

**NORTHUMBERLAND COUNTY COUNCIL  
AUDIT COMMITTEE**

At a meeting of the **Audit Committee** held at County Hall, Morpeth on Wednesday, 23 May 2018 at 10.15 a.m.

**PRESENT**

Councillor G Hill (Chair)

**COUNCILLORS**

G Castle  
M Purvis

E Simpson  
M Swinburn

**CO-OPTED MEMBERS**

A Hall

A N Haywood-Smith

**OFFICERS IN ATTENDANCE**

A Hartwell (part)	Senior Manager Education and Safeguarding Performance
K McDonald	Group Assurance Manager
B J McKie	Group Assurance Manager
A Mason	Finance Manager
C Mellons	Ernst & Young, External Auditor
A Mitchell	Chief Internal Auditor
C Mulley	Ernst & Young, External Auditor
K Norris	Democratic Services Officer
B Scarr	Executive Director of Finance
A Ward	Communications Lead - External

**ALSO PRESENT**

Councillor N Oliver, Portfolio Holder for Corporate Services

Other Councillors: B Flux, B Pidcock, C Seymour, I C F Swithenbank  
Press and public: 4

**01. MEMBERSHIP AND TERMS OF REFERENCE**

The Membership and Terms of Reference for the Audit Committee, as agreed by Council on 2 May 2018, were reported for information.

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**RESOLVED** that the information be noted.

**02. CHAIR'S ANNOUNCEMENT**

The Chair welcomed everyone to the meeting and introductions were made. She said there would be a change to the agenda in order to discuss an item of urgent business relating to a report on Arch: Updated Matters of Concern. This would be discussed before agenda item 5.

**03. MINUTES**

**RESOLVED** that the minutes of the meeting of the Audit Committee held on Wednesday, 28 March 2018, as circulated, be confirmed as a true record and signed by the Chair subject to the inclusion of apologies for absence from Councillor Purvis.

**04. DISCLOSURE OF MEMBERS' INTERESTS**

Councillor Castle declared a non-prejudicial interest with regard to the item of urgent business as he was a director of Alnwick Youth Hostel, a business not for profit, of which Arch were owners of the building and landlord.

**05. URGENT BUSINESS - ARCH: UPDATED MATTERS OF CONCERN**

Barry Scarr, Executive Director of Finance introduced the above report which advised the Audit Committee of further emerging matters of concern regarding Arch which had recently been brought to the attention of the Council. It was stated that such matters could have a significant financial impact on the Arch Group and/or the Council. (A copy of the report is attached to the signed minutes of the meeting.)

Mr Scarr summarised items raised in the report which related to the Arch Group - asset revaluation; use of the Arch Group company credit card; procurement matters, and recent notification of a supplier's liquidation; referral to Northumbria Police and ongoing governance matters in relation to the Arch Group.

Nick Oliver, the Portfolio Holder for Corporate Services, said the Administration was determined to get to the bottom of everything that had happened, people would be held to account and it would be ensured that such a situation could never happen again.

Members asked for clarification on a number of issues in the reports and responses were given by the portfolio holder.

The Chair advised that further information would be reported to Audit Committee at future meetings.

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**RESOLVED** that

1. it be noted by Audit Committee that investigatory work is continuing in relation to Arch Group asset revaluations, use of the Arch Group company credit cards, procurement matters and recent notification of a supplier's liquidation;
2. it be noted by Audit Committee that the Council is exploring all possibilities regarding the recovery of outstanding monies which appear to be owed to the Council and to Arch;
3. it be noted by Audit Committee the continued work within the Arch Group to improve organisational governance;
4. this matter be considered as part of its understanding of the Authority's framework of governance, risk management and control.

**06. REPORT OF THE EXTERNAL AUDITOR**

Claire Mellons, External Auditor EY, said work was on-going to enable the year end audit report to be signed off by 31 July. Good progress was being made and there were no issues to report.

**RESOLVED** that the information be noted.

**07. REPORTS OF THE CHIEF INTERNAL AUDITOR**

**(1) 2017/18 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control**

Allison Mitchell, Chief Internal Auditor, introduced the above report which provided her annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, taking into account the expectations of the Council's Leadership Team, Audit Committee and key stakeholders. (A copy of the report is attached to the signed Minutes as Appendix A.)

The Chief Internal Auditor said it was an important report that came before Audit Committee every year. It had been found that the Council's internal systems of governance, risk management and control were satisfactory overall and that was a positive assessment of the Council's control environment which reflected favourably on the organisation's governance arrangements. Reference had been made to serious governance matters relating to Arch as it would not have been a fair reflection if these had not been mentioned. It was very important that Internal Audit's work was evidence based and overall this was a good opinion for the Council with a few areas highlighted for additional work.

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In response to questions, the Chief Internal Auditor provided the following information:

- Internal Audit within Arch was different to that within the Council. This report must be presented to the Council every year but there had been no similar requirement within Arch. The terms of reference for the Audit Committee of Arch had now been changed so that an overall opinion could be provided every year and management's views would be taken into account.
- With regard to segregation of duties and delegation of power, the management of Arch had looked at that and agreed it would be included in future audit reports going forward. Barry Scarr was the new Executive Director of Finance and Section 151 Officer and Audit Committee's role was to look at the Council separately to Arch's Audit Committee, however, it would be wise to formalise the role between them.

The Chair added that it had been said, but not confirmed, that Arch's Audit Committee should have a member from the Council's Audit Committee. Members welcomed that idea and said it would show extra transparency.

The Chair then read out the recommendations set out in the report and it was:

**RESOLVED** that

- (a) the Chief Internal Auditor's 2017/18 'satisfactory' opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, attached as Appendix 1 be considered and noted; and
- (b) This opinion be considered by the organisation when preparing the Annual Governance Statement for this period; and by the Audit Committee, as a source of assurance at the time it considers the Annual Governance Statement.

**(2) Key Outcomes from Internal Audit Assignment (July 2017 - March 2018)**

Allison Mitchell, Chief Internal Auditor, introduced the above report which summarised the outcomes from Internal Audit reports which had been finalised in consultation with management and issued during the period July 2017 - March 2018. 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 B).

Reference was made to the table in section 5 which listed the main outcomes and it was noted that there was no longer an Assurance Opinion of 'moderate'. Good practice had been highlighted as it was important to draw attention to where officers were doing a good job.

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Reference had been made at the last meeting to the follow up of Audit recommendations and it was acknowledged that it was important to do that, however, it should be remembered that the model of assurance was the responsibility of management.

Further clarification was provided regarding sections 6a and 6b - Schools Thematic ICT review.

In response to questions the following information was provided:

- The report regarding the Schools Thematic ICT review had not been presented to the Family and Children's Overview and Scrutiny Committee. Schools' management arrangements were unusual and were the residual responsibility of the Section 151 Officer who signed off the statement about the level of control. In response to comments it was acknowledged that it could be beneficial to share and disseminate the items of good practice identified and the Chief Internal Auditor said she would take that up with the Section 151 Officer and the Executive Director of Children's Services.
- With regard to delayed and failed payments for rent, concerns were raised that it could result in an abundance of threatening letters being sent out. In response it was stated it was not known if the glitch in the software had been resolved, however, it was not thought that the system always issued an automated response and staff were required to carry out manual checks. It was noted that issues identified were predominantly from former tenants and did not relate to current tenant arrears. Although tenant areas were an important area of risk when debt became old it was a complicated issue. Further information would be brought to a future meeting.
- With regard to concerns about rechargeable repair debt, it was stated that the issues identified were from the former tenant debt schedule. Concerns about procedures and the sensitivities around debt had been acknowledged and it was now managed better.
- In response to concerns about chasing individual debt whilst writing off company debt, it was acknowledged that the Council needed to ensure that the chasing of debt did not become overwhelming for individuals, however, when a company folded there was no point in chasing the debt further.
- If Internal Audit made recommendations which were not implemented it undervalued their work. They focussed on plans of medium priority and if it appeared that recommendations had not been implemented, further work would be done. It was very important to balance internal audit between looking at new areas of work and going back over areas which had been audited to check that recommendations had been implemented. The culture should be one where recommendations were implemented and if they were not there should be a very good reason why.

**RESOLVED** that the contents of the report be noted as part of Audit Committee's ongoing consideration of governance and control issues within the Council.

### **(3) Strategic Audit Plan 2017/18, Final Monitoring Statement**

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Allison Mitchell, Chief Internal Auditor, introduced the above report which provided Audit Committee with the final monitoring statement of the Strategic Audit Plan for 2017/18. (A copy of the report is filed with the signed Minutes as Appendix C.)

The report gave an update on what was included in the original plan at the beginning of the year and progress made.

In response to questions the following information was provided:

- Highways recovery and insurance claims had been looked at in the past and progress was being made to finalise the work.
- The report referred to last year's plan and provided information on what had been done. It was not felt that anything which should have been included had been left out.

**RESOLVED** that consideration be given to the Final Monitoring Statement of the Strategic Audit Plan for 2017/18 and the information be noted.

## **08. REPORT OF THE EXECUTIVE DIRECTOR OF CHILDREN'S SERVICES AND THE EXECUTIVE DIRECTOR OF ADULTS' SOCIAL CARE AND COMMISSIONING**

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

Alan Hartwell, Senior Manager, Education and Safeguarding Performance, introduced the above report which informed members of the Audit Committee with findings from external inspections that had taken place in the last 6 months (1st October 2017 to 31 March 2018) 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 filed with the signed Minutes as Appendix D.)

It was noted that all care homes remained fully compliant and some had received very positive reports.

Within Children's Services there had been a number of inspections of residential homes with positive results including Coanwood which was judged as good with outstanding leadership and Thorndale and Barndale which were judged as outstanding in all areas.

With regard to schools inspections by Ofsted, 165 - 170 had taken place, some of which were academies and maintained schools. In terms of governance and scrutiny arrangements, the management team met on a fortnightly basis to do a crystal ball analysis of vulnerable schools to prevent schools being judged less than good.

Details of a new focused visit to Children's Social Care, undertaken in February, were provided, the findings of which were positive overall. Ofsted had noticed considerable improvements and said the Improvement Plan was focused on the

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right priorities. Developing assessment tools where domestic abuse or child sexual exploitation were suspected were identified as areas for improvement.

A member commented that it was a very healthy report.

**RESOLVED** that the findings be acknowledged and noted.

**CHAIR:**

**DATE:**

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