

**NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE**

At a meeting of the **Audit Committee** held at County Hall, Morpeth on Wednesday, 25 July 2018 at 10.15 a.m.

PRESENT

Councillor G Hill (Chair)

COUNCILLORS

L Grimshaw
M Purvis

L J Rickerby
M Swinburn

CO-OPTED MEMBERS

A Hall

A N Haywood-Smith

OFFICERS IN ATTENDANCE

A Lister
K McDonald
B J McKie
A Mason
C Mellons
A Mitchell
K Norris
S Reid
B Scarr
V Soulsby

Principal Accountant - Pensions
Group Assurance Manager
Group Assurance Manager
Finance Manager
Ernst & Young, External Auditor
Chief Internal Auditor
Democratic Services Officer
Ernst & Young, External Auditor
Executive Director of Finance
Senior Risk Advisor

ALSO PRESENT

Councillor N Oliver, Portfolio Holder for Corporate Services

Other Councillors: R Dodd, B Pidcock, G Roughhead,
I C F Swithenbank, R Wearmouth
Press: 1

10. APOLOGIES FOR ABSENCE

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

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11. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on Wednesday, 23 May 2018, as circulated, be confirmed as a true record and signed by the Chair.

12. REPORTS OF THE EXTERNAL AUDITOR

(1) ISA260 Annual Accounts

Mr S Reid, External Auditor EY, referred to the Audit results report for the year ended 31 March 2018 which had been issued in draft (a copy of which is filed with the signed Minutes as Appendix A) and said it would be updated on Friday, 27 July, the date on which it would be signed. The audit of the Council was substantially complete for i) opinion on the Financial Statement and ii) conclusion on value for money. It was noted that a modification to the conclusion about arrangements to secure economy, efficiency and effectiveness in the Council's use of resources would be reported, further details of which would be provided later.

The planning materiality assessment using the draft consolidated results had been updated, details of which were set out on page 5 of the report. Outstanding items were now complete except for: testing of group consolidation adjustments; whole of Government accounts procedures and final review of financial statements and audit work.

Mr Reid summarised the areas of risk identified and other areas of audit focus, details of which were set out in the report. He also referred to 3 areas of control observations, as detailed on page 6, and stated that all of these had been acknowledged and accepted by management.

With regard to the conclusion on value for money, a number of areas were highlighted and summarised on page 6. It was noted that, in relation to the Arch Group, although revised arrangements had been put in place in response to the control weaknesses identified in the summer of 2017/18, these strengthened arrangements had not been in place throughout the entire period under review i.e. for the whole of 1 April 2017 to 31 March 2018. For this reason, the External Auditor proposed to issue a modified opinion as mentioned above. External Audit would liaise with the Section 151 Officer as appropriate.

It was stated that one objection on the Council's financial statements had been received but it had not been considered to be a valid objection and a response had been forwarded to the objector setting out reasons for that decision.

In response to a question Mr Reid stated that the Audit Committee would discharge its responsibility for the Audit Results Report that day. He reiterated that he intended to update and sign the report on Friday then share it with the Section 151 Officer.

In response to questions the following information was provided:

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- A lot of preparatory work had been done to accelerate the timetable for the Audit Results report to be signed off and testing had been completed throughout the year to ensure the process was thorough.
- With regard to 'value for money' it was a modified opinion due to the reasons outlined above regarding the framework of control in place at Arch throughout the entire period covered by the audit and value for money opinion. Ernst and Young were currently going through an internal quality assurance process to finalise the wording to share with the Section 151 Officer. As Police enquiries were not yet concluded, it was important to ensure those enquiries were not prejudiced. The opinion had already been drafted and was currently being reviewed as part of Ernst and Young's quality control.
- The objection which had been received was around potential governance issues and some of Northumberland County Council's (NCC) transactions with a Parish Council. The Chair said that the whole area of Service Level Agreements between NCC and Parish/Town Councils was an issue she would welcome looking at.
- The valuation referred to in the report included the small shopping development in Hexham as well as Manor Walks Shopping Centre in Cramlington.

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

(b) ISA260 Pension Fund Accounts

Mrs C Mellons, External Auditor EY, introduced the Northumberland Pension Fund Audit Results Report for the year ended 31 March 2018 (a copy of which is attached to the signed Minutes as Appendix B). It was noted that this would have usually gone to the Pension Fund Panel first but the revised timescales had prevented that from happening.

With regard to value for money, the overall materiality assessment had been updated to £26.8 million, details of which were provided at the top of page 5 of the report. It was noted that this did not make any difference to the accounts.

The audit of the Fund's financial statements were substantially complete and outstanding items were nearly complete. One audit difference had been identified with the Council's investment, private equity, but typically that had arisen from more up to date information having been received and was not considered material to the Pension Fund Statement.

Page 6 highlighted two control observations in that management were able to create and authorise their own journal postings and, as identified in previous years, the Fund did not perform a monthly bank reconciliation. It was recommended that management put procedures in place to address those findings, however, it was important to note that no issues arising from these control weaknesses had been found.

With regard to misstatements due to fraud or error, a substantial amount of work was carried out, no errors of judgement were found and there were no matters to raise.

The Vice Chair asked how often bank reconciliations were carried out. In response Mrs

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Mellons stated there was a bank account and bank statements were used to update the bank ledger, however, External Audit would like to see a bank reconciliation carried out on a timely basis. The Vice Chair agreed and said he would be more comfortable to know a bank reconciliation had been completed.

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

13. REPORTS OF THE EXECUTIVE DIRECTOR OF FINANCE & DEPUTY CHIEF EXECUTIVE

(a) The Statement of Accounts 2017-18

Mr B Scarr, the Executive Director of Finance & Deputy Chief Executive, introduced the above report which provided members with the Statement of Accounts for the year ended 31 March 2018 (a copy of which is filed with the signed Minutes as Appendix C).

The draft Statement of Accounts had been published on the Council's website on 31 May 2018 and since then a number of amendments had been made to the document. Details of changes were set out in Appendices A and B for information and further additional changes were tabled at the meeting. It was noted that none of these changes had an impact on the stated financial position of the Council shown in the Core Financial Statements.

Mr Scarr said he would like to formally thank Alison Elsdon, Andrew Lister, Alan Mason and the team for their hard work in closing the accounts early and also External Audit for their patience. The Vice Chair echoed his sentiments saying it was not an easy task and the amount of work done by everyone to make it possible was worthy of recognition.

The Chair referred to the recommendations at the beginning of the report to members of the Audit Committee. She said that some Audit Committee members had felt that in the Annual Governance Statement, the marking in relation to Arch might be too generous, given the control issues which had emerged in the year. These comments had been fed in to the review process, but it was not their final decision to approve the Annual Governance Statement.

Mr Haywood-Smith, Independent Member, questioned the issue of sustainability within the accounts. In response the Executive Director of Finance & Deputy Chief Executive said officers would look at including information about sustainability into the narrative.

In response to questions/comments, it was stated that:

- Active Northumberland had been carefully considered as to whether it fell within the accounting 'group boundary' but it did not. The accounting group boundary would however be kept under regular review.
- Plans regarding the development of the Portland Park site in Ashington were progressing and would be shared in due course.

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RESOLVED that

1. The changes that had been made to the draft Statement of Accounts (Appendices A and B) be noted;
2. The Annual Governance Statement be noted;
3. The Statement of Accounts for the Council for the financial year ended 31 March 2018 be approved.

(b) Pension Fund Report and Accounts 2017/18

Mr B Scarr, the Executive Director of Finance & Deputy Chief Executive, introduced the above report which provided members with an overview of the key issues related to the Council's 2017-18 Pension Fund Annual Report (a copy of which is filed with the signed Minutes as Appendix D). He said that Andrew Lister, Principal Accountant (Pensions) was in attendance to answer any questions.

In response to a question it was stated that Members were being asked to note reports and minutes of meetings of the Local Government Pension Scheme Local Pension Board and Firefighters' Pension Scheme Local Pension Board as it was in the constitution that these should be reported to Audit Committee.

RESOLVED that

1. The Pension Fund Annual Report and Accounts 2017-18 be approved;
2. the Annual Report of the Local Government Pension Scheme Local Pension Board for 2017-18 (Annex 1) be noted;
3. the Minutes of the four meetings of the Board held during the 2017-18 financial year, dated 24 April 2017, 17 July 2017, 6 October 2017 and 11 December 2017 (Annex 2) be noted;
4. the Annual Report of the Firefighters' Pension Scheme Local Pension Board for 2017-18 (Annex 3) be noted;
5. the Minutes of the two meetings of the Board held during the 2017-18 Council year, dated 17 October 2017 and 26 April 2018 (Annex 4) be noted.

(c) Annual Treasury Management (year end) Report

Mr B Scarr, the Executive Director of Finance & Deputy Chief Executive, introduced the above report which provided members with details of performance against the Treasury Management Strategy Statement (TMSS) 2017-18 approved by the Council on 22 February 2017 (a copy of which is attached to the signed Minutes as Appendix E).

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Mr Scarr said it was a technical report and very small changes on a large number of investments could make a substantial difference. Overall performance was positive. He drew members' attention to page 10 of the report regarding borrowing levels/performance which could have a significant effect on the medium term financial plan.

The Chair said it was a very comprehensive and clear report. She reminded members that Treasury Management training had been arranged for 22 August in the Chairman's Dining Room and it was noted that the start time had been changed to 11:30 am.

RESOLVED that

1. The report be received and the performance of the Treasury Management function for 2017-18 be noted;
2. the report be recommended to County Council.

14. REPORT OF THE CHIEF INTERNAL AUDITOR

Risk Management Presentation

Ms B McKie, Group Assurance Manager, provided a slide presentation, with handouts, on the risk management process within the County Council and was assisted by Mrs V Soulsby, Senior Risk Advisor (a copy of the presentation is filed with the signed Minutes of the meeting).

Since 2015 responsibilities around effective risk management have had a statutory basis. The presentation covered: Governance; Assurances and Responsibilities; Review of Arrangements and Approach and the handouts included a Risk Matrix and Scorecard, a template for recording corporate risk and a simplified template in tabular format for recording service strategic risk.

Reference was made to the three lines of defence:

- First - management;
- Second - corporate oversight;
- Third - independent assurance.

In terms of the review of arrangements and approach, the methodology had been updated, as set out in the presentation, and had been agreed for piloting by the Executive Team.

With regard to outcomes at a corporate level, risks had been identified and documented with officer risk owners, and briefings were now taking place with the relevant elected member risk owners. The presentation also provided an update on what progress was being made at strategic level.

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The Chief Internal Auditor said it was important for roles to be clear as to who was responsible for which aspects of the process.

The Chair thanked the officers for their update and invited questions from members.

The Vice Chair said that everything done was a risk but equally everything not done was also a risk. Everyone needed to be responsible for risk but there should be overall ownership. He queried if corporate risks and strategic risks would be looked at together to identify similarities and avoid repetition. The Group Assurance Manager confirmed that the Risk Management Team would provide that coordination and it was intended to formally review corporate risks twice a year with strategic and operational level reviews being carried out quarterly. In response to comments that it could get repetitive if there were a number of similar projects in place, the Executive Director of Finance & Deputy Chief Executive said that was a good point and risks for projects would need to be overseen by the Risk Management Team.

In response to questions/comments, the following information was provided:

- It was pointed out that there was no mention of equality and diversity in the risk template and the Chief Internal Auditor suggested that officers could consider adding that in.
- All corporate risks would be plotted on the appropriate matrix. Each risk had a target score and actions would be taken with a view to managing down, as far as possible, to the targeted score.
- At corporate/strategic level, it would not be expected that the score would be able to reduce significantly in the short term, given the significance a risk score might only reduce towards its target in the medium to longer term. The description on the scorecard guidance would be looked at.

The Cabinet Member for Corporate Services said it was a great piece of work which would help the Council to deliver services more efficiently.

RESOLVED that the presentation be received and noted.

CHAIR:

DATE:

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