

**NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE**

At a virtual meeting of the **Audit Committee** held on Wednesday, 29 July 2020 at 10.15 a.m.

PRESENT

G Hill (Chair)

COUNCILLORS

L Grimshaw
M Purvis
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

T Candlish	Senior Auditor
C Hand	Executive Director of Finance (Section 151 Officer)
C Gorman	Principal Accountant (Pensions) - Project Officer
A Hartwell	Senior Manager, Safeguarding and Education Performance
D Lally	Chief Executive
K McDonald	Interim Chief Internal Auditor
B McKie	Group Assurance Manager
A Mitchell	Director of Corporate Assurance
M Oldham	Senior Auditor
K Norris	Democratic Services Officer
A Stewart	Finance Manager
N Turnbull	Democratic Services Officer

ALSO IN ATTENDANCE

C Waddell - Mazars (External Auditors)

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42. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Castle.

43. MINUTES

RESOLVED that the minutes of the Audit Committee meeting held on 27 May, as circulated, be confirmed as a true record and signed by the Chair.

44. REPORTS OF THE EXTERNAL AUDITOR

(a) **Audit Strategy Memorandum, Northumberland County Council and Group, Year Ending 31 March 2020**

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 pointed out that, due to the impact of the pandemic, some initial planning was not yet complete but a response had now been received from the previous auditor and arrangements were being made to access files from them remotely. From an efficiency point of view, this was the best way to confirm assurance of opening balances. In terms of the audit itself, the scope and process hadn't changed since last year and to date there had been no questions raised by electors nor any correspondence from members of the public.

The following key points of the report were highlighted:

- From a group audit point of view Mazars had also been appointed by the Advance Northumberland Group but that audit would be led by a different lead partner to ensure independence and a degree of separation.
- With regard to significant risk, these were areas felt to be of higher risk in terms of audit opinion but did not relate to business risk or the risk management process of the Council. The summary risk assessment was illustrated in the table on page 9 of the report with descriptions of the risk provided on page 10 along with the planned response.
- In terms of value for money, there were two risks recognised in the plan - sustainable resource deployment (medium term financial plans) and prior year adverse VFM conclusion reporting issues, as set out on pages 13 and 14 of the report.
- Fees for audit and other services had been agreed with the Council earlier in the year and had been ratified by the PSAA. There was a possibility of additional fees because of the Covid-19 impact but that would be considered at a later stage and communicated to members on a timely basis.
- The Council had also engaged Mazars to carry out some non audit services. A new ethical standard for auditors had been published this year resulting in more checks

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and balances about what auditors could and could not do. The areas being looked at were grant claims required by central government as explicitly covered in different sections of the ethical standard and it was confirmed that it was acceptable for Mazars to do that work so long as it was reported to the Audit Committee. The Audit Committee needed to formally approve the appointment of Mazars to do that work so as to provide an audit trail.

- In terms of independence, three areas were highlighted on page 17 and no safeguards were required as essentially they were required by central government.
- With regard to Mazars approach to materiality, this was similar to that of the previous auditor and was set at a threshold of between 1 and 2% expenditure.
- A level of triviality was set for errors identified that would not necessarily be reported to the Audit Committee but instead be reported to the Finance Department to allow them scope to amend the accounts.
- The materiality number would also apply to members' allowances and officers' remuneration because of the public interest in those numbers.
- Appendix A on page 20 of the report showed what must be reported to the Council at specific times and which areas were now complete.
- Appendix B on page 21 highlighted a major change around IFRS 16 Leasing which had been delayed by the pandemic and would have significant implications for local authorities. The Council was aware of this and preparations had been underway for some time.

The Chair thanked Mr Waddell for his comprehensive report and invited questions from members.

Mr Watson, Independent Member, referred to the files outstanding from EY and queried if Mazars felt they had received a full disclosure of the information needed to add an input into the strategy for a plan. In response Mr Waddell said he had no reason to doubt that Mazars would receive a full disclosure from EY. The only reason it had been delayed was due to the pandemic and EY had confirmed they were happy to make arrangements with Mazars for the files to be made available remotely in due course. Due to all of the reporting issues having been highlighted in EY's completion report, Mr Waddell did not envisage any changes having to be made to the strategy plan as no major issues had been raised by EY relating to the accounts of the Council Group or the Pension Fund. The key issues they had raised were around value for money and that had been covered in the plan.

In response to a question from Mr Topping, Independent Member, relating to page 14 of the report about prior year adverse VFM conclusion and the management of wholly owned subsidiary companies, Mr Waddell confirmed that Mazars had been appointed as External Auditor for Advance Northumberland but, as mentioned previously, in order to have some degree of separation, he was not the lead partner for that audit. Craig Maxwell was the partner for that audit and would receive group instructions in relation to the audit of the Advance Northumberland Group. Traditionally that would not necessarily cover VFM but some of Mr Waddell's team would carry out that work to make them aware of any issues arising. Some of the issues reported by EY were at a point in time and Mazars would look at how they had developed over the last 12 months and since 31 March 2019 year end which was clearly relevant.

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The Vice Chair commented that the Covid-19 situation reflected a significant change in how these reports would normally look and felt they must have been quite difficult to write due to the unknown entity of Covid-19 and the future situation. In response Mr Waddell acknowledged it had taken time to consider what the additional risks in relation to Covid-19 would be but referred to the National Audit Office and Audit Suppliers Group (of which Mazars were part) who discussed future impacts for consistency across the sector. This ensured constructive challenge amongst suppliers and the outcomes in this report reflected those deliberations and outcomes at that level.

RESOLVED that the report be received and noted.

(b) Audit Strategy Memorandum, Northumberland County Council Pension Fund, Year Ending 31 March 2020

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

The layout of the report was similar to the previous report but the impact of Covid-19 had not been covered due to the report being issued slightly beforehand. Some of those issues, however, would still apply.

It was a key issue to complete the audit of Northumberland County Council Pension Fund (NCCPF) as soon as possible due to the implications of the merger with the Tyne and Wear Pension Fund on 1 April 2020. This had been agreed with the Council and the report should be considered in that context.

Mr Waddell highlighted the following points:

- The NCCPF audit was very different to the Council audit with different risks; complexity around asset values; financial uncertainty in the markets around the year end and the implications of work required by auditors in relation to asset valuations.
- Risks to NCCPF were management override of controls and valuation of unquoted investments for which a market price was not readily available as set out on page 9 of the report.
- Revenue recognition risk presumption had been rebutted for NCCPF's contribution and investment income.
- In terms of fees, these were as stated and agreed by the PSAA process. There were no non audit fees highlighted so therefore no independence issues in terms of non audit work.
- Robust procedures were in place to ensure nobody involved in the audit would have any conflicts of interest or independence issues.
- Section 7 of page 12 set out initial materiality thresholds. Due to the nature of NCCPF's investment assets, triviality remained quite high and anything found below that level was discussed with officers but not reported to the Audit Committee. Anything above that would be reported to the Audit Committee.
- The key communication points at Appendix A set out what was required to be reported to the Council at different times and which areas were now complete.

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- The pension fund audit plan was comparatively straightforward but it was reinforced that a significant risk was around the valuation of unquoted investments at the year end and this would be the key focus of the audit.

The Vice Chair thanked Mr Waddell for his report and said that the risks highlighted were not solely for this authority but for the whole of the pension sector. In response Mr Waddell said Mazars did a number of Local Government Pension Fund audits and the risks were the same for all of them.

In response to a question Mr Waddell said it was not the role of the External Auditor, in the context of the pension fund, to assess the Council's investment strategy or to judge its investment performance. After this year, the assets of NCCPF would be audited by the External Auditors of South Tyneside Council. Focus for Mazars this year was on auditing asset values in NCCPF's accounts to make sure they were supported by appropriate audit evidence. Next year, Mazars would obtain assurances from the auditors of South Tyneside Council for the value of LGPS assets disclosed in the Council's accounts under the requirements of IAS19.

Mrs C Gorman, Principal Accountant (Pensions), agreed adding that the assets of the NCCPF had been transferred to South Tyneside Council on 1 April 2020 and had been merged into Tyne and Wear Pension Fund. Valuation of these would continue to vary, with market movements, on a daily basis and this made no difference to the 31 March 2020 balance sheet position, which showed a snapshot in time.

RESOLVED that the report be received and noted.

45. REPORTS OF THE EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER

(a) Treasury Management Annual Report for the Financial Year 2019-20

A Stewart, Finance Manager, introduced the above report which provided members with details of performance against the Treasury Management Strategy Statement (TMSS) 2019-20, approved by the County Council on 21 February 2018. The report provided a review of borrowing and investment performance for 2019-20, set in the context of the general economic conditions prevailing during the year. It 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 attached to the signed Minutes as Appendix C.)

Mr Stewart highlighted the following key points:

- All of the treasury activities in the period had complied with the treasury indicators which were set out in the 2019-20 strategy and all borrowing undertaken within the period was also within the limits set by the Council.

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- Up until 31 March 2020, the Council's actual external borrowing had increased by £93.4 million rising to a total of £824.9 million. Within that there was £175 million of new borrowing and £81.5 million of debt which was repaid or matured.
- The Council used £105.6 million of temporary internal resources in lieu of borrowing externally to fund the capital programme. This was a continuation of a strategy used over the past two years as using internal money proved cheaper than borrowing externally.
- There were 21 new loans over the period, the maturity of which were spread so that all loans did not mature together, spreading the interest rate risk.
- The weighted average interest rates paid on borrowing over the year was 2.90%. Data regarding performance on borrowing was not yet available from CIPFA but would be presented to the committee with the mid year review at the November meeting.
- The actual value of interest paid during the year was £22.7 million which was below the budget by £0.8 million due to average interest rates being lower than estimated; 2.09% compared to 3.06% budgeted.
- All investment activity throughout the period conformed with the Council's approved investment strategy and there had been no liquidity issues.
- Values of investments had increased from £96 million up to £191 million, mainly as a result of Government support received near the end of the year to help with the Covid-19 pandemic.
- The interest received on core treasury investments for the year was £0.6 million above the budget of £2.1 million due to higher investment balances.
- The weighted average interest rate received on investments over the year of 1.3% was marginally lower than the previous year's figure of 1.39%. The main reason for this being because of the COVID pandemic it had been decided to keep a larger balance of funds liquid should it be needed to support businesses and vulnerable individuals, and to ensure the Council had no liquidity issues. As such the rate of return was not as high as could be achieved with fixed term investments.
- In terms of rate of return on the investments, although CIPFA data was not available, some data was available through treasury advisers Link Asset Services and again, as in previous years, performance had exceeded the group benchmark.
- The Council's prudential indicators were designed to ensure the Council's capital plans were affordable, prudent and sustainable and the Council had operated within prudential indicators set at budget time over the period.

Questions were invited, at which time Mr Topping referred to page 11 of the report. This related to investment activity and he requested some clarification as to why balances had varied so much over the last 3 years. Mr Stewart confirmed that the position regarding investments would change throughout the year. This year the balance had increased because of additional funding from the Government and would also depend on the level of borrowing undertaken in order to fund capital programmes along with the timing of utilising that borrowing. Borrowing was secured at a time when the interest rates were advantageous, often resulting in a higher balance at a point in time. Therefore it was natural that the balances would fluctuate.

RESOLVED that

- (1) the report be received and the performance of the Treasury Management function for 2019-20 be noted;

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(2) The report be recommended to County Council.

(b) Annual Governance Report and Annual Governance Statement 2019/20

C Hand, Executive Director of Finance and Section 151 Officer, introduced the above report which enabled members to review the Annual Governance Statement (AGS) and consider whether it properly reflected the risk environment and supporting assurances, taking into account Internal Audit’s opinion on the overall accuracy and effectiveness of the Council’s framework of governance, risk management and control. (A copy of the report is attached to the signed Minutes as Appendix D.)

As members would be aware the Council had a statutory duty to carry out, at least annually, a review of its governance arrangements and to publish the findings along with its statement of accounts. This should be done in line with the principles outlined in the 2016 framework of delivering good governance in local government published by CIPFA/SoLACE. Publishing and producing an AGS each year would ensure the Council met those statutory requirements and the Audit Committee had the responsibility for reviewing the Council’s corporate governance arrangements and for considering the AGS.

The 2016 framework outlined 7 principles of good governance for local authorities and these were outlined on pages 4 and 5 of the report. The framework defined good governance in the public sector as achieving intended outcomes whilst acting in the public interest at all times. The Council’s governance framework had been summarised into a local code of corporate governance. Each of the 7 principles were mapped to this and were attached to the report in Appendix A. In line with best practice the local code of corporate governance would be published as a separate document on the Council’s website.

Reference was made to page 7 onwards which outlined the processes undertaken for the Annual Governance Review and where the sources of assurance came from. Appendices 1, 2 and 3 showed, for each service area, the governance arrangements in place locally, and highlighted any improvements made since the last review along with any planned improvements for governance for the year ahead.

Progress against the corporate level actions agreed in last year’s AGS were also considered, the outcomes of which were shown in Appendix C of the report. As good governance was a cycle of continuous improvement, consideration was given to any actions that could be taken to further strengthen the Council’s governance arrangements and the impact of any new governance challenges which arose during the year, such as coronavirus, referenced on page 18. The proposed governance improvement plan for the current year was shown in the table in Appendix D. The draft AGS itself was attached as Appendix E and summarised everything together including the proposed improvement actions in a more user friendly document. The AGS was signed off by the Chief Executive and Leader of the Council and included an opinion on how effective the Council considered the governance arrangements had been. It would be published with the draft accounts for a period of public inspection and would also be audited by External Audit.

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Members then asked questions as follows:

- Councillor Grimshaw referred to the second paragraph of page 12 regarding Cabinet approval of establishing a group holding of up to 10 limited companies to support the expansion of commercial business opportunities being developed. She requested an update as she had been appointed to represent the Labour Group on that body but had not been involved in discussions. Councillor Oliver said this was on-going work and a small group had been set up to review progress. Legal advice and professional accounting advice was currently being sought and, at this stage, it was about creating a structure for a holding company with the ability of creating individual trading companies. There would be Councillor representation on each but to date no appointments had been made and Councillor Grimshaw would be invited once the board was set up.
- The Chair said that she was always cautious about the AGS as it was tantamount to officers marking their own homework which the committee being asked to rubber stamp what amounted to hundreds of premises and assurance around Advance Northumberland which there were serious concerns about. She quoted one of the principles of corporate governance, 'behaving with integrity, demonstrating commitment to strong ethical values and respecting the rule of law' and referred to a report received around 18 months ago in relation to Arch which seemed to amount to an abuse of taxpayers money. The Audit Committee had agreed to make a referral to the Standards Committee on that but had not heard anything further and an update was requested. Councillor Oliver said he was not in a position to provide an answer and would need to refer it to the Council's Legal Services Manager for a response.
- A question was raised by Councillor Rickerby about Appendices C and D, stakeholder engagement, and if the target date of September 2020 would be realised. It was suggested that if members of the public were not consulted and given an opportunity to express their views it may have an adverse effect on the Council's reputation. Councillor Oliver said a consultation platform was being procured that would offer a good facility to provide short, sharp consultations through to more comprehensive consultations. Because of the pandemic there were no face to face meetings with public attendance and, as such, the Government had relaxed regulations to enable virtual meetings to take place. This had created higher levels of public interest than in pre-covid times and he hoped that a positive consequence of the pandemic would be greater public interaction with work done by local authorities. The consultation platform would be part of that.
- Mr Watson praised the excellent and comprehensive report which he assumed was based on a CIPFA model. However, with reference to Appendix B1, service assurance statements, he said the report would have been much more robust if it had shown the third line of defence and requested that independent assurance was given on the AGS from internal audit for the next meeting. He queried how many of the assurances and statements had recently been tested independently as it seemed the verdict of assurance lay with individual managers. He emphasised that, although it was known that the governance arrangements were in place, it could not be seen that they were working or fit for purpose. Councillor Oliver acknowledged the points made and suggested that, in future, there could be a section added to the end of the report to provide evidence to support the officers' response in relation to their individual service areas. The Director of Corporate Assurance clarified that the Annual Governance Statement was always required to be an evidenced self-evaluation by senior

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management regarding the governance arrangements in place within the organisation. It was not a Statement that should be authored by an auditor (internal or external). While senior management may use internal audit, external audit or other inspection bodies' opinions as sources of evidence when preparing the Statement, the audit coverage required of an auditor had to be based on that auditor's assessment of risk. Hence the content of the Annual Governance Statement prepared by senior management, and an audit assessment of risk prepared by an auditor, were different. . The AGS was produced by the Council's Senior Managers as their honest reflection of how the organisation saw its governance arrangements and what was done to monitor and measure those arrangements. Internal Audit was only one of several strands of assurance and a paragraph in the Chief Internal Auditor's Opinion, which would be referred to later in the agenda, highlighted the areas which in the Chief Internal Auditor's opinion, management should consider when producing the AGS. Internal Audit's coverage was based on an assessment of audit risks.

- The Executive Director of Finance referred to the Local Code of Conduct which provided further assurance with embedded processes and procedures from the 3 lines of defence model. Work of Internal Audit was risk based and part of the Audit Plan and statutory roles were in place, along with assurance from internal inspections. He would, however, take comments on board to see what could be tested.
- In response to Councillor Swinburn's request that arrangements be made for the public to have physical access to documents and consultation as part of the annual audit of accounts process, Councillor Oliver confirmed that every year arrangements were made for documents to be viewed at County Hall for those who could not access them remotely and that would be the case again this year and in the future. The library reopening programme and customer service centres would be a starting point for people not being able to access meetings remotely because of a poor broadband connection, and work was being undertaken to look at that process.
- The Chair said the Council's principles of corporate governance were probably based on a standard model but there was nothing included about the importance of independence and objectivity. She queried if these could be included and referred to a report about a judicial review regarding a Town Council where advice was sought from NALC who were compromised and embarrassed by the report and, therefore, should not have been the advisors on this. In response Councillor Oliver said the Council had a very experienced Monitoring Officer but when further legal advice was needed, it was usually taken from independent legal experts. The advice taken from the external body in question referred to by the Chair was most likely one part of an overall assessment to deal with any recommendations. He accepted that the Council had to ensure that advice received was independent and confirmed that did happen.
- In terms of assessing this report, Councillor Oliver reiterated that it was a report by officers looking at how officers were implementing the governance requirements according to the framework so by its nature there was an element of marking their own homework. There was a wider governance procedure in place to question and challenge the entire control environment with the risk based element of Internal Audit and then ultimately an External Audit process.

The Chair then read out the recommendations, as set out in the report, and asked for a show of hands in agreement of the first four, and these were duly agreed.

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In respect of the fifth recommendation the Chair referred to debate which had taken place the previous year about it not being the Audit Committee's decision to approve the AGS, only to endorse it. She asked for suggestions as to how the committee would like to proceed as last year as it had previously been agreed that it be noted with comments made.

The Executive Director of Finance advised that, in line with accounting regulations and under the terms of reference of the Council, it was the responsibility of the Audit Committee to approve the AGS. As with the accounts, the AGS was part of a suite of documents made public and therefore needed to be reviewed and approved by the committee. This was a draft document and would be signed off, along with the draft accounts, at November's meeting. It was confirmed that the final AGS document would be brought back to committee for approval as part of the Final Annual Accounts once it had been through the External Audit process.

The Director of Corporate Assurance endorsed the Executive Director of Finance's comments about the rules around approving the accounts and the timing of it and pointed out that the most important aspect was for the Audit Committee to be assured about the way the AGS had been put together and the evidence included. A clear process had been undertaken to gather the information in order for the senior team to self reflect on what had gone well and what had not gone so well in terms of governance.

Although the independent members did not have a vote, the Chair was interested in seeking their opinion with regard to recommendation 5. Mr Topping said, although it was a comprehensive document and seemed to be well balanced, he supported the Chair's comments regarding the wording of recommendation 5. Mr Watson felt that, after listening to the comments of the Executive Director of Finance and the Director of Corporate Assurance, he was comfortable to endorse the document as it stood.

Councillor Swithenbank did not feel that clear advice had been given as to whether it was Audit Committee's responsibility to approve the document. He therefore proposed that the word 'approve' be deleted from recommendation 5 and it be replaced with the word 'note' to show that the committee was recognising the report but it was not its responsibility to approve it. The motion was seconded by the Chair who then read out the proposal again for clarification.

Before a vote was taken Councillor Oliver pointed out there was a statutory requirement for the report to be approved and it had been delegated to the Audit Committee for approval. If the word was changed to 'note' and it was not formally approved, he queried if it could then be approved by Cabinet or any other committee?

Discussion ensued and members commented as follows:

- Councillor Rickerby suggested another form of words in that the committee could 'welcome' the report.
- Mr Watson was concerned that more damage than good would be done by not approving the report if it could not be approved elsewhere.
- The Chair said the same debate had taken place last year and it had been agreed to note the report. Notwithstanding technical problems, lengthy reports did not lend

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themselves well to remote meetings and, as this was a draft report, it would come back before the committee for approval as a final report.

- The Director of Corporate Assurance quoted Regulation 6(1) from the Accounts and Audit Regulations 2015 which states that “a relevant authority must, each financial year - conduct a review of the effectiveness of the system of internal control required by regulation 3, and prepare an annual governance statement”. It was explained that the Accounts and Audit Regulations 2015 then go on to explain that the findings must of the review must be considered in one of two prescribed ways and that as in Northumberland County Council the approval of the accounts was undertaken by the Audit Committee, the Annual Governance Statement must be considered by the Audit Committee and approved by that body. The rules were clear that the AGS did need to be approved by one of two routes, which in Northumberland County Council would be via the Audit Committee. These comments were endorsed by the Executive Director of Finance who added that under the constitution the Audit Committee had responsibility for approving the accounts and the AGS. If the committee was not minded to do so, however, approval could be sought from full Council or another constituted committee.
- Mr Waddell, added that if, at the end of the audit process, the Council hadn't approved the AGS, External Audit would need to modify the external audit opinion, as it is a requirement that the AGS must be approved. Responsibility for approval was set out in the Council's constitution and, in his experience, as in this case, the vast majority of local authorities delegated the approval of accounts to the Audit Committee. As the AGS was consolidated into the accounts, approval of that was also delegated to the Audit Committee.
- The Director of Corporate Assurance suggested that, Internal Audit could carry out a review of the preparation of the AGS and bring a report to the next meeting of the Audit Committee to give the Committee an independent view on the approach taken to its preparation which would in turn provide additional assurance about the process undertaken. Internal Audit could not verify everything in the statement but it may give a degree of comfort about the way in which the methodology had been employed.
- The Executive Director of Finance said that, ultimately, the AGS was signed off by the Chief Executive and the Leader of the Council and there was an opinion in it to say there was no perfect system of absolute assurance. The Council did, however, have good governance and the suite of information provided demonstrated the controls that were in place, mapped to the expected principles of the CIPFA/SoLACE governance framework. Members were therefore being asked if there was anything not in the AGS which they would have expected to see and if the opinion in the AGS was reasonable based on the evidence put forward.
- Councillor Swinburn acknowledged what had been said but reiterated that this was a draft document. In view of comments made he agreed with the proposal to 'note' the AGS until the final stage when the document had to be approved.
- Mr Watson said it would be sensible to take up the suggestion of the Director of Corporate Assurance for Internal Audit to carry out a brief health check of the process undertaken for the next meeting to give sufficient assurance to approve the final document.
- Councillor Towns pointed out that the key issues on the second page of the report did not mention approving anything and all members were being asked to do was approve the draft, not the actual AGS, he was therefore happy to leave the wording as 'approve'.

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At that point the Chair said there had been a lengthy debate and she would now move to the vote.

She asked for a show of hands from members if they were in favour of requesting a report from Internal Audit to provide assurance about the process undertaken in preparation of the AGS and this was duly agreed.

The Chair then repeated the proposal put forward by Councillor Swithenbank and seconded by herself that the word 'approve' be changed to 'note' in recommendation 5 of the report. She then asked each member in turn how they wished to vote. All members agreed with the proposal except for Councillor Grimshaw who was having some technical difficulties and was unable to vote.

In conclusion the Chair said members would look forward to receiving the extra assurance report at the next meeting with the final AGS document.

RESOLVED that

- (1) The principles of good governance outlined in the 2016 CIPFA/SoLACE Framework be noted.
- (2) The process and outcomes from the Council's annual governance review, including the progress made against 2018/19 improvement actions (shown in Appendix C) and the significant changes and governance improvements made in each service area (shown in Appendix B2) be noted.
- (3) The updated Local Code of Corporate Governance (shown in Appendix A), which has been updated following the annual governance review, be approved.
- (4) The further planned improvement actions, to further enhance the Council's governance arrangements (shown in Appendix D) following the annual governance review be noted.
- (5) the draft Annual Governance Statement (shown in Appendix E), that will be published with the draft Statement of Accounts for a period of public inspection be noted.
- (6) An additional report from Internal Audit be presented to the next committee to provide assurance about the process undertaken in preparation of the AGS.

(c) Annual Report of the Local Pension Boards 2019-20

C Gorman, Principal Accountant (Pensions) - Project Officer, introduced the above report which provided members with information about work done in 2019-20 by the Local Government Pension Scheme (LGPS) Local Pension Board and the Firefighters' Pension Scheme (FPS) Local Pension Board. (A copy of the report is attached to the signed Minutes as Appendix E.)

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Northumberland County Council was required to have a Local Pension Board for each of the schemes it administered. In 2019-20 NCC administered the Local Government Pension Scheme (LGPS) and the Firefighters' Pension Scheme (FPS). The two Boards were set up under terms of reference in 2015 which had been agreed by full Council. The Boards had a scrutiny type role and were not decision making bodies. The terms of reference for both Boards required the annual reports of the Local Pension Boards to be presented to the Audit Committee each year.

An annual report was provided for each of the boards. There was no national guidance as to required content in the reports, however, the documents contained all of the information which would be expected. This included details of membership of the boards and who had attended each meeting.

In terms of the Northumberland County Council LGPS Local Pension Board, reference was made to paragraph 3.9 on page 4 of Annex 1 and the points set out therein.

The report showed that reasonable approaches had been taken by the LGPS pensions administrator and the Board had considered whether there had been any breaches of the law it had become aware of which would be of material significance to the Pensions Regulator.

Annex 2 set out the Minutes of the four meetings of the LGPS Local Pension Board during the 2019-20 year.

Annex 3 provided details of the Firefighters' Pension Scheme Local Pension Board's annual report for 2019-20. There were some commonalities with the previous report and reference was made to paragraph 4 on page 2 which set out the progress made on matters discussed by the Board during 2019-20. Details in the first three bullet points were highlighted.

Annex 4 provided a reproduction of the Minutes of the FPS Local Pension Board for the 2019-20 year.

The Chair thanked Mrs Gorman for her very comprehensive report.

RESOLVED that

- (1) The Annual Report of the Local Government Pension Scheme (LGPS) Local Pension Board for 2019-20 (enclosed as Annex 1) be noted.
- (2) The Minutes of the four meetings of the LGPS Board held during the 2019-20 Council year dated 12 July 2019, 18 October 2019, 13 December 2019 and 23 March 2020 (enclosed as Annex 2) be noted.
- (3) The Annual Report of the Firefighters' Pension Scheme Local Pension Board for 2019-20 (enclosed as Annex 3) be noted.

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- (4) The Minutes of the three meetings of the FPS Board held during the 2019-20 Council year dated 22 October 2019, 14 January 2020 and 21 April 2020 (enclosed as Annex 4) be noted.

46. REPORT OF THE EXECUTIVE DIRECTOR OF ADULTS SOCIAL CARE AND CHILDREN'S SERVICES

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

A Hartwell, Senior Manager Performance: Education and Safeguarding introduced the above report which informed members of the findings from external inspections that had taken place in the last 6 months (1 October 2019 to 31 March 2020) 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 attached to the signed Minutes as Appendix F.)

This was a standard 6 monthly report which had been due to come before the committee in May. It provided judgments and ensuing action plan arrangements from inspections in relation to adults' social care settings, children's care homes, schools and early years settings. It also covered findings from more irregular inspections such as the Inspection of Local Authority Children's Services (ILAC), progress on the action plans regarding the Joint Targeted Area Inspection (JTAI) which had taken place at this time last year and the Special Educational Needs and Disabilities (SEND) inspection which took place in October 2018.

The following key points were highlighted:

- Improvements had been seen in terms of the ILAC inspection. Reference was made to reports to the Scrutiny Committee where the ofsted judgement for the local authority children's services, in relation to social care, improved from Requires Improvement across the board to a judgement of Good across the board. More primary schools had been judged to be Good or Outstanding than in the last report, which was better than the national average, and within Northumberland there continued to be better than national average early years provision, with 98% of settings judged by Ofsted to be good or outstanding.
- Satisfactory progress continued to be made despite the Covid-19 lockdown on reviewing and implementing action plans arising from the two multi agency inspections previously mentioned. External scrutiny was applied to those action plans and the Council was held to account.
- Ofsted and the care quality commission's inspections had been on hold since lockdown and, with regard to Ofsted, this was due to recommence in some form within the Autumn term.

Questions were invited.

In terms of schools referred to as inadequate, it was queried if there were any specific recommendations in light of the Covid-19 pandemic for schools that had been struggling and if there was any particular help available. In response Mr Hartwell said the local authority had been very proactive and daily briefing updates had been provided to

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headteachers along with virtual meetings. There had been close integration between children’s social care and education and skills leading to a very detailed pupil level risk assessment. This had led to a better understanding in terms of particular stresses and circumstances experienced by individual learners and had proved beneficial to schools.

It was recognised that going forward education attainment was going to be a challenge and there were concerns about any gaps being widened. A lot of work had been done over all settings to ensure those most at risk would return to education and were encouraged and facilitated to do so.

Councillor Oliver said the widening of the attainment gap in education was a serious problem faced by all local authorities across the country. The Cabinet Member for Children’s Services and the Administration were very keen to engage with all schools, not just maintained schools, and there was an opportunity through the North of Tyne Combined Authority with the Education Challenge to help the schools listed as inadequate. There were many significant issues to be addressed and it would take time.

A member commented that historic surveys had shown that education attainment was linked to the social fabric of the community and in particular to poverty and earnings.

The Chair thanked Mr Hartwell for his report and said she was sorry to hear that Dean Jackson, Director of Education and Skills, was leaving the authority as he was an excellent officer.

RESOLVED that the findings within the report be noted.

47. REPORTS OF THE CHIEF INTERNAL AUDITOR

(a) 2019/20 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and and Control.

K McDonald, Acting Chief Internal Auditor, introduced the above report which provided members with the annual opinion from the Chief Internal Auditor 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 other key stakeholders. (A copy of the report is attached to the signed Minutes as Appendix G.)

The report before members provided an explanation of what was meant by the framework of governance, risk management and control and that the opinion for the 2019-20 year was satisfactory overall, which was a positive opinion for the Authority. It also explained some of the work performed during 2019-20 to allow evidence to form that opinion which was covered in more detail in following agenda items. The report provided a summary of conformance with the required public sector internal audit standards and a summary of any items suggested for inclusion within the Annual Governance Statement.

Attention was drawn to paragraphs 3.2 to 3.5 on page 5 of the Appendix. Paragraph 3.2 stated that the overall opinion on the framework of governance, risk management and

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control was satisfactory overall for Northumberland County Council for the entire year from April 2019 to March 2020, however attention was drawn to some control issues which had been identified within the Advance Northumberland group of companies which were within the County Council's accounting group boundary and hence material to the County Council's framework of governance, risk management and control. The Internal Audit Service also provided an internal audit service for Advance Northumberland which formed part of the wider group for the County Council and some issues relating to them were set out in paragraph 3.3 where some improvement in governance and control had been identified as required within that group of companies.

Paragraph 3.5 recognised the impact of the pandemic which took effect in the last few days of the 2019-2020 year but this would have more focus in 12 months time when that framework would be much more impacted by the pandemic.

Comments/questions from members were invited.

Councillor Towns sought further clarification regarding the audit assessment of Advance Northumberland, what was meant by fundamental financial systems and what the Council was doing to address weaknesses identified within them.

In response Councillor Oliver referred to work currently underway to assess different options in terms of the procurement process to acquire a new creditor payments system and said in the meantime additional manual systems were in place.

The Acting Chief Internal Auditor explained that the fundamental financial systems were interpreted to mean core systems which would underpin any organisation, in this instance creditor payment systems, debtors and recovery systems, payroll systems and the rent collection and assessment systems. These were the main financial systems for the Advance Group of companies given the nature of its business and where most financial transactions regarding the business of the organisation would be transacted. For every audit undertaken an audit opinion was issued and there were four possible opinions that might be issued by Internal Audit. Of the four key fundamental financial systems, debtors and recovery systems, had received significant assurance and the remaining three systems had received limited assurance. Advance Northumberland had been undertaking work on the areas highlighted by Internal Audit, but more progress was needed to allow the 'limited assurance' audit opinions to be raised to a higher level of assuredness.

Councillor Towns was assured by the comments made and acknowledged the steps taken for improvement. He hoped the public would also be assured that lessons had been learned and that the new structure of Advance was very different to its predecessor organisation.

Mr Topping requested some clarification about a recommendation for the Audit Committee to take on some overarching responsibilities, including Advance Northumberland. In response the Director of Corporate Assurance said Northumberland County Council had a wholly owned group of companies, and as these were wholly owned, formed part of the County Council's accounting group boundary as the work and performance of the Group would impact the County Council. Mazars as external auditor had recommended having a

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designated Audit Committee to take on the role of a Group Audit Committee or Parent Audit Committee for all of the entities within the County Council accounting group boundary. The role of the Group Audit Committee would be to maintain governance oversight over those wider entities within the County Council's accounting group boundary, and Mazars had further suggested that it would be usual and expected for the County Council's Audit Committee to take on the role of Group Audit Committee. The Director of Corporate Assurance advised that a proposed Terms of Reference and accompanying report had already been drafted, reflecting Mazars' recommendations and examples of good practice which they had provided, and was with the County Council's Chief Executive and being discussed with Cabinet. It was therefore envisaged that firm proposals for members to consider would be in place for the next meeting.

The Executive Director of Finance added that this was one of the actions included in the AGS discussed earlier and was one of the governance improvements to review for the coming year.

Councillor Swinburn complimented Northumberland County Council for its presentation of accounts which were structured and easy to follow. He hoped this would continue when incorporating group accounts. The Director of Corporate Assurance acknowledged the praise given to the finance team and noted that they were experienced in handling group accounts.

RESOLVED that

- (1) The Chief Internal Auditor's 2019/20 'satisfactory' opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, attached as Appendix 1, be noted.
- (2) This opinion be considered by the organisation when finalising 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.

(b) Key Outcomes from Internal Audit Reports (Issued 1 November 2019 - 1 July 2020).

K McDonald, Acting Chief Internal Auditor, introduced the above report which advised members of key outcomes from Internal Audit reports issued between 1 November 2019 and 1 July 2020. (A copy of the report is attached to the signed Minutes as Appendix H.)

It was a regular report which came to committee twice a year and had been extended on this occasion due to the pandemic arrangements. Members' attention was drawn to the table on page 5 of Appendix 1 which provided a brief summary of some of the good practice found during the audit undertaken, some of the issues identified and, where possible, progress made. This year, because of the pandemic, evidence checking with service areas had not taken place but the committee was assured that this would take place later in the year and would be reported to committee in a slightly different form.

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RESOLVED that the key findings from good practice identified and management action taken in response to the Internal Audit reports issued in this period, as summarised in Appendix A, be noted.

(c) Strategic Audit Plan 2019/20 - Final Monitoring Statement

K McDonald, Acting Chief Internal Auditor, introduced the above report which provided members with a final monitoring statement in respect of the Strategic Audit Plan for 2019/20. (A copy of the report is attached to the signed Minutes as Appendix I.)

This report would normally be presented to the committee in May but the cancellation of March's meeting due to the pandemic and resulting large agenda for May's meeting had meant that the report was instead being presented to this July meeting of Audit Committee. It outlined the performance of the plan for the 2019-20 year which was agreed in March 2019.

Reference was made to the table commencing on page 2 of Appendix 1 which showed that, in the vast majority of cases, planned work had been completed. It was noted there were some variances, however, where the plan had been flexed to accommodate additional work which had arisen during the year. At the very end of the year internal resources had been diverted to address issues of emerging risk due to the pandemic, in line with normal auditing practice when new risks were identified.. 87% of planned days were achieved by the team last year, the slight shortfall being due to a member of staff being on long term sickness absence.

In response to comments by the Chair regarding uncertainty due to the current situation and there being no end in sight, the Acting Chief Internal Auditor agreed and said from the beginning of the pandemic, Internal Audit had been heavily involved in the Council's response and had received requests for advice and guidance on implementing certain changes required. The situation was being constantly monitored in order to assess the impact of the emerging situation on audit risk, in order that the Audit Plan could be flexed as required to ensure that audit resources were always being deployed on areas of greatest risk. As the county was now moving towards a recovery phase, Internal Audit was equally involved with the overarching governance arrangements in terms of how the County Council, as a whole, was moving towards whatever the new normal would be in the future. The plan for the current year, which would be discussed later in the agenda, provided more detail about some of the risks which had been highlighted. It was a strange and difficult time for everyone and Internal Audit was providing advice and guidance where it could.

Despite having had concerns about not having Local Area Council meetings and the delay in getting Scrutiny Committees up and running, the Chair said she had been very impressed by the way the Council had put safeguards in place and the balance achieved between reacting and managing risks.

Mr Watson said it was a very comprehensive report but raised concerns about Information Services as two of the related reports had received limited assurance. Bearing in mind the Council now had so many people working from home, and were probably accessing

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systems through private network arrangements, had the IT Auditor considered the risks of that? In response the Acting Chief Internal Auditor said the two pieces of work referred to were undertaken and considered by the committee at the November meeting and recommendations had been accepted by Information Services as expected. He drew members' attention to a piece of work relating to business continuity management and disaster recovery and a review undertaken the previous year. A follow up was performed in the current year and had shown a good improvement in terms of work in Information Services. This had stood the Authority in good stead when moving into the pandemic arrangements for a different type of working. At the start of lockdown when members of staff began to work remotely, Information Services realised very quickly the need to change the remote access solution for the volume of homeworkers. As part of that plan Internal Audit had undertaken an additional amount of testing in conjunction with them to ensure that all controls were in place for the new piece of software as it was implemented.

Councillor Oliver said that Northumberland was the fourth fastest authority to pay out business grants and there had been a phenomenal effort across all areas to achieve this. Councillor Oliver highlighted that Internal Audit had played a significant part in assessing procedures and systems before they went live, as had IT. On a wider issue, 2,500 people had been mobilised onto remote working in a very short space of time and a new system had to be implemented very quickly. This would stand the Council in good stead for the future as more people could work regularly from home. He was currently having bi-weekly meetings with the Director of IT and work was on-going to assess security risks, particularly phishing, as well as in connectivity of systems.

RESOLVED that the information set out in the Strategic Audit Plan Final Monitoring Statement, as set out in Appendix 1 to this report, be noted.

(d) Internal Audit Charter

K McDonald, Acting Chief Internal Auditor, introduced the above report which informed members of an updated Internal Audit Charter in accordance with the requirements of the Public Sector Internal Audit Standards (April 2017) and the related Local Government Application Note.

The Charter previously came to committee for approval in November 2017, at which time it was agreed. Under the aforementioned requirements the Charter periodically came before the Audit Committee for review to ensure it still met requirements. The only real change to the updated Charter was within paragraph 5.5 on page 6 of Appendix A which referred to separation of duties being in place to maintain the independence of the Chief Internal Auditor. On a point of clarification, the Acting Chief Internal Auditor said the arrangements within paragraph 5.5 had always been there but now details of those arrangements were being specifically set out as detailed in the report. Otherwise the Charter remained the same with some very minor cosmetic changes.

RESOLVED that the updated Internal Audit Charter, as set out in Appendix A to this report, be agreed.

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48. EXCLUSION OF PRESS AND PUBLIC

RESOLVED:-

(a) that under Section 100A 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 discussion of exempt information as defined in Part 1 of the Schedule 12(A) of the 1972 Act, and

(b) that the public interest in maintaining the exemption outweighed the public interest in disclosure for the following reasons:-

Agenda Item 10, Paragraphs 3 of Part 1 of Schedule 12A

Disclosure could adversely affect the business reputation or confidence in the person/organisation and could adversely affect commercial revenue.

49. REPORT OF THE ACTING CHIEF INTERNAL AUDITOR

Update on Strategic Audit Plan 2020/21

K McDonald, Acting Chief Internal Auditor, introduced the above report which updated members on the Strategic Audit Plan for 2020/21. The Strategic Audit Plan for 2020/21 was prepared and scheduled to be considered by the Audit Committee in March 2020. Preparation of the Strategic Audit Plan preceded the Coronavirus pandemic and Government response announced on 23 March 2020. Internal Audit service providers had to therefore consider the impact of the pandemic on risk profiles of audited entities, and what changes to planned assurance coverage were needed. The report provided an update to the Audit Committee on assurance coverage planned and undertaken so far for 2020/21, in light of the Coronavirus pandemic.

Internal Audit had performed a number of additional assurance tasks which could not have been foreseen and included in the original 2020/21 Strategic Audit Plan and Appendix 2 provided details of assignments performed so far during the year.

Regular reports would be provided to the Audit Committee.

RESOLVED that the Strategic Audit Plan 2020/21 be approved subject to the revised coverage documented in the report as a result of the Coronavirus pandemic and further notes that prevailing risks and impact on assurance needed would continue to be kept under review by the Acting Chief Internal Auditor.

CHAIR: _____

DATE: _____

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