantiated statements based on perceived opinion and subjective views.

The Chair then invited questions from the committee. Issues raised and responses given were as follows:

- Page 8 of Appendix A made reference to correspondence from the Chief Executive to remove EY as External Auditor, a committee member asked what was the relevance of that and did it have a bearing on the issues raised in the report? In response Mr Reid, said under their professional obligations, EY was obliged to consider everything up until 31 March in deciding what to include in their report. Work, conclusions and findings were subject to extensive consultations within EY. They viewed the letter received at the beginning of October to remove EY as External Auditor as a serious matter and, in the context of the report, they felt it was a matter the committee should be aware of.
- In response to comments and questions by the Chair, Mr Reid confirmed he was aware of the correspondence exchanged between the Council and EY in 2017 and 2018 requesting a different individual from EY be deployed as senior partner stating it was a matter considered by EY at the time. EY sought feedback on the quality of services provided and the former Section 151 Officer had scored the service as 5 out of 5. He also referred to an appointment process whereby a decision was undertaken to re-appoint EY as External Auditor.
- The Chair of Audit Committee asked whether, in knowing that the County Council had previously expressed concern about his performance and his leadership of the audit of the County Council, he could be truly impartial and show sufficient objectivity of mind in investigating allegations made against those that had requested he be changed as key audit partner. The Chair asked Mr Reid if he accepted that a request for someone to step down could be seen to impact on their independence in forming objective judgements? Mr Reid acknowledged the concerns but said that safeguards were in place and his report was subject to a review process within EY, including from a second partner (who Mr Reid did not name) who reviewed all of the findings. He added that the additional procedures in relation to the allegations made were undertaken by a separate team.
- The Chair said an Independent Audit Panel had supported the Council's view that its relationship with the External Auditors had irretrievably broken down and she felt that this put caution to what was being said in the report.
- Page 13 of Appendix A referred to the unadjusted difference of £11 million in the Advance Northumberland Group financial statements and it was queried why there was a discrepancy. In response Mrs Mellons said there was common expenditure on both sides and this did not impact on the accounts.
- A member said it was a very unusual situation and would be concerning to the readers of the report. He was not apportioning blame and hoped there would be a way forward to re-establish a good working relationship and trust between the Council and whoever its incoming external auditor would be.
- Clarification was requested from a member as to why the Council had not received details of the whistleblowing allegations or a copy of EY's whistleblowing policy. The Chief Executive added that her firm expectation was that people should be treated as they expected to be treated themselves and that EY should operate on openness and transparency, and have provided the Council with a copy of the whistleblowing policy under which the matter had been examined. That was why she was so surprised to hear from Mr Lister for the first time at today's meeting that

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this had not been a whistleblowing investigation, as the Council had never been made aware of that and this was a significant change in what EY had previously said. Irrespective of whether the whistleblowing in terms of their work was in relation to the parties who came forward, there should be a policy in place setting out the protection afforded to officers who were to be subject to investigation by EY. In response Mr Lister said his statement at the start of the meeting was accurate, i.e. that the matter was not now considered to be a whistleblowing investigation it was instead now thought by EY to be a protected disclosure. Protection had to be put in place for that individual and that was done under EY's internal methodology which they did not share with anyone. It was the difference between a whistleblowing policy and internal methodology which was causing confusion.

- On a point of order a member asked if it had been a whistleblowing investigation or not. In response Mr Reid said allegations had been made to EY and they went through a triaging process.
- In response to a query about governance, Mr Reid said his opinion that the Council's Annual Governance Statement did not sufficiently reflect the key findings identified in EY's additional procedures conducted in relation to the allegations received and their adverse conclusion about value for money. This had been conveyed to management who responded stating they did not wish to amend it further than they already had and EY disagreed with that. This was however a decision for the Council's senior team, not a decision for EY to take. In response to comments that they had not disagreed with it under the Terms of Reference agreed at the beginning of the year, Mr Reid said it had been when signing off the financial statements.
- Reference was made to the third paragraph on page 19 which said work had been undertaken by management to strengthen the governance arrangements in relation to the oversight of the subsidiary companies and it was queried if that was in relation to Advance Northumberland. Mr Reid confirmed that it was and said it was a modified value for money opinion in the absence of robust governance arrangements. He said it was a significant risk area and they had said they would follow it up on previous qualification. They determined, as set out in the report, that the governance process was not fully operational that is it had not been fully in place over the whole of the year in question. In response a member commented that the committee had received reports that measures had been put in place to address governance issues for Advance Northumberland which was a new company.
- A member reiterated that no evidence had been found to question the independence and integrity of senior management in the Council, of bullying, or the inappropriate use of funds for political purpose and referred to NAO guidelines regarding conflicts of interest, accepting hospitality, awarding contracts etc. He also referred to Articles 41 to 47 of the EU Charter in relation to fundamental rights and queried if EY employing a member of a former Senior Council employee's family was relevant. In response Mr Reid said the paper was to ensure full transparency and was appropriate.
- In response to comments by the Chair about relatives of previous senior County Council staff who had been offered employment with EY, Mr Reid said it was not appropriate for him to comment on any of EY's employees and he was not prepared to do so, however, he had responded outside of the meeting.
- In response to a question about staff interviews, Mr Reid said that ultimately staff had been allowed to be accompanied but he had made observations that the

presence of a notetaker from the Council in addition made it look like it was not an open and honest process.

- The Portfolio Holder for Corporate Services said he was confused as he had seen emails from EY stating they wanted to interview people as part of the whistleblowing investigations and now it was being said it wasn't a whistleblowing investigation. In response Mr Lister said he could add nothing further to what he had already said.
- The Co-opted member asked for clarification on the options available and queried the purpose of the discussions. In response the Chair said a full discussion would provide the committee with reassurance that all issues had been considered and it would need to note the reports and what the next steps would be.

***Councillor Grimshaw left the meeting.***

- A member referred to page 32 of the report, Value for Money, and said there had always been and always would be political tension between opposing groups. So EY were stating the obvious that would exist in any local authority in the country. The word 'pervasive' had been used in the last paragraph of the overall conclusion and he could not understand why as it would always be politically challenging.
- A member said he wished to make a point that this was the first time the Council had functioned with a single party Cabinet. He referred to the findings on page 30 relating to the Arch Group which stated that the same outcome could have been achieved by changing the name of Arch Group Holdings to Advance Northumberland at a significantly lower cost to the Council but it was not an option considered by Cabinet. He requested that those costings be made available to him. The Portfolio Holder for Corporate Services agreed to provide those costs but emphasised that there had been other issues to consider. There had been a serious reputational problem with Arch.

***Councillor Grimshaw returned to the meeting.***

- The co-opted member recalled a conversation about this with Mr Reid when he had been told it was a meaningful change. A transitional period was about direction and pace of implementing change into a new organisation.
- Mr Reid said that work in that area was around value for money. EY had focussed on the option presented to Cabinet and they had looked at the rationale provided. They had recommended a full option appraisal and a change of name was not an option within that paper.
- The Portfolio Holder for Corporate Services queried if EY's opinion would have been different if governance had been in place for a full year. In response Mr Reid said previous discussions with management and the former Section 151 Officer had indicated that governance would be in place in advance of the financial year and, if that had been the case, any modification in that aspect would have been removed.
- The Chief Executive said she had been clear in her statement that, for her, it was about being treated fairly. In terms of the Deputy Section 151 Officer's name having been printed on reports, it was acknowledged that mistakes could be made but she was concerned that some of the issues in the report were factually inaccurate. She acknowledged that after numerous drafts and amendments, some errors had been removed but she was very concerned that a number of other errors remained. She had gone to London last week to meet with a senior partner of EY to have the opportunity to express her concerns in person. She wanted her team to be treated fairly and for them to get on with managing the Council for the residents of Northumberland. She had given her opinion but EY had chosen to disregard it in the report presented to Committee today. She asked that both sides be treated fairly but felt that some of her team had not been treated at all fairly by the external auditor.

- The Chief Internal Auditor stated that at no stage at all in the process had either Mr Reid nor Mr Lister once spoken with her about the allegations or their findings. The Chief Internal Auditor was therefore deeply concerned that a report had been published when neither partner had once spoken with her about the content, and when the content was factually incorrect.
- The co-opted member referred to page 26 which referred to findings of the Internal Audit function and references made in 1) and 2) about the Chief Internal Auditor. He challenged whether these matters were really a conflict of interest, as it was not apparent to him that they were.
- Mr Reid said the views in the report were those of EY, they were not his personal views, and had sought to discharge obligations in a clear and balanced manner. In relation to the report there were various drafts and the agreed protocol was to share reports with the Chief Executive and to share comments and observations. Where EY was satisfied evidence had been provided, the report was amended. The latest draft had been issued on 6 November and no further comments had been received from the Chief Executive. At the end of the last Audit Committee meeting, during informal discussions, Mr Reid said he had indicated he was available to meet with officers and the Chief Executive. With regard to page 26, there were a number of issues around perception which could be seen as a conflict of interest but these could be rectified by the recommendations in the third column.
- The Chief Internal Auditor referred to the public sector internal standards mentioned in the report and said the report made no reference to the specific Local Government Application Note which accompanied public sector internal audit standards and which was important. She quoted the relevant parts of the Public Sector Internal Audit Standards to the Committee, and also relevant extracts from the latest guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) published in 2019 relating to the role of the Head of Internal Audit. The Chief Internal Auditor wished to make clear to the Committee that all actions taken by her were entirely consistent with the Public Sector Internal Audit Standards; the related Local Government Application Note; and CIPFA latest guidance on the role of the Head of Internal Audit in local government. Nothing had been done which was in any way inconsistent with either the Standards or related professional guidance. She commented that it was a shame that EY had not spoken with her regarding their draft report as she would then have had the chance to point out those parts of EY's report which were inaccurate, prior to EY publishing their report containing those inaccuracies.
- At that point the Chair referred to Appendix C, paragraph 5, regarding several matters which had not yet been concluded and asked Mr Reid if he wished to comment. Mr Reid replied that it would be better to discuss those issues after Appendix B, External Audit Report - Pension Fund Accounts for year ending 31 March 2019.
- The Portfolio Holder for Corporate Services reiterated that, clearly there was a breakdown in the relationship between the Council and its External Auditors and they would discuss how to move on later in the meeting. He said he would have expected more communication from EY, other than reports being issued by email, as some of the issues could have been easily resolved through discussions.

The Chair recommended that members note and receive the Audit Results Report (Appendix A) and the Chief Executive's response (Appendix C), as she would not be happy to accept the findings or to dismiss them. Issues raised would be considered along with the next steps.

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Members commented as follows:

- A line should be drawn under the situation and the Council should look to the future.
- Many parts of Appendix A were very hard to accept and members should note the findings without fully accepting all of the conclusions.

In response Mr Reid reiterated that views expressed in the report were not his own, they were the views of EY based on evidence which had been provided.

The Cabinet Member for Corporate Services said this was another year when work had again not been completed on time by External Audit and in which EY had missed the required statutory deadlines . He hoped that in the future any relationship between the Council and its External Auditors would include more communication. The Chief Executive reiterated that the decision to propose the removal of EY as external auditor had been made in April 2019, several months before the Council were even aware that EY had received allegations which they later proposed to investigate, which EY had only notified to the Council at a very late stage on 25 June 2019. Knowledge of the 'whistleblowing allegations' (which at today's meeting EY had said were not in fact whistleblowing allegations) could not therefore have had any bearing on the Council's decision to propose the removal of EY as the Council did not know about the allegations at the time it was formulating its proposals to remove EY. The decision to propose the removal of EY had been based solely on persistent performance issues in delivery of the audit and meeting deadlines.

The co-opted member referred to EY's statement at the beginning of Appendix A which said they expected to issue an unqualified audit opinion on the financial statements in the form set out in Section 3 and queried if anything could be done to alter that. In response Mr Reid said he could not issue any opinions until the accounts were finalised and approved by the Audit Committee. If they were amended he would reconsider his opinion.

Mr Reid made reference to two grant claims one for housing benefit and one for Teacher's pensions, which it was anticipated would be signed off by the end of the week. There was another claim relating to housing benefit pooling.

The Chair repeated her proposal that the Committee should consider noting and receiving the external auditor's report without accepting the findings or dismissing them, in view of the discussion which had taken place at the meeting. She thanked members for their contributions and asked if they had anything further to add. In the absence of any further comments it was:

**RESOLVED** that the External Audit Report - Audit Results Report for year ending 31 March 2019 (Appendix A) and the Report of the Chief Executive (Appendix C) be received and noted without accepting or dismissing the findings therein.

## **25. REPORT OF THE EXTERNAL AUDITOR**

### **(b) ISA 260 Pension Fund Accounts**

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Mrs C Mellons, External Auditor, introduced the above report which summarised EY's conclusions in relation to the audit of Northumberland County Council's Pension Fund for 2018/19 (a copy of the report is filed with the signed Minutes as Appendix B).

Mrs Mellons referred to 'other matters' at the bottom of page 18 which highlighted the decision to pursue a merger with the Tyne and Wear Pension Fund. It had been agreed with management that a post balance sheet event note was required disclosing that fact and that EY was also consulting on the impact of the proposed merger as the target date for the implementation of the merger was less than 12 months after the date that EY planned to sign the Pension Fund financial statements.

An update had been received to the effect that the merger was proceeding and the accounts were prepared as an on-going concern.

The Service Director - Finance said that some additional wording would be provided to confirm that. It was noted that this had been discussed at meetings of Cabinet, Pension Board and Corporate Services and Economic Growth Scrutiny Committee.

Mr Reid referred to a meeting of the Pension Fund Panel to be held on 6 December where accounts would be considered and after which EY would issue their opinion. There were some elements of the report which could not be completed until outstanding issues were signed off.

On another matter, Mr Reid said EY was unwilling to act as the Council's auditor any longer and he intended to write to the Chief Executive of NCC that day to notify the Council of EY's resignation which would trigger a 28 day notice period. He would set out the reasons for doing so and the reasons for issuing their adverse value for money conclusion. He added that the Council would be required to publish the Notice on its website.

The Chief Internal Auditor responded stating that a proposal to remove EY as local auditor was already in train, with notice to this effect having been served to EY on 4 October 2019. She stated that whether the proposed removal of EY, or conversely their resignation, would take precedence was essentially a legal matter on which a legal opinion would be required. However she pointed out that if a decision was taken to proceed with EY's proposed removal as local auditor, that decision would be made by County Council on 18 December 2019 i.e. in 21 days time which is before a purported resignation could take effect in 28 days time. She was not sure what would take precedence from a legal perspective and would need to seek advice.

**RESOLVED** that the report be received and noted.

## **26. REPORTS OF THE SERVICE DIRECTOR - FINANCE**

### **(a) Statement of Accounts 2018-19 and Pension Fund Accounts 2018-19**

A Elsdon, Service Director - Finance, introduced the above report which recommended that members of the Audit Committee approve the Statement of Accounts for 2018-19. (A copy of the report is attached to the signed Minutes as Appendix D.)

In terms of the Annual Governance Statement, she said that this did form part of the Statement of Accounts and S Reid had requested that some wording be added about the allegation of whistleblowing. Having taken advice and as the allegation was in the public domain, a paragraph was included at page 13 but A Elsdon wished to point out to the Committee that the external auditor had requested that the wording include more and go further than the wording currently used.

In the report presented to the meeting in July, the Council's External Valuer had made an error in some of the calculations which had resulted in an understatement to the valuation of assets used in the Statement of Accounts 2018-19. Amendments had now been made, resulting in changes set out on pages 4 through to 12 of the report showing an increase in the Council's net worth of £6.7 million.

With regard to EY's costs for additional work carried out, no invoice had yet been received.

In response to a request for reassurance that work relating to the housing benefit pooling claim would be completed, Mr Reid stated that because guidance from Central Government was late, it was not a piece of work EY had agreed to complete and, if they were no longer the Council's External Auditors, they would be unable to complete it.

Questions were invited from members of the committee and in response the following information was provided:

- Figures had not changed in relation to the Pension Fund Merger which was highlighted on page 15 of the report. Events to date, when hopefully the accounts would be signed off, must be taken into account.
- In terms of the Annual Governance Section, EY had not requested anything specific and the Council did not consider that any changes were necessary.

At that point Mr Reid said he had discussed current disclosures with the Section 151 Officer and highlighted his intention of issuing an adverse opinion. It was not his role to draft the Annual Governance Statement but there was an opportunity for the Council to do so as attention had been drawn to the report and he considered that there should be a change to the Annual Governance Statement. However this was a decision for the Council, not for Mr Reid.

***Councillor Swithenbank left the meeting.***

The Chair read out the recommendations set out in paragraph 2 of the report one by one, and asked for a show of hands from Audit Committee members as to whether or not each recommendation was agreed or not by each of the members of Committee present.

Following this show of hands in response to each recommendation, all members present agreed to all of the recommendations and it was therefore:

**RESOLVED** that

1. the changes to the Statement of Accounts 2018-19 be noted;
2. the changes to the Pension Fund Annual Report and Accounts 2018-19 be noted;
3. the statement of Accounts 2018-19 be approved;
4. the Pension Fund Annual Report and Accounts 2018-19 be approved.

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***Councillor Swithenbank returned to the meeting.***

**(b) Treasury Management Mid-Year Review Report for Period 1 April to 30 September 2019**

A Stewart, Finance Manager, introduced the above report which provided members with a mid-year review of the activities of the Treasury Management function for the period 1 April to 30 September 2019 and performance against the Treasury Management Strategy Statement (TMSS) 2019-20, as approved by the County Council on 20 February 2019. The report provided a review of borrowing and investment performance for the period set in the context of the general economic conditions prevailing so far during the year. It also reviewed specific Treasury Management prudential indicators defined by the CIPFA Treasury Management Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and approved by Council in the TMSS. (A copy of the report is filed with the signed Minutes as Appendix E.)

Attention was drawn to paragraph 5 on page 9 of the report which highlighted that interest rates had fallen dramatically in terms of borrowing and the opportunity to lock into some attractive rates. Total external borrowing had increased by almost £91 million as a result of maturing loans and new or replacement borrowing. The loans had an overall average interest rate of 1.76% and new loans had led to an improvement in the maturity risk profile in order to spread the risk. It was worth noting that the reduced need to borrow combined with the lower than expected interest rates were anticipated to generate an overall revenue saving of around £900,000.

It was highlighted that PWLB interest rates had increased by 100 bp's (1%) in October. However, the borrowing requirement for the year had been taken early to take advantage of rates before the increase.

Investment Activity was outlined in pages 9 to 11 of the report. As a result of additional borrowing, investment balances were currently higher, but were anticipated to reduce to around £75,000 by the end of March. In terms of interest received, it was estimated this would be £159,000 in excess of the budget.

Paragraph 8 on page 14 included information not available previously and it was confirmed that the authority's borrowing and investment rates compared favourably with those of other local authorities within the benchmarking group.

In response to a question as to whether interest rates secured were higher than the market rate, it was stated that, when looking at other options where borrowing could be secured with other suppliers, the rate was currently not as competitive.

It was confirmed that the increase in PWLB interest rates would have no effect on existing borrowing rates.

The Chair read out the recommendations set out in paragraph 2 of the report.

Members agreed to the recommendations and it was therefore:

**RESOLVED** that

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1. the report be received and the performance of the Treasury Management function from 1 April to 30 September 2019 be noted;
2. the report be presented to County Council.

## **27. REPORT OF THE EXECUTIVE DIRECTOR OF ADULT SOCIAL CARE AND CHILDREN'S SERVICES**

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

A Hartwell, Senior Manager - Safeguarding and Education Performance, introduced the above report which informed the committee of findings from external inspections that had taken place in the last 6 months (1 April 2019 to 30 September 2019) pertaining to Adults and Children's Services and to provide assurance that the resulting reports were receiving due scrutiny. (A copy of the report is attached to the signed minutes as Appendix F.)

Attention was drawn to the section on Special Educational Needs and Disabilities (SEND). This was new to Northumberland and was a Joint Targeted Area Inspection (JTAI) which was multi-agency in focus. The report set out incomes up to the published results and provided information about the scrutiny arrangements.

***(At this point, Mr Reid, Mr Lister and Ms Mellons of EY left the meeting.)***

A member had noted that 7 academies required improvement and queried what kind of improvements were needed. She expressed concern that more problems were occurring in disadvantaged areas. Mr D Jackson, Director of Education and Skills, said the outcomes were based on Ofsted reports. When a school failed its Ofsted inspection it was put into special measures and had to become an academy. Berwick had done this on a voluntary basis, however, this made no difference as the Authority supported all schools and had a very close working relationship with all of them. Secondary schools could take a few years to turn around their performance for a variety of reasons such as a change of governing body and nature when becoming an academy. Other issues were recruitment and retention of staff. Results in Bedlington had improved this summer, less so in Ashington. The point about disadvantaged areas was acknowledged and it was stated that Ofsted had tried to reconcile that issue but were still very much a results driven organisation.

In response to concerns about SEND, the Director of Education and Skills said that all of Northumberland's special schools had been judged as good or outstanding. Some children with special needs were in mainstream schools and a special support service was available to them. In the last 6 weeks a new manager had been appointed to overview all of those services and first line support would be issued regardless of cost. For the first time additional funding had been received for special needs and there was a 3 year financial plan in place.

The Chair expressed concerns about Berwick Academy and queried how residents could be reassured. The Director of Education and Skills said there was still a lot of work to do but a new Head Teacher had been appointed and an agreement had been reached with schools in the Borderlands. Improvements were being made for the next steps forward.

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He added that, having spoken to pupils on GCSE results day, many of them were very proud of their school and felt it had an unfair reputation.

In terms of the ten maintained schools currently requiring improvement, none of them had yet received monitoring visits. For 9 out of the 10 schools, a positive monitoring visit was expected. It was pointed out that a monitoring visit was not a full inspection of the school, it looked at improvements made to the areas identified as being weak. Significant improvements had been made since Ofsted inspections in 2013.

**RESOLVED** that the findings of the report be noted.

## **28. REPORT OF THE CHIEF INTERNAL AUDITOR**

### **Review of Audit Committee Arrangements**

K McDonald, Group Assurance Manager, introduced the above report which provided members with an interim (half yearly) monitoring statement in respect of the Strategic Audit Plan for 2019/20. (A copy of the report is attached to the signed minutes as Appendix G.)

Attention was drawn to the paragraph at the top of page 2 which provided a brief summary. During 2019/20, 39 assignments were programmed and at the mid year point 62% (24) were either complete or currently underway. Nine assignments (23%) had been concluded and issued with a further 15 (38%) underway. Work had also been undertaken to finalise 4 assignments from the previous financial year and in addition 5 emerging issues had arisen which had necessitated the re-prioritisation of internal audit resource .

The final column of the table in Appendix 1 provided a progress update.

**RESOLVED** that progress set out in Appendix 1 and the levels of planned coverage achieved by Internal Audit at this stage in the year be noted.

***Councillor Castle left the meeting.***

## **29. 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 11, Paragraphs 3 of Part 1 of Schedule 12A

Disclosure could expose the organisation to the risk of loss.

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### 30. REPORT OF CHIEF INTERNAL AUDITOR

#### Key Outcomes from Internal Audit Reports (Issued May 2019 - October 2019)

K McDonald, Group Assurance Manager, introduced the above report which advised members of key outcomes from Internal Audit reports issued between May 2019 and October 2019. (A copy of the report is filed with the signed Minutes of the meeting as Appendix H.)

The reasons for this being a confidential report were outlined.

Information was provided on the level of assurance for each audit, the number of recommendations made, areas of good practice identified and main findings. The progress made/actions taken by management in respect of key issues identified from each audit was also included.

Clarification was provided regarding card payments and target dates for implementing recommendations in accordance with Internal Audit's agreed processes.

In response to a question it was stated that Internal Audit had not issued any critical priority recommendations. It was likelihood and probability of risks materialising which must be considered.

A member queried if any problems had arisen with people trying to make a payment with a card which had expired as this could be done in error. In response the Group Assurance Manager said that had not been flagged up but was possibly a question for the service area.

**RESOLVED** that the Chief Internal Auditor's opinion that the framework of governance, risk management and control is satisfactory overall at this stage in the year be noted.

**CHAIR:** \_\_\_\_\_

**DATE:** \_\_\_\_\_