

## **NORTHUMBERLAND COUNTY COUNCIL**

### **AUDIT COMMITTEE**

At a meeting of the **Audit Committee** held at County Hall, Morpeth on Wednesday, 22 November 2017 at 10.15 a.m.

#### **PRESENT**

Councillor G Hill  
(Chair)

#### **COUNCILLORS**

G Castle  
M Purvis

L J Rickerby  
E Simpson

#### **CO-OPTED MEMBERS**

A Hall

A N Haywood-Smith

#### **OFFICERS IN ATTENDANCE**

A Bennett  
A Elsdon  
B J McKie  
C Mellons  
A Mitchell  
K Norris  
S Reid  
D Street

Technical Accountant  
Director of Corporate Resources  
Group Assurance Manager  
Ernst & Young, External Auditor  
Chief Internal Auditor  
Democratic Services Officer  
Ernst & Young, External Auditor  
Commissioner for Early Years and Primary

#### **ALSO PRESENT**

Councillor N Oliver, R Wearmouth (part), C Seymour (part)

1 member of the public

### **13. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Hepple, Swinburn and Towns.

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## **14. MINUTES**

**RESOLVED** that the minutes of the meeting of the Audit Committee held on Wednesday, 27 September 2017, as circulated, be confirmed as a true record and signed by the Chair subject to the following amendment:

Page 6, item (d) - first paragraph to read:

The report advised the Audit Committee there had been no dividend payments paid to the Council by Arch (a copy of the report is filed with the signed Minutes as Appendix F).

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

### **(a) ANNUAL AUDIT LETTER**

Mr Stephen Reid, External Auditor EY, advised that following the meeting of the Audit Committee on 27 September, he had received the outstanding information required to complete the audit which had been reviewed, and the implications considered. The updated Audit Results report had been sent to the Chief Executive and would be considered later within the urgent business of the meeting.

Please see Minute no. 19 (b) - Urgent Business for further details.

## **16. REPORT OF THE DIRECTOR OF CORPORATE SERVICES**

### **(a) TREASURY MANAGEMENT MID-YEAR REVIEW REPORT FOR PERIOD 01 APRIL to 30 SEPTEMBER 2017**

The report provided members with a mid-year review of the activities of the Treasury Management function for the period 1 April 2017 to 30 September 2017, and performance against the Treasury Management Strategy Statement (TMSS) 2017-2018, as approved by the County Council on 22 February 2017. It provided a review of borrowing and investment performance for the period set in the context of the general economic conditions prevailing to date during the year. The report 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 the Authority in the TMSS. (A copy of the report is filed with the signed minutes as Appendix B.)

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Alistair Bennett, Technical Accountant, summarised the report and said in terms of the strategy for 2017-18, it was proposed to maximise the use of internal borrowing where possible using investment balances to fund new capital expenditure or repay maturing debt. He said this was common practice amongst local authorities, was a cheaper method of borrowing and had reduced risk in terms of investment. The report covered the first six months up to 30 September 2017. It had been written in late October and since then the Bank of England had raised its interest rates, however, that had been expected and it was not felt it would have a massive impact.

As at 30 September borrowing had increased to £826 million, to date it was £802 million and by the end of the year should be down to £742 million. However, the actual need to borrow was much higher than that (£871 million) so internal borrowing was around £130 million. In terms of the budget, it was expected that borrowing would be below budget because of the change to the capital programme which had changed the forecast of what to borrow for the year. Interest received on investments was expected to be higher than budgeted due to increased balances and the final period of the report covered financial indicators. The capital programme showed that capital spend was envisaged to be £120 million in comparison to the original figure of £381 million. Figures had been revised because of a number of schemes had been changed or delayed resulting in a big reduction to the capital programme.

In response to questions the following information was provided:

- The table at paragraph 7.1 on page 9 of the report showed the original approved capital programme. The middle column showed what had been spent up to 30 September and the final column showed anticipated spend. Reductions were due to a number of schemes having been delayed and was down to slippage. An accurate conclusion could not be drawn from the final column which reflected changes and, going forward, was part of the medium term financial plan.
- There were currently around 130 schemes so to give an analysis of each one would result in a very lengthy report. In terms of Technical Services the original programme had included £15 million for multi storey car parks and the Dissington scheme. The Dissington scheme was no longer going ahead and the car parking programme had changed. The revised programme, which would go ahead in February, would show a different scheme.
- Financial indicators were based on the current programme and were well below target because the programme had changed. Indicators had a limit on maximum borrowing and did not show the proportion of borrowing to capital spend. The forecast was that there would be an underspend for debt and for borrowing.

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The Chair asked if members would find it useful to have a general training session on Treasury Management on the same day as an Audit Committee in the New Year. Members said that they would and it was agreed that this would take place.

**RESOLVED** that:

- (1) the report be received and that the performance of the Treasury Management function from 01 April to 30 September 2017 be noted .
- (2) The report be recommended to County Council.
- (3) A general training session on Treasury Management be arranged on the same day as an Audit Committee in the New Year.

## **17. REPORTS OF THE CHIEF INTERNAL AUDITOR**

### **(a) STRATEGIC AUDIT PLAN 2016/17; FINAL MONITORING STATEMENT STRATEGIC AUDIT PLAN 2017/18; INTERIM MONITORING STATEMENT**

The report provided members with the final monitoring statement of the Strategic Audit Plan for 2016/17; and an interim monitoring statement (up to 30 September 2017) for the Strategic Audit Plan 2017/18. (A copy of the report is attached to the signed minutes as Appendix C.)

The Strategic Audit Plan sets out the planned Internal Audit coverage and a final monitoring statement outlining progress against the Audit Plan for 2016/17 was attached at Appendix 1. A half yearly monitoring statement outlining coverage against the 2017/18 plan up to 30 September 2017 was attached as Appendix 2.

The Chief Internal Auditor explained that a number of emerging risks had been identified during the course of the year, which had necessitated a re-prioritisation of Internal Audit resource in line with normal auditing practice. A further report on final progress against the plan and the impact of this work on the audit assignments originally planned would be provided in the New Year. Regarding the 2018/19 Strategic Audit Plan, initial preparatory work would be carried out with Audit Committee at the committee meeting in January 2018.

It was stated that the Internal Audit team had achieved 94% of the planned productive audit days during 2016/17 and had exceeded the number of productive audit days in the current year due to utilising resources from the Shared Service partner. It was noted, however, that there was a high level of additional work

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requests and special investigations that had led to the need to re-assess the review of the overall Plan throughout the year.

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

**(b) KEY OUTCOMES FROM INTERNAL AUDIT ASSIGNMENTS (OCTOBER 2016 – JUNE 2017)**

The report summarised the outcomes from Internal Audit reports which had been finalised in consultation with management and issued during the period October 2016 – June 2017. Information had been provided on the level of assurance for each audit, the number of recommendations made (classified according to priority), areas of good practice identified, and main findings. (A copy of the report is attached to the signed minutes as Appendix D.)

Internal Audit would normally provide half yearly reports to the Audit Committee summarising key outcomes of work in the preceding six month period, however, as no meeting had been held in May, the report covered a slightly longer period. Details of audits carried out during the period of the review and audit opinions were provided in Appendix 1 to the report along with the level of assurance for each audit, the number of recommendations made, areas of good practice identified and the main findings. It was noted that no ‘critical’ recommendations had yet been issued.

Mr Hall, Independent Member, highlighted the audit findings about hardware and software and queried whether the agreed actions had been implemented. The Chief Internal Auditor explained that Internal Audit would normally undertake a follow up on audit recommendations made, focusing on high and medium priority recommendations. Due to emerging risks arising in the year and requiring substantial audit resource, as outlined earlier in the meeting, follow up had been delayed but would be picked up in the New Year.

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

**18. REPORT OF INTERIM DIRECTOR OF CHILDREN’S SERVICES AND DIRECTOR OF ADULTS’ SERVICES AND COMMISSIONING**

**(a) REVIEW OF EXTERNAL INSPECTION REPORTS – ADULTS & CHILDREN’S SERVICES**

The report informed members of the findings from external inspections that had taken place in the last 10 months (1st January 2017 to 31st October 2017) pertaining to Adults and Children's Services, and to provide assurance that the

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resulting reports were receiving due scrutiny. (A copy of the report is attached to the signed minutes as Appendix E.)

David Street, Commissioner for Early Years and Primary presented the report on behalf of Alan Hartwell, Senior Manager Education and Safeguarding Performance. He said there were some positive findings in the report and referred to Table 1, on page 2, Adult Care CQC Inspection Status, which showed that all registered services were rated as good, 1 as outstanding and 2 were awaiting their draft report. In terms of residential homes, all of the Council's residential homes from children and young people had been judged as good or outstanding. A peer review of Adult social care services was extremely positive about the Council's integrated services delivered to the community and the commitment of staff.

School inspections continued to be made and 35 primary school inspection reports had been published between 1 January 2017 and 31 October 2017. None had been judged to be outstanding, 24 were good, 10 required improvement and 1 inadequate. There had been 7 published inspection reports of secondary and middle schools during the same period of which none were judged to be outstanding, 5 were good and 2 required improvement. Overall, officers were not satisfied with the number of schools that were good or outstanding but it was pointed out that the period between inspections meant that statistics were slow to change even when improvements had been made. Nationally any school deemed to be inadequate would be closed or academised so would therefore drop out of the ratings. He believed that a higher number of Northumberland schools would be judged as good in two to three years.

In response to a query about the effect of Ofsted changing the parameters, Mr Street said parameters had been the same for a couple of years and Ofsted had said they would not change again until September 2018. Schools which had struggled with the new criteria had progressed greatly so, going forward, improvements should be seen. There had been 8 inspections that term, 7 of which were good.

Discussion ensued about local and national figures and it was noted that there had not been so many academy conversations in Northumberland as in other parts of the country.

In response to a question Mr Street stated that monitoring visits would take place within the next year and all primary and secondary schools, which were maintained schools, were taking effective action.

Mr Haywood-Smith queried if there were supportive living services within Adult Services. In response Mr Street said that was outside of his scope and he would refer the question to the Senior Manager Education and Safeguarding Performance.

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Councillor Rickerby expressed concern that parents would be getting a negative impression about education in Northumberland. Discussion ensued and it was acknowledged that people new to the County relied on data but there was also a strong influence of opinion from neighbours on how a headteacher managed the school etc.

Following discussion about failing academies, Mr Haywood-Smith queried if there was a risk in current processes and if Audit Committee should ask the Education Authority to play a full role to intervene when academies were seen to be failing. Councillor Castle felt that caution was needed and that Audit Committee should not become a Scrutiny Committee, however, he agreed it should look at ways of spending money as effectively as possible to support schools. The Chair then invited Councillor Oliver, Portfolio Holder for Corporate Services and Cabinet Secretary for his opinion. Councillor Oliver said that it was more appropriate that the Family and Children's Overview and Scrutiny Committee should consider such issues and in recent months an attempt to build a better relationship with the Regional Schools' Commission had taken place and significant progress made. The Chair stated that Audit Committee could flag up concerns and pass them onto the Chair of that committee.

**RESOLVED** that

- (1) The contents of the report be noted.
- (2) Audit Committee's concerns about failing academies and the risk to education of those children be forwarded to the Chair of the Family and Children's Overview and Scrutiny Committee.

**19. URGENT BUSINESS (IF ANY)**

**(a) THE STATEMENT OF ACCOUNTS 2016-2017 AND PENSION FUND ACCOUNTS 2016-2017**

Alison Elsdon, Director of Corporate Services, presented the above report which was tabled at the meeting and recommended that members of the Audit Committee approve the Statement of Accounts for 2016-2017 and the Pension Fund Accounts 2016-2017. (A copy of the report is filed with the signed Minutes.)

Following the Audit Committee meeting on 27 September the Council's External Auditors had now received all of the information they required to complete the audit. Minor changes had been made to the Statement of Accounts 2016-2017 which were presented to the Audit Committee on 27 September 2017, details of which were provided on page 2 of the report. There were no changes to the Pension

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Fund Accounts 2016-2017 that were presented to the Audit Committee on 27 September 2017.

**RESOLVED** that

- (1) the changes made to the draft Statement of Accounts document be noted;
- (2) the Statement of Accounts 2016-2017 be approved;
- (3) the Pension Fund Accounts 2016-2017 be approved.

**(b) ANNUAL AUDIT LETTER**

Mr Reid, the External Auditor, tabled the Audit Results Report at the meeting (a copy of the report is filed with the signed minutes as Appendix A).

Mr Reid referred to the Executive Summary on page 7 of the report. The second paragraph in relation to value for money summarised the position in respect of the review into arrangements of Arch and identified that the principles and values of sound governance were not always in place for some decisions taken by that entity during 2016/17. A modification to the value for money opinion was therefore required.

The third paragraph summarised the outcomes from the review of the Council's financial arrangements and concluded that there were no findings from the review that were material to the value for money conclusion.

The next addition to the report was under the section Valuation of land, buildings and investment properties, the following page explained a matter in relation to one fixed asset, owned by Arch, which had been valued at £1.9 million on a depreciated replacement cost basis. EY's valuation team had been consulted and had recommended that management at Arch commission a valuation using market value. He pointed out that the matter was solely for the Arch accounts and a judgemental unadjusted difference of £1.5 million had been included in the summary of unadjusted differences in section 4 of the report.

The final changes were on pages 24 and 25 of the report which set out matters referred to in the Executive Summary.

Mr Haywood-Smith requested further clarification regarding the modified opinion for value for money. Mr Reid referred to national guidance issued by the National Audit Office (NAO) which had 3 levels of criteria and each category then had sub-categories. Mr Reid said he had focussed on 'informed decision making' and there was an important sub-category, 'acting in the public interest, through

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demonstrating and applying the principles and values of sound governance'. He could not conclude that Arch (which is a company wholly owned by the Council) had taken decisions in line with sound governance.

Mr Haywood-Smith asked if assurance could be given that this was a 'one-off'. In response, Mr Reid stated that External Audit had identified risks and focussed on those areas. When they had planned the audit there were no particular high risk triggers identified at that stage. He pointed out that the majority of transactions over which there were questions were in the 2016/17 financial year.

In response to questions it was stated that Arch had not yet been dissolved and that would need to go through the approved processes. Similarly the creation of any new company would go through the correct processes. It was an independent decision by Arch to dissolve the company, there were no instructions from the Council to do so although it was acknowledged that it was in the new administration's manifesto that Arch would be dissolved.

The Chair referred to the special meeting of Audit Committee arranged for 6 December to discuss the review into Arch and said full discussions would take place at that time.

**RESOLVED** that

- (1) The modified value for money conclusion be noted;
- (2) the management representation letter be approved for signature.

## **20. EXCLUSION OF PRESS AND PUBLIC**

**RESOLVED** that under Section 100A (4) 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 disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act and as indicated below:

<b>Agenda Items</b>	<b>Paragraph of Part I of Schedule 12A</b>
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10 (1)	3
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Information relating to the financial or business affairs of any particular person (other than the authority holding that information).

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**AND** the public interest in seeking this exemption outweighs the public interest in disclosure because disclosure could adversely affect the business reputation or confidence in the person/organisation, and could adversely affect commercial revenue.

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

### **(1) PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

The report informed members of the requirements of the Public Sector Internal Audit Standards (April 2017) and the related Local Government Application Note; and the conformance by Northumberland County Council's Internal Audit service to the requirements of those standards. (A copy of the report is attached to the signed minutes.)

Allison Mitchell, Chief Internal Auditor, stated that the standards were very important and that every public sector Internal Audit provider was required to comply with the standards. Internal Audit had completed a checklist for assessing conformance with the PSIAS and the Local Government application note and she was happy to answer any questions in response to this and the evidence which was set out. It was noted that Internal Audit were fully compliant with 94% of standards, there was 5% where there was partial compliance and a couple of areas (less than 1%) where Internal Audit were not compliant. Between the current time and the end of March 2018, the actions set out clearly in the report would be implemented to ensure that there was 100% compliance by the end of the year.

Mrs Mitchell referred to the new Internal Audit Charter at Appendix B of the report which was also very important in re-emphasising Internal Audit's role, independence and rights of access amongst a number of other measures. There was a requirement in the Public Sector Internal Audit Standards that Internal Audit must be externally assessed every 5 years and their external assessment would be carried out by South Tyneside Council and completed by the end of March 2018.

Clarification was provided regarding some of the terminology used in the report.

The Chair thanked the Chief Internal Auditor for all of the work she had done and it was:

**RESOLVED** that:

- 1) The legal requirements required to be fulfilled by all Internal Audit service providers delivering Internal Audit activity within relevant authorities in England and Wales (the Public Sector Internal Audit Standards and related Local

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Government Application Note) be noted;

- 2) it be noted that a self-assessment of adherence to the Public Sector Internal Standards and the related Application Note had been performed and was attached as Appendix A. That this demonstrated that the Internal Audit service delivering to Northumberland County Council had demonstrated a high level of conformance to the requirements of the standards;
- 3) it be noted that in the small number of areas where further development had been identified to secure full conformance to the standards, appropriate actions were planned to ensure that was the case, and that an update would be provided to a future meeting of Audit Committee on progress in relation to those actions;
- 4) the updated Internal Audit Charter, attached as Appendix B to this report, and which is a requirement of the Public Sector Internal Audit Standards be agreed;
- 5) it be noted that it was a requirement that the Internal Audit service will be externally assessed at least once in every five years, and agree that Northumberland County Council's external assessment would be performed before March 2018 via a tripartite arrangement involving Newcastle City Council and South Tyneside Council;
- 6) to note that the outcomes from the external assessment would be reported to a future meeting of Audit Committee once the external assessment had been completed.

**CHAIR:**

**DATE:**

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