

**NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE**

At a virtual meeting of the **Audit Committee** held on Wednesday, 27 May 2020 at 10.15 a.m.

PRESENT

G Hill (Chair)

COUNCILLORS

G Castle
L Grimshaw
L Rickerby

M Swinburn
I C F Swithenbank
D J Towns

CO-OPTED MEMBERS

P Topping

S Watson

ALSO PRESENT

Councillor R Dodd, Business Chair
Councillor N Oliver, Portfolio Holder for Corporate Services &
Cabinet Secretary

OFFICERS IN ATTENDANCE

C Hand	Executive Director of Finance (Section 151 Officer)
D Lally	Chief Executive
K McDonald	Interim Chief Internal Auditor
B McKie	Group Assurance Manager
A Mitchell	Director of Corporate Assurance
A Mason	Finance Manager
K Norris	Democratic Services Officer
N Turnbull	Democratic Services Officer

ALSO IN ATTENDANCE

J Dafter, C Waddell - Mazars (External Auditors)

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37. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Purvis.

38. MINUTES

RESOLVED that the minutes of the Audit Committee meeting held on 22 January, as circulated, be confirmed as a true record and signed by the Chair.

39. REPORT OF THE EXTERNAL AUDITOR

Audit Progress Report

Mr C Waddell, External Auditor Mazars, introduced the above report (a copy of which is filed with the signed Minutes as Appendix A).

Mr Waddell said Mazars were delighted to have been appointed as the Council's External Auditors and were looking forward to working with the committee going forward. A lot of work had been carried out with the Council at the planning stage but the Covid-19 crisis had resulted in slow progress and a plan had not yet been finalised. This was, however, not so much of a problem with the deadline for the Statement of Accounts having been extended from 31 July to 30 November.

Mazars had recently been appointed as External Auditors for Advance Northumberland and this would simplify the group audit process. It was pointed out that Assurance was needed from the previous Auditor, EY, but due to the current circumstances, opening balances could not be viewed at present.

Another key issue was challenges faced in producing this year's accounts, notably because of the impact of Covid-19 on the global economy. In practical terms this had affected issues such as the pension fund and property values. In terms of valuation of assets, a considerable amount of time had been spent discussing the best way forward.

The progress report set out issues considered relevant to the Audit Committee and were summarised at the back of the document as a helpful guide along with links to detailed documentation.

Mr Waddell also referred to the PSAA letter which would be discussed later in the agenda and set out details of the work an external auditor was required to do along with their fees.

The committee was provided with some background information about Mazars who were a global integrated partnership with an emphasis on integrity and independence. It was stated that Mazars had a number of offices throughout England with approximately 150 partners and 1500 staff. Over the last 7 years they had invested heavily in the public sector undertaking 65% of NHS audits in the North East including Northumberland CCG. They had been appointed on the basis that they knew the sector, they knew the area and its history. They had been successful in quality scores and had a dedicated public sector team covering a wide remit.

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The Chair thanked Mr Waddell for his presentation and invited questions from Members.

In response to questions the following information was provided:

- In terms of accounts, two sets of figures were provided, one for the previous year 2018/19 and one for the current year 2019/20. Assurances were needed about the opening balances and there were two ways of doing that, the easiest being to review the figures from the previous auditor, look at what they had done and make sure it was sufficient. That was the most common process adopted and the most efficient. Mazars had written to EY who had confirmed they would allow access to what was needed subject to coronavirus restrictions. The alternative was for Mazars to carry out the work themselves but that would take more time, was not so efficient and would incur considerable audit fees.
- Clarification regarding the PSAA's function was provided. Previously the Audit Commission had appointed External Auditors to all local government bodies in England but this had been abolished and its functions passed to another body. If a local authority opted into their arrangements the PSAA would appoint External Auditors who would monitor contract compliance, pull together quality scores and report back. That was their fundamental role but whether it would change as a result of the reviews mentioned later in the agenda remained to be seen. In 2014 the Council had opted to procure jointly with Newcastle City Council and North Tyneside but that had changed this year and the Council had opted into arrangements with the PSAA.
- Mr Waddell set out some of the possible reasons why the PSAA had appointed Mazars as the Council's External Auditors. He said that himself and Mr Dafter were long standing servants of the public sector, both having been employed in the public sector body for many years. They had robust knowledge of the North East with many key connections with senior figures giving them a good insight into the challenges faced by Northumberland. Mazars had more public sector knowledge than those focussed on the private sector.
- Mr Watson, Independent Member, said he had worked with Mr Waddell and Mr Dafter for many years in different walks of life and confirmed they were very locally focussed. He said Mazars did know the area and the public sector extremely well which was very reassuring.

Chair thanked Mr Waddell for his report and said the committee was looking forward to working with Mazars.

RESOLVED that the information be noted.

40. REPORT OF THE EXECUTIVE DIRECTOR OF FINANCE

(a) Northumberland County Council - Statement of Accounts 2019-20

C Hand, Executive Director of Finance, introduced the above report which provided members with an overview of the timetable for publishing the 2019-20 Statement of Accounts following confirmation that the deadline had been extended and reporting to

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Audit Committee; and the Accounting Policies to be adopted in compiling the 2019-20 Statement of Accounts. (A copy of the report is attached to the signed minutes as Appendix B.)

Mr Hand said the report outlined the expected timetable for the 2019-20 Statement of Accounts and provided details of proposed accounting policies that would be used for preparation. In normal circumstances the deadline for the publication date for Local Authority audited accounts would be 31 July, with draft accounts published at the end of May to allow the public 30 days right of inspection. However, due to the significant impact of the Covid-19 crisis, in April the 2020 Account and Audit Amendment Regulations were passed and deadlines had been extended to 31 August for the publication of the draft accounts and to 30 November for the final accounts. Details of the process to be followed were set out on pages 2 and 3 of the report.

Today's meeting was to receive the accounting policies, at the next meeting in July members would receive the Draft Annual Governance Statement and then the Draft Statement of Accounts would be published by the 31 August at the latest. The Draft Statement of Accounts would be presented to the Audit Committee in September but, as in previous years, there would be workshops held for members to go through the accounts in detail should they require to do so. At November's meeting the final accounts would be brought forward for approval.

The proposed accounting policies to be adopted for the Statement of Accounts 2019-20 were detailed in Appendix A of the report and were largely unchanged from the last financial year apart from two main amendments listed on page 4 relating to the Carbon Reduction Commitment scheme and Financial Instruments. All other changes were minor and not regarded as a change in policy.

Members were asked to note the timetable and questions were invited. In response the following information was provided:

- In terms of the public having the right to inspect the Draft Accounts at County Hall, that would need to be looked at carefully with regards to health and safety to ensure safeguarding procedures were in place. Social distancing measures and viewing by appointment only would be necessary.
- With regard to the difference the Covid-19 issue had made to production of the accounts, it was stated that the issue had been unexpected and had forced the Council and all other organisations to work in a different way. There was additional Covid-19 related work, no regular face to face contact and as much work as possible was having to be done remotely. There were a number of valuation uncertainties which presented some complications to work through. Some paper records also needed to be accessed and there was a delay in obtaining information from third parties.

The Chair read out the recommendations set out in the report and following a show of hands in support of those recommendations it was:

RESOLVED that

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- (1) the timetable for publishing the 2019-20 Statement of Accounts and report to Audit Committee be noted.
- (2) the Accounting Policies to be adopted for the 2019-20 Statement of Accounts be noted.

(b) PSAA Update

C Hand, Executive Director of Finance, introduced the above report which shared the most recent letter received from Public Sector Audit Appointments (PSAA) with Members. (A copy of the report is attached to the signed minutes as Appendix C.)

The PSAA had asked that the letter be made available to the Audit Committee, the purpose of which was to notify the Council of its scale fee for the audit of the 2020/21 financial statements which would be £170,000. It also provided some key updates and information on audit matters. It particularly noted the current difficult Covid-19 crisis which would have a significant impact on preparing the audit of accounts resulting in a potential delay in signing the Audit opinions. This would most likely incur additional fees in most, if not all, authorities. A full copy of the letter was provided.

The Chair read out the recommendations set out in the report and following a show of hands in support of those recommendations it was:

RESOLVED that

- (1) the report and the letter from the PSAA (Appendix A) be noted.
- (2) the scale fee that the Council would pay Mazars for the audit of the Statement of Accounts 2019-20 (£0.190 million) and Statement of Accounts 2020-21 (£0.170 million) be noted.
- (3) it be noted that due to the turbulence and change in the local audit environment additional fee variations were likely.

41. URGENT BUSINESS

The Chair referred to the Audit Plan being subject to change regarding emerging risks and asked if Members had any comments about this. She highlighted risks regarding a reduction in revenue for the Council and how much scrutiny was currently taking place. She felt this was an opportunity for the Committee to recognise the turbulent times and query how risks were being managed.

In response the Portfolio Holder for Corporate Services said that Senior Officers across the Council were managing all sorts of risks, not just financial. The Council was experiencing additional costs and lost income and detailed work was being done to address this. The Section 151 Officer was providing a monthly submission to the Government to keep them up to date with extra costs that had been incurred and also

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forecasts of costs going forward. Work was being carried out on budgets for the current year, future years and the predicted impact. There was a huge amount of uncertainty in many areas, it was a difficult process with a range of potential outcomes depending on how long the situation would continue and how the Council would emerge from it. It was, however, being monitored regularly, Cabinet was meeting weekly and a number of officer groups had been set up to look at different areas, including an Economic Recovery Board.

In terms of Scrutiny, there had been regulatory issues around holding virtual meetings and some technical issues but virtual meetings were now beginning to take place and it was hoped to get back to the normal levels of scrutiny as quickly as possible.

Mr Topping, Independent Member, said the emerging risk for many Councils was exposure in terms of commercial investments and that would be an area that officers should take particular account of. In acknowledging the point made, the Portfolio Holder for Corporate Services said commercial property would usually generate rental income and the risks were being closely monitored along with the risk mentioned earlier in terms of valuations which was also being carefully assessed.

Mr Watson, Independent Member, emphasised the importance of having a strong internal audit and for internal auditors to flex their agreed plans in order to encompass all the changing aspects of the current risk environment. In response the Acting Chief Internal Auditor said the work programme was usually presented to the Committee in March each year and a plan had been prepared, however, due to lockdown March's meeting had been cancelled. The Council was facing many emerging risks and internal work was being flexed to draw attention towards some of the new risks in order to provide assurances. With regard to recovery, Internal Audit was looking at potential changes in terms of delivery to make sure resources were being directed to the areas that needed them most. An update would be provided to a future meeting and would provide details of what had originally been included in the work programme, what had been done whilst reacting to the pandemic and how that would shape the plan for the remainder of the year.

Queries were raised about the Capital Works Programme and contingency plans for proposed developments with Advance Northumberland. The Portfolio Holder for Corporate Services said the Capital Works Programme was being kept under constant review. In terms of Town Centre Regeneration Programmes, these were more important than ever, there would inevitably be changes to the retail scene and shopping habits but funding opportunities were available from Central Government and work was being done on a town by town basis. The Council was keen to push the programmes as far as possible. A member added that, although she could not speak about other towns, she was aware that the County Council and Blyth Town Council were continuing to work very hard in order to regenerate Blyth.

The Portfolio Holder for Corporate Services referred to the business grant scheme which the Government had asked Local Authorities to disperse and said the internal audit team had provided much needed expertise and support in assessing the systems and processes needed to complete the work as soon as possible. Northumberland was the fourth fastest county in the country to disperse funding and the vast majority of businesses had received their money very quickly. He thanked the Internal Audit Team for their input into that process.

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A member agreed there had been a fantastic response but said there were many obstacles to overcome and gave an example of a resident who, on hindsight, wished she had not accepted the loan. In response it was stated that the Council's Business Hub was there to provide advice and support for businesses facing specific difficulties and was doing a fantastic job. There were also a number of Government Support Schemes available but it was acknowledged that the schemes were not suitable for every business.

Another member said it was not yet known what the total cost of the pandemic would be or if there would be a second wave of the virus and suggested that timings for investment plans may need to be altered. He said it was essential to avoid crystallising paper losses on some of the investments held by the Council and to support existing businesses to maintain rental income which was crucial as a building block for the Council to continue with its future Capital Investment Programme. There were many uncertainties ahead so patience was needed. The Portfolio Holder for Corporate Services acknowledged the comments made and agreed they were important points. He referred to the recent announcement by the Government that the lockdown on retail would be eased on 15 June and said hopefully that would go some way to enabling businesses to continue trading, albeit at reduced levels, and to continue paying rent.

The Chair thanked the Portfolio Holder for Corporate Services for working extremely hard to provide advice and support to small businesses across the county, many of whom had expressed gratitude for the help they had been given.

A member expressed her thanks to all officers across the Council who had gone above and beyond what was expected. It was very much appreciated and Members echoed her thanks for the commitment shown by officers during such unprecedented circumstances.

In closing the meeting the Chair thanked Members for attending and for their contributions along with those made by the new External Auditors and new Independent Members.

RESOLVED that the information be noted.

CHAIR: _____

DATE: _____