

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

At a meeting of the **Audit Committee** held at County Hall, Morpeth on Wednesday, 27 September 2017 at 10.15 a.m.

PRESENT

Councillor G Hill
(Chair)

COUNCILLORS

G Castle
A Hepple
E Simpson

M Swinburn
D Towns

CO-OPTED MEMBERS

A N Haywood-Smith

OFFICERS IN ATTENDANCE

A Elsdon
B J McKie
C Mellons
A Mitchell
K Norris
S Reid
A Stewart

Director of Corporate Resources
Group Assurance Manager
Ernst & Young, External Auditor
Chief Internal Auditor
Democratic Services Officer
Ernst & Young, External Auditor
Finance Manager

ALSO PRESENT

Councillor R Dodd, R Wearmouth (part)

8. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Purvis, Councillor Rickerby and Mrs I Walker.

9. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on Wednesday, 26 July 2017, as circulated, be confirmed as a true record and signed

Ch.'s Initials.....

by the Chair subject to the following amendment:

Page 7, first substantive paragraph, fourth line, the last word 'accountable' be changed to 'understandable'.

10. REPORTS OF THE EXTERNAL AUDITOR

(a) ISA260 Annual Accounts

Mr S Reid, External Auditor EY, referred to the Audit results report for the year ended 31 March 2017 which summarised the results of the audit pending completion of the outstanding matters highlighted in the report (a copy of the report is filed with the signed Minutes as Appendix A). At the last meeting an interim report had been presented to provide progress to date. There had been good co-operation from the Finance Team which had continued and there were no unadjusted audit differences or material adjusted differences arising from the audit. There had been two adjustments to the financial statements, one being a decision by the Administration to reverse a revenue to capital contribution and the other being a correction of collection fund debtor and creditor balances which had been identified by management as part of their quality review procedures on the draft accounts.

However, Mr Reid said that in his opinion, a key matter outstanding was a review being undertaken into Arch. He stated that External Audit had met with the Section 151 Officer for the formal audit clearance on the accounts and then with the Interim Chief Executive on 7 August, to discuss various matters including the strategic review which was underway relating to Arch. At the meeting with the Interim Chief Executive, Mr Reid had requested further information including the Terms of Reference for the review, a copy of the draft report setting out findings, information on the senior management restructure and a copy of the report on the review being commissioned on the historical financial information of the Council. Mr Reid explained his view that until the requested information was received, it was not known if additional external audit work would be required which could impact on External Audit's ability to conclude the audit within the required timeframe to allow the Council to meet its statutory reporting deadline. Mr Reid stated that four pieces of information had been requested at the meeting on 7 August 2017 and the team had continued to follow up on the requests since that date but none of the required information had been received up to 26 September. However, Mr Reid said that he had received an email from the Interim Chief Executive early on 27 September providing some, but not all of the information requested.

The Chair referred to discussions held in the private session and expressed concern that the statutory information requested by the external auditor had been refused. Other Committee members agreed that the Chair should contact the interim Chief Executive to express these concerns and request an explanation on behalf of the committee.

The Chief Internal Auditor was asked whether there was anything else that she would like to add to the discussion.

The Chief Internal Auditor said that she had been requested to leave the private part of the meeting in which Internal Audit and External Audit normally addressed the Audit Committee in private so could not impart relevant information which might have been helpful to the Audit Committee. The Chief Internal Auditor said that she was aware that there were a number of legal matters on which the Interim Chief Executive was taking advice but it was not appropriate for them to be discussed in an open session of the Audit Committee. The Chair said that she had asked the Chief Internal Auditor if she would like to join the private session once discussions with the external auditors were complete, who had requested to address the committee alone, and that she would have been happy to delay the start of the meeting; however the Chief Internal Auditor had declined the offer. The Chief Internal Auditor replied that she should have been able to be present in the private session as was normally the case, which would have allowed her to hear what was said by the External Auditor, and to respond appropriately by providing information relevant to what was being said by the External Auditor. The Chief Internal Auditor stated that this would have enhanced the Audit Committee's understanding of the matters which appeared to have been discussed in the private session.

Mr Ben Smith proposed that the meeting was adjourned and that a further private session be held, in order that the Chief Internal Auditor could speak with the Audit Committee in response to the comments just made by Mr Reid in the public part of the meeting. This was agreed at 10:30 am and committee members went into private session to discuss the matter further.

The meeting resumed at 10:50 am.

In response to questions the following information was provided:

- The missing figure on page 6 regarding the reversal of a revenue to capital contribution was £15.7 million, as stated later in the report. It was confirmed by Mrs Elsdon that it was a decision taken by the Leader of the Council after 31 March.
- There were two significant risks by default - income recognition and management override, which were risks for any Local Authority and not specific to Northumberland County Council. Mr S Reid explained that management of any organisation were in a unique position to by-pass controls and manipulate results and External Audit had therefore undertaken testing including looking at journal entries to discharge their obligations in assessing whether the risk had materialised. No concerns had been identified.
- With regard to 'Loans for Third Parties', Mr Reid said he was happy to update the information regarding the loan to Arch for Manor Walks.

RESOLVED that the draft report be received and the information be noted. The Audit Committee also agreed that, given the absence of information being made

available to them, they did not feel that they were in a position to approve the Council's accounts for signature.

(b) ISA260 Pension Fund Accounts

Mrs C Mellons, External Auditor EY, introduced the Audit results report for the Northumberland Pension Fund for year ended 31 March 2017 which had also been presented to the Pension Fund Panel (a copy of the report is attached to the signed Minutes as Appendix B).

The information in the Annual Report had been reviewed for consistency with the audited financial statements and External Audit's knowledge of the fund. No outstanding errors were found and there was nothing further to report. The report was ready to sign off but, as it sat with the accounts of the Council, it could not be signed off at this time.

RESOLVED that the draft report be received and the information be noted.

11. REPORTS OF THE DIRECTOR OF CORPORATE SERVICES

(a) The Statement of Accounts 2016-2017

The purpose of the report was to provide members of the Audit Committee with an overview of the changes made to the Draft Statement of Accounts presented in July 2017 (copy attached to the signed Minutes as Appendix C).

The Chair suggested that members should only agree to note the changes as they could not be confident to approve the accounts.

In response to questions the following information was provided:

- In terms of events up to the balance sheet date, any adjustments should be disclosed. If they were indicative up to 31 March, adjustments would be made.
- With regard to the reversal, the former Chief Executive had said it should be revenue contribution to capital. It was a general underspend which could have been transferred to and held in reserves. The impact of that was to increase general fund balances to the region of £53 million at the year end.
- It was confirmed that the Pension Fund did have a balance and money was borrowed from the Council due to timing issues. The Council paid pensioners from its bank account then the Pension Fund paid the money back.
- Data protection rules would need to be checked to ascertain if information could be accessed regarding the 106 organisations who had declared an interest. It was confirmed that related party transactions were available.

RESOLVED that the changes to the draft document be noted.

(b) Northumberland County Council Pension Fund Final Annual Report and Accounts 2016-2017

The report provided information about changes made to the draft Northumberland County Council Pension Fund Annual Report and Accounts published in July 2017.

Members were also requested to note the 2016-2017 Annual Reports of both the NCC Firefighters' Pension Scheme Local Pension Board and the NCC Local Government Pension Scheme Local Pension Board. (A copy of the report is filed with the signed Minutes as Appendix D.)

It was noted that the Pension Fund Panel had looked at the report in detail.

RESOLVED that

- (i) the changes made to the draft document contained in Appendices A and B be noted;
- (ii) the 2016-2017 Annual Report of the NCC Firefighters' Pension Scheme Local Pension Board be noted;
- (iii) the 2016-2017 Annual report of the NCC Local Government Pension Scheme Local Pension Board be noted.

(c) Corporate Fraud Team - Counter Fraud Annual Report

The report updated the Audit Committee on work undertaken by the Corporate Fraud Team within the Council during the year ended 31 March 2017 (a copy of the report is filed with the signed Minutes as Appendix E).

Barry Haigh, Corporate Fraud Manager, introduced the report stating that the Corporate Fraud Team had been established in April 2014 combining the previous work of the Anti Fraud Consultant with the Revenues and Benefits Fraud Investigation Team. It was important to demonstrate that resources were focused on fraud reduction and to identify, investigate and rectify administrative weaknesses in order to assure members of the quality and integrity of investigations. At the end of March 2017 the contract for the Anti Fraud Consultant had not been renewed and the team now consisted of himself, 3 Corporate Fraud Investigators and an Administrative Assistant. The team was established with the intention of becoming self funding over a three year trial period.

Mr Haigh summarised the report which provided detailed information regarding savings made, internal fraud, external fraud and proactive counter fraud work undertaken.

In response to questions the following information was provided:

- It was agreed that contact details of the Anti Fraud team be circulated to all members to enable them to pass on local information which could result in

more revenue being collected. It was also noted that there was a corporate fraud page on the Council's website.

- Investigations into single person discount could be completed in 4 to 8 weeks and was one of the quicker investigations to carry out.
- It was confirmed that the Fraud Team had access to Equifax and business login.
- Of 1700 fraud referrals, 60% had been investigated to a conclusion. It was acknowledged that resources within the team were finite but the 60% figure was not due to a lack of resources, but rather that on beginning to examine some referrals it became apparent that these were not valid (e.g. malicious referrals).
- It was confirmed that the Council was paid for work the Anti-Fraud team carried out on behalf of Isos. Work carried out on behalf of Isos did not impact on Council work as visits were incorporated and time managed efficiently.
- It was confirmed that the Council had anti-money laundering arrangements in place.

Councillor Hepple left the meeting at 11:40 am.

RESOLVED that

- (i) The progress in 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.
- (ii) The committee's thanks and congratulations be conveyed to the Corporate Fraud Team for the excellent work they had carried out.

(d) Statement of dividends paid by Arch to Northumberland County Council, Associates or any other Organisation.

The report advised the Audit Committee of any dividend payments paid by Arch, to whom they were paid and the value of the payment (a copy of the report is filed with the signed Minutes as Appendix F).

The Chair queried where misinformation had come from as a figure of £25 million had been repeated many times including in the media and by the MP for Wansbeck. In response Mrs Elsdon stated that she assumed that the figure had arisen from financial projections made by an officer within Arch, but she confirmed that the figure was not all paid dividend. The figure may have been calculated as a combination of the repayment of loans, after interest was paid and all costs taken out, and dividends, to a total of £25 million.

On a point of clarification it was stated that the Board of Arch had approved Arch making a payment to Active Northumberland.

The Portfolio Holder for Economic Development stated that 'dividend' was a term used loosely. Over a 3 year period there would be a £1 million payment to Active Northumberland, then an interest payment made to the Council which was effectively profit paid to the Council.

Further discussion ensued regarding figures made up of various elements which had been confused with a dividend.

With regard to £13 million interest due to be paid to the Council by Arch in the current financial year, it was stated that would be used to pay debt.

Clarification was provided regarding rates of borrowing and it was stated that some calculations could be done around average rates and pooled rates.

Concerns were raised about the figures which members did not consider to be reliable. After further discussion a member reiterated his point, made at the last meeting, that it would have been beneficial to have all information relating to Arch together within the NCC accounts. In response the Director of Corporate Resources said there was a prescribed format for the accounts but a foreword could be inserted to bring information together in the future.

RESOLVED that the contents of the report and comments be noted.

12. CHAIR'S ANNOUNCEMENT

The Chair reported that the advertisement for the independent persons for Audit Committee had gone live and she had asked for a link to be forwarded to her. If any other members would like to receive the link that could be arranged.

The Chair also stated that she would email members of the committee about her thoughts on some of the communication issues.

CHAIR:

DATE: