

**NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE**

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

PRESENT

Councillor G Hill (Chair)

COUNCILLORS

L Grimshaw
M Purvis

M Swinburn

CO-OPTED MEMBERS

A N Haywood-Smith

ALSO PRESENT

Councillor N Oliver, Portfolio Holder for
Corporate Services & Cabinet
Secretary

OFFICERS IN ATTENDANCE

K McDonald
A Mason
B McKie
C Mellons
K Norris
S Reid

Group Assurance Manager
Finance Manager
Group Assurance Manager
Ernst & Young, External Auditor
Democratic Services Officer
Ernst & Young, External Auditor

34. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors G Castle, A Hepple, L Rickerby and D Towns and Mr A Hall, Co-opted Member.

35. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on Wednesday, 23 January 2019, as circulated, be confirmed as a true record and signed by the Chair.

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With reference to Minute no. 29, Corporate Fraud Team - Interim Fraud Report, the Vice Chair queried if legal advice had been received on whether it would be considered an abuse of a Councillor's access to the electoral register if a Councillor was to report a person living in a property which was recorded as having single occupancy. It was agreed that this would be followed up and clarification provided at the next meeting.

36. REPORTS OF THE EXTERNAL AUDITOR

(a) Certification of Claims and Returns Annual Report 2017/18

Mr S Reid, Ernst & Young, introduced the above report which summarised the results of the External Auditor's work on Northumberland County Council's 2017/18 claims. (A copy of the report is attached to the signed Minutes as Appendix A.)

Mr Reid said the report was straight forward and he had nothing to add.

RESOLVED that the report be received and noted.

(b) Northumberland Pension Fund Audit Planning Report, Year ended 31 March 2019

Mrs C Mellons, Ernst & Young, introduced the above report which summarised the External Auditor's initial assessment of the key risks driving the development of an effective audit for the Fund and outlined their planned audit strategy in response to those risks. It was noted that the report had been presented to the Pension Fund Panel on 22 February. (A copy of the report is attached to the signed Minutes as Appendix B.)

Reference was made to page 5 which summarised the significant accounting and auditing matters outlined in the report. It sought to provide the committee with an overview of initial risks identified for the upcoming audit and any changes in risks identified in the current year.

It was noted that in 2017/18 the threshold for materiality had been set at 2% of net assets, however, a decision had been taken that a threshold of 1% should be used. This was not specific to Northumberland and was due to inherent risks such as the impact of Brexit on the valuation of investments. In response to a query it was stated that if a decision on Brexit was taken after the financial year end there would be less of an impact on balances.

RESOLVED that the report be received and noted.

(c) Audit Planning Report, Year ending 31 March 2019

Mr S Reid, Ernst & Young, External Auditor, introduced the above report which summarised external audit's initial assessment of the key risks driving the development of an effective audit for the Council and outlined their planned audit strategy in response to those risks. (A copy of the report is attached to the signed Minutes as Appendix C.)

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The report had been subject to final amendments agreed with management and apologies were offered for late circulation. Mr Reid provided an overview of the report stating there were standard, significant and broad risks for all audits. There was a significant risk in respect of the valuation of land and buildings and, in terms of the changes around Advance Northumberland, this would impact on the group financial statements. The risk had therefore been extended to cover the land, buildings and investment property held by Advance Northumberland.

Reference was made to risks and areas of focus regarding pension liability given the complexity of judgement. Changes to the group structure were also highlighted with the transfer of the trade and activities of the Arch Group to Advance Northumberland. Disclosures in the financial statements would be reviewed to ensure they gave an accurate reflection of the transaction undertaken and the latest position of the new group structure. This would be reported back to the committee in due course.

In response to a query about complexity of the Group transactions, it was stated there were a number of different judgements around taxation and specific accounting treatments, on a merger or fair value basis. Mr Reid noted that results of impact assessments on two new accounting standards (IFRS 9 and IFRS 15) were awaited from management but the expectation was that there would not be a material impact on the numbers.

Another area of risk was the Council's upgrade to the Oracle Cloud from December 2018 and ensuring that data transfer between systems was complete and accurate.

With regard to value for money, background information and key areas of focus were provided. From 1 April 2018 to date the most significant transaction undertaken had been the transfer of trade and activities from the Arch Group to Advance Northumberland and the audit would review the governance and processes around the transaction. Findings would be reported as part of the Audit Results Report to the July meeting.

Page 19 of the report summarised the materiality and reporting levels for 2018/19 and the committee was requested to confirm its understanding of, and agreement to, those levels. Mr Haywood-Smith raised a query about the component performance materiality range. Discussion ensued and clarification was provided regarding each key definition.

Details of the following were also provided:

- The External Audit Team and External EY specialists;
- Timetable of communication and deliverables;
- confirmation of independence;
- A summary of fees (with new contractual arrangements in place).

In response to questions it was stated:

- Fees were inclusive and rates were in accordance with the contract.
- In terms of risk to valuation of land and buildings and investment property, a change in valuer could lead to a change in approach and judgement. Advance Northumberland held a material value of investment property which was

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consolidated into the Group accounts and was why the risk had been extended to cover the land, buildings and investment property they held.

- There were a number of reasons why there was always a risk that auditors could miss things or that a material misstatement may not be detected. Areas on which auditors had greater focus were discussed and included estimates, challenging judgements, significant or unusual transactions and unpredictability.
- If issues were identified that were below the materiality threshold, auditors would accumulate the differences in different areas and monitor them. If it was felt there was a root cause, it would be reported and if management was reluctant to make changes it would be reported to the Audit Committee.
- With regard to sign off, the Leader of the Council signed one part, the Chief Executive signed the other and certification was a statutory duty for the Section 151 Officer. Statutorily, there was no reason why the Chief Executive and the Section 151 Officer could not be the same person, although that arrangement was not typical.

RESOLVED that

- 1) The report be received and noted;
- 2) The Audit Committee confirm its understanding of, and agreement to, materiality and reporting levels as set out in the report.

37. REPORT OF THE SERVICE DIRECTOR - FINANCE

Annual Governance Statement

The above report provided Members with a draft version of the Annual Governance Statement (AGS) for their review. (A copy of the report is attached to the signed Minutes as Appendix D.)

The Cabinet Member for Corporate Services introduced the report stating the Annual Governance Statement was an annual process and provided an opportunity to review the effectiveness of the Council's existing governance framework. It applied to the Council and Advance Northumberland, and the Council's role with other organisations, but did not encompass those organisations. A key issue was to ensure the Council behaved with integrity whilst demonstrating a strong commitment to ethical values and respecting the rule of law. From a political point of view, there was a Members' Code of Conduct, a Standards Committee and the role of the Monitoring Officer was key.

Reference was made to important mechanisms in place. The Council's Whistleblowing Policy was designed to ensure all issues were properly investigated and 'Safecall' provided an independent confidential service where employees could report any concerns. The Council's constitution was also very important and a Working Group had been set up to look at that.

Details of the Council's decision making process were provided and it was stated that a lot of work had been done on developing the risk management process over the last 12

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months. Updates to the Audit Committee were provided by the Corporate Fraud Team and External Audit provided a high level of protection and scrutiny.

The Council had established five Local Area Councils which had some decision making powers and included regular agenda items such as public question time, petitions and updates on local neighbourhood services and highways issues. They also dealt with local planning applications and consideration was being given to extending their remit to include further delegated items.

There had been extensive public consultation on development of the Local Plan and Residents' Surveys had been carried out through independent firms.

The table on page 9 set out a self assessment of the key governance principles and it was noted that points 1 and 7 had been amended to show a score of 2. There had been extensive stakeholder engagement with more planned. Point no. 6, risk management, remained as having a score of 3 but the risk management process had been refreshed and would hopefully show an improved score next year.

Alan Mason, Finance Manager, referred to the process, stating that all Heads of Service, lead officers of shared services and the Managing Director of Active Northumberland had been asked to complete returns reviewing compliance with the governance framework, summarising changes and improvements to governance during the year and identifying improvements for next year. The Project Officer had prepared a draft AGS, which had been signed off by the Leader, Chief Executive and Section 151 Officer, and would go through an internal review by internal audit with a final version being included in the 2018/19 Statement of Accounts.

In response to questions from members of the committee, the following information was provided:

- There had been a significant amount of consultation over the last 18 months, the Local Plan consultation had been a very thorough process but there were always opportunities to improve communication.
- Consultation around Council Tax charges could sometimes be quite technical so appropriate wording was needed to convey exactly what was being proposed and that process could be improved.
- There was a desire to use feedback from residents to help inform policy decisions and mechanisms for that were being put in place.
- There had been positive feedback regarding planning decisions being made by local members.
- Consultation with Town and Parish Councils was getting better but there was room for improvement. It was acknowledged there could be more interaction with Town and Parish Councils regarding decisions taken at county level.
- It was a big challenge to make the Local Area Councils a more effective tool. Better communications were needed to advertise them and not just attract a big turnout for controversial items.
- There may be a need for some refresher training for members in terms of roles of the scrutiny committees. Ultimately it was the responsibility of members to read their agenda papers in advance and be prepared for meetings.

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- In terms of why no matters had arisen during the year which had caused the Monitoring Officer to consider exercising powers under section 5 of the Local Government and Housing Act 1985, it was suggested that could be one example where it would be helpful for members to understand what lay behind the statement and for it to be backed up with some supporting evidence.
- The statement on page two of the Written Statements and Narrative Report said the Council was responsible for conducting at least annually a review of the effectiveness of its governance framework attached at Appendix A on page 11. It was queried how many of those points were effectiveness of the Governance Statement. In response the Cabinet Member for Corporate Services suggested that Audit Committee could request an annual statement from the Monitoring Officer to provide them with more clarity regarding the Code of Conduct and the Local Government and Housing Act 1985.
- In terms of more general points about describing the process and mechanisms in place, the Cabinet Member for Corporate Services acknowledged concerns that some generic statements did not give details of how outcomes had been reached and that would be taken into account for next year's report.
- The Group Assurance Manager referred to the three lines of defence in order to assess different risks which had been discussed at Audit Committee previously stating that the report outlined the first two and it was reasonable for the committee to look at that.

RESOLVED that members noted the draft version of the AGS prior to its inclusion within the financial statements subject to the comments made.

38. REPORTS OF THE CHIEF INTERNAL AUDITOR

(a) Strategic Audit Plan - 2019/20

Kevin McDonald, Group Assurance Manager, introduced the above report which advised members of the Strategic Audit Plan for 2019/20. The document, attached as Appendix 1, outlined the planned work of internal Audit during that period. (A copy of the report is attached to the signed Minutes as Appendix E.)

Internal Audit's 'Preparation of the Strategic Audit Plan - 2019/20' report was presented to the committee in January and that was the approach followed. It was noted that the Plan was flexible to react to emerging risks throughout the year. Attention was drawn to the table on page 9 of Appendix 1 which set out Audit Objectives and previous discussions at Audit Committee meetings around Alternative Service Delivery and Information Services were reflected on pages 11 and 12.

The Chair congratulated the Internal Audit team on their excellent work.

In response to a question the following information was provided:

- The Chief Internal Auditor had a statutory responsibility to consider if resources were adequate. A need for some additional resource had been identified and the process of recruitment to the team was currently underway.

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- Housing benefit was identified by a member of Audit Committee as a potential area of concern and significant work was being done in revenues and benefits around the transition to Universal Credit and ensuring that processes were efficient. A full process review was to be carried out by the service area and the transition to Universal Credit was an area to be included within Internal Audit's coverage.

RESOLVED that the Strategic Audit Plan 2019/20, attached as Appendix 1, and the Internal Audit coverage set out therein be approved.

39. AUDIT COMMITTEE WORK PROGRAMME

Kevin McDonald, Group Assurance Manager, introduced the above report which came before the Audit Committee in March each year to propose an updated programme of core business for 2019/20, in line with its Terms of Reference as set out in the Council's Constitution.

Mr Reid, External Auditor, pointed out that some items listed under External Audit were out of sequence but would be picked up another time.

RESOLVED

- 1) that the proposed 'core business' work programme set out within the report for 2019/20 be agreed.
- 2) it be noted that it may be necessary to change, or adapt, the proposed reports to be considered to ensure optimum timing of consideration of governance issues and to respond to emerging trends during the year.
- 3) it be noted that the Committee will receive additional reports on any ad-hoc items of business arising during the year as these relate to its responsibilities, under its Terms of Reference, in the usual way.

CHAIR: _____

DATE: _____

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