

**NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE**

At a virtual meeting of the **Audit Committee** held on Wednesday, 30 September at 10.15 a.m.

PRESENT

G Hill (Chair)

COUNCILLORS

G Castle
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 B Flux, Business Chair
Councillor N Oliver, Portfolio Holder for Corporate Services and Cabinet Secretary

OFFICERS IN ATTENDANCE

K Angus
T Candlish
C Hand

B Haigh
K McDonald
B McKie
A Mitchell
K Norris
M Oldham

Interim Acting Chief Executive
Senior Auditor
Executive Director of Finance (Section 151 Officer)
Corporate Fraud Manager
Acting Chief Internal Auditor
Group Assurance Manager
Director of Corporate Assurance
Democratic Services Officer
Senior Auditor

ALSO IN ATTENDANCE

J Dafter, C Waddell - Mazars (External Auditors)

Ch.'s Initials.....

50. CHAIR'S ANNOUNCEMENT

The Chair said, due to recent events, it was important to remind everyone about the role of the Audit Committee and that it was not a court to be the judge or jury to deliberate and determine allegations which had been made over recent months. It was Audit Committee's role to have oversight and seek assurances around the framework of risk management and control and have assurance that proper processes were being followed. She said she had sought answers regarding process including what processes had been enacted, terms of reference and methodology. She felt it was right to report that there had been no answers or assurances given and therefore there would be some urgent business later in the meeting, the majority of which would relate to staffing issues and would therefore be confidential.

51. MINUTES

RESOLVED that the minutes of the Audit Committee meeting held on 29 July, as circulated, be confirmed as a true record and signed by the Chair.

52. REPORT OF THE EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER

Corporate Fraud Team – Counter Fraud Annual Report

Mr B Haigh, Corporate Fraud Manager, introduced the above report which updated members on work undertaken by the Corporate Fraud Team within the Council covering the period 1 April 2019 – 31 March 2020. (A copy of the report is filed with the signed Minutes as Appendix A.)

At the end of March, the Corporate Fraud Team had consisted of Mr Haigh, 3 Corporate Fraud Inspectors and an Administrative Assistant, however, due to resignation the Administrative Assistant's post was now vacant and would hopefully be advertised and filled soon.

During the year the number of referrals in relation to potential internal fraud had dropped, there had been 11 referrals but 7 of these had related to the same person and were a repeat of an earlier allegation which had been cleared up and no further action was needed. There was still one matter outstanding which was being considered for legal action and an update would be provided in a future report.

There had been a substantial increase in external fraud referrals with 1,750 received between April and March. A breakdown of the categories were listed on page 3 of the report and it was highlighted that the number for Single Person Discount now stood at almost 1,000. Joint working with the Department for Work and Pensions (DWP) had been reintroduced in May last year and there were 21 cases being investigated with DWP, although in the current climate none of these had progressed significantly and upon

Ch.'s Initials.....

Audit Committee, 30 September 2020

completion results would be reported to a future meeting. One of the benefits of working with DWP was when there was enough evidence to proceed with criminal charges this was done through the Crown Prosecution Service (CPS) via DWP and took some weight from the Council's Legal team.

Part of the work done by the Corporate Fraud Team still involved housing benefits. During the year over £68,000 of overpayments had been identified and recovered although that figure would reduce over time with the roll out of universal credit.

With regard to Council Tax Support, fraudulent overpayments identified amounted to just over £22,000 which was lower than in previous years as the focus had been placed on Single Person Discount cases. Since May 2019 a pro-active exercise had been carried out using the datahub IDIS, details of which were provided on page 4 of the report. The exercise had resulted in over £175,000 of discount being identified from the closure of 426 cases. It was proposed to continue reviewing Single Person Discount over the next 2 years and 50,000 would be looked at.

Details of work with Homes for Northumberland, Right to Buy applications, collaboration with the Insurance Team and School Allocations were also provided, as set out in the report. Reference was also made to proactive counter fraud work and the key risk areas which were listed on pages 5 and 6 of the report.

The Chair expressed appreciation for the work carried out by the Corporate Fraud Team and thanked Mr Haigh for his comprehensive report. She referred to the tightening up of the Right to Buy process and gave an example of an experience relayed to her by one of her constituents. In response Mr Haigh said that the same process was followed for every application to ensure that funding was legitimate and was not illegal.

Questions and comments from members were invited:

- With regards to decisions taken about whether to proceed with criminal charges for fraudulent activities, Mr Haigh said that, if there was felt to be sufficient evidence to proceed, he, as manager, and his opposite counterpart at DWP would give their opinion on the case. Ultimately DWP as the prosecuting department and the CPS would make a decision based on the quality of the evidence provided but if they decided not to proceed and he felt that the case was strong enough to warrant a level of sanction, then there was the option of issuing a formal caution or other penalty.
- Mr Haigh explained that for non-joint working cases, advice was sought from the Council's own legal team and, if necessary, the Council would proceed with criminal charges on those cases. Upon the reintroduction of joint working, the agreement was that when cases fell under the joint working umbrella, the CPS ultimately had the decision on whether to proceed with criminal charges but the Council did have the option of other sanctions as mentioned above.
- The Vice Chair commented it was quite shocking, from the work carried out on Single Person Discount cases, that nearly 50% had resulted in an undeclared adult and he could understand why more work on this was necessary.
- In response to a request regarding the list of case types on page 3, Mr Haigh confirmed that it would be possible in future reports to provide a table of year on year data for the previous 3 years in order to show a full picture.

Ch.'s Initials.....

Audit Committee, 30 September 2020

- It was confirmed that the 882 cases from IDIS were from a very high risk category and this smaller percentage would have been targeted first to see what kind of results were yielded. From experience, Mr Haigh estimated around 5 to 10% of savings. It was, however, a fluctuating arena in terms of results and it was sometimes found that there were more results yielded from low risk areas.
- It was confirmed that charges to Bernicia and Karbon Homes for the Right to Buy/Acquire verification process were currently under review as they had remained the same for the last 3 years.

RESOLVED that the progress in work undertaken by the Corporate Fraud Team since the last report in March 2020 and the steps being taken to recover any monies owed to the Council be noted.

53. REPORT OF THE SERVICE DIRECTOR – CORPORATE ASSURANCE

Designation of Northumberland County Council’s Audit Committee as Group Audit Committee

Allison Mitchell, Director of Corporate Assurance, presented the above report, the purpose of which was to:

- a) outline advice received from the External Auditor, Mazars, that the County Council’s Audit Committee should be designated as Group Audit Committee in order to maintain required governance oversight across all entities operating within Northumberland County Council’s accounting group boundary; and
- b) present the Terms of Reference which it was proposed would govern the County Council’s Audit Committee when discharging the duties of the Group Audit Committee.

(A copy of the report is filed with the signed Minutes as Appendix B.)

Ms Mitchell said the External Auditor, Mazar, had recommended earlier in the year that the Council consider introducing a Group Audit Committee arrangement to enhance oversight of governance throughout all the entities within the County Council’s Accounting Group boundaries. This mechanism would allow the Council’s Audit Committee to be the parent Audit Committee to receive assurance on governance and control throughout the wider group.

The Appendix in the report set out the approach to be adopted. At the beginning of the year the Audit Committee would write to the entities within the group and seek assurance on some fundamental governance areas. Internal/ External Audit would also have a role in the assurance model to provide further comfort and clarification to the committee. Because Audit Committee was a committee of the Council, it would be necessary to make a change to the constitution for the change to the Terms of Reference proposed. It was therefore proposed to take the information set out in the Appendix of the report to the next meeting of full Council. Advance Northumberland had been made aware of the proposal.

The Vice Chair welcomed the report and said questions and concerns had been raised on a number of occasions by members of Audit Committee and, whilst answers had been provided, he was sure some members had not been fully confident with not having direct sight or access to some of the information themselves. He felt this could only improve the situation and queried if reports would be presented to separate meetings or to meetings that were currently held? He also referred to page 2, key issues, section 2, which stated that it was a good practice principle and queried why this had never been put forward as a suggestion by previous External Auditors?

In response the Director of Corporate Assurance said the Terms of Reference, when the Audit Committee of the County Council was acting as the Parent Audit Committee or Group Audit Committee, would be in addition to the Terms of Reference which already existed for the Audit committee as it sat today. Her proposal would therefore be that an extra item be placed on the agenda to discuss items where the Audit Committee was sitting as the Parent Audit Committee, according to the Terms of Reference set out in the Appendix today.

She agreed that it was a sensible suggestion that Mazars had put forward to give a much needed oversight across all entities now and in the future. She could not, however, give a view as to why this had not been recommended before.

The Chair said this would be good practice regardless of the history and queried what Advance Northumberland's response to this had been? The Director of Corporate Assurance emphasised that full Council had not yet agreed the full terms of reference so it would be good governance to allow that to happen before wider discussion took place. She did say, however, that it was raised at the last meeting of Advance Northumberland's Audit Committee as something the Council was working on and, although there may have been different perceptions from stakeholders about how this should be taken forward, there had been a general acceptance of it.

The Chair then referred to reports of £5.5 million set up for the liable of a potential claim and queried if that was the only outstanding claim and if there were any comments which could be made about the overall stability of the finances of Advance Northumberland that the committee should be aware of at an early stage?

The Executive Director of Finance said, as members may be aware, a meeting of the Advance Shareholders Assurance Group took place each month and there was regular officer contact in-between. Any issues would be flagged up through that forum and the finance claim was the only claim the Council had been made aware of. In terms of the stability of the company, like the rest of the economy, Covid-19 was presenting some pressures. Advance Northumberland had a landlord role and received some of their income from third party tenants. As part of the monthly processes, Advance provided a regular cash flow forecast which was reviewed through their board and the Shareholder Assurance Group, so it was being monitored. There were some obvious challenges with cash flow which were not unique to Advance and with the potential second wave of the virus he could not provide a definitive answer. There was a meeting arranged with Advance next week and he would report back accordingly.

The Chair invited questions and comments from members of the committee:

- With regard to rumours the Executive Director of Finance reiterated that he was not aware of any other claims but he had an urgent meeting with Advance the following week at which stage he would receive clarification about the financial position.
- Cameron Waddell, External Auditor, clarified that it was not advice from External Audit, it was an observation made when Mazar's were appointed. Having looked at other clients, particularly in sectors which had significant involvement with subsidiaries, the parent needed assurance over the systems and accounts when they were consolidated into the group. In that sense it seemed to be a straight forward recommendation and had received support from Advance and from the County Council. The first step was to set the Group up and determine the Terms of Reference.
- Mr Topping, Independent Member, recognised that this had to be ratified by full Council but said it would be sensible, as an early action, for the various auditors to be able to give this committee assurance that the risk processes of all the constituent parts were consistent. The Director of Corporate Assurance advised that this would become part of reports received by Audit Committee under the Terms of Reference put forward but would have to be evolved and developed over time. The approach suggested in the Appendix was based on one taken by Mazars whereby a letter was sent out at the beginning of each year to key individuals associated with the entities asking for their views on certain matters of governance, risk and control. Responses would then be used to help develop a plan of coverage for the year. This was a borrowed approach for a different setting and purpose but it could be used to good effect and it mirrored the three lines of defence model. The purpose was to allow a flow of information on the entities which would ultimately be reported in the consolidated accounts at regular intervals during the year so that if there were any concerns it would give the Group Audit an opportunity to consider those and if any action was warranted. It would increase awareness and was a good thing for the governance of the organisation.
- In response to comments by the Chair regarding problems reported in the media about arms length regeneration companies, questions about what Advance did and if any other reviews about Advance would run parallel with this, Ms Mitchell said this would be an umbrella over any other process. She emphasised that anything being done under the auspices of the Audit Committee arrangements would not interfere with the running of the organisation. It would form a view on the adequacy of the framework of governance risk management and control in terms of how it impacted on the group arrangement for the Council. She did not know what other reviews, if any, were being considered but this would not affect them in any way.
- Councillor Swithenbank said Advance was facing a number of claims and given the legal advice they had received, the elements of risk associated with the claims varied. The amount of investment and borrowing undertaken was desirable if it was managed well and the County Council, as the ultimate backstop on those loans, had to have confidence in the information it received. The proposal to move to a single audit function, where advice would be received from a single point, was a service the leadership of the Council should have, regardless of political party. The information on which decisions were based must be sound and he believed the proposals were the right way forward.
- Mr S Watson, Independent Member, said governance should be run on transparency and visibility and from recent experience he felt there had been a lack of visibility in some areas. Once the pieces were in place, he felt it would be a major improvement for the Council.

- Councillor Grimshaw agreed with the points made and felt that Advance should be scrutinised more. For all the money that had been borrowed, no action was being taken, there had been many promises and hopes raised for particular areas but nothing had come to fruition.
- Councillor Castle pointed out that the Audit Committee was not a scrutiny committee but it did scrutinise business decisions made by the arms length organisation. The Committee was required, on behalf of the Council, to ensure that the financial management and controls and entire framework were satisfactory so that the Council was confident that the money it was putting at risk was being managed in a framework which was acceptable.
- On a point of clarification Councillor Grimshaw said she did not mean that the Audit Committee should carry out scrutiny on Advance, she meant that it should be done in a proper and appropriate manner.

In summary the Chair asked the Director of Corporate Assurance to confirm what the next steps would be. In response Ms Mitchell said a report, based heavily on the report before Audit Committee today, would be put to the next meeting of full Council at the beginning of November. This would reference the discussions and resolution of the Audit Committee today and, if agreed by full Council, it would be a live part of the arrangements. She suggested that a copy of the report before Audit Committee today be taken to the next meeting of Advance Northumberland's Audit Committee in the middle of October to formally consider it on their agenda.

The Chair then read through the recommendations listed in the report which members unanimously agreed. Members also asked that it be noted that they were all fully supportive of the proposal.

RESOLVED

- a) Audit Committee notes the advice received from the external auditor, Mazars, that a Group Audit Committee should be designated to maintain oversight of governance matters across all entities within the County Council's accounting group boundary;
- b) Note that this role would be expected to be discharged by the County Council's Audit Committee and that it is therefore proposed that Audit Committee is designated as Group Audit Committee;
- c) Note the Terms of Reference which it is proposed will be adopted when Audit Committee is discharging its duties as Group Audit Committee; and
- d) Note that the proposed designation of Audit Committee as Group Audit Committee will require a change to the Audit Committee's terms of reference in the constitution, which must be determined by full Council. The proposed terms of reference for Audit Committee when discharging the functions of Group Audit Committee will therefore be proposed to be added to the terms of reference for Audit Committee in the Council's constitution at the next meeting of Council.
- e) Audit Committee members are fully supportive of the proposals.

54. REPORT OF THE CHIEF INTERNAL AUDITOR

Review of Preparation of the 2019/20 Annual Governance Statement

Kevin McDonald, Acting Chief Internal Auditor, presented the above report which provided members with an assurance view from Internal Audit regarding the process undertaken in preparation of the Annual Governance Statement following a request agreed by Audit Committee at its meeting on 29 July 2020. (A copy of the report is filed with the signed Minutes as Appendix C.)

Mr McDonald said it was a high level report looking at what was required by the Accounts and Audit Regulations 2015 and the proper practices that the Authority was required to comply with. These were defined as delivering good governance in the Local Government Framework 2016, a document published by CIPFA, the chartered Institute of Public Finance and Accountancy, and SOLACE, the Society of Local Authority Chief Executives and Senior Managers. Within that framework there were 3 key principles which were specified in terms of preparation of an Annual Governance Statement and which formed the basis of the report presented to members today.

The key principles were specifically stated within the draft Annual Governance Statement and the Local Code of Corporate Governance which was presented by the Section 151 Officer in July. It explained how the County Council had addressed those key principles in preparation of the Annual Governance Statement so, while it was not Internal Audit's role to audit each aspect of the Annual Governance Statement in terms of the content, the report before members today outlined some of the various assurances, including Internal Audit, used by the Section 151 Officer and his team in preparing that statement before it was presented to Audit Committee for approval in July.

The Chair referred to the last meeting when members had been keen to note the draft Annual Governance Statement rather than approve it and said that decision had been vindicated by subsequent events. On a point of clarification, she asked for confirmation that Audit Committee was not being asked to approve the Annual Governance Statement or the accounts today. The Interim Chief Internal Auditor confirmed this and said the report was for information only and was being presented in response to the request made on 29 July about the process which had been adopted to prepare the Annual Governance Statement.

The Chair said it was important to reiterate that no answers to questions about process had been given and, although the question of whether the Audit Committee should have met at that time was a separate issue, it was of concern that, to date, she had received no answers as to who had refused the meeting or under what constitutional basis.

Discussion then took place about the Audit Committee's role and Councillor Towns recommended caution about referring to allegations that had not been proven.

In response to comments that Internal Audit had been of the view that an extra-ordinary meeting of the Audit Committee should not take place and who had refused it, the Director of Corporate Assurance was invited to give her view. Ms Mitchell said she was not aware if the Chair had received an answer to her request for an extra-ordinary meeting which alluded to the point the Chair was now making about process. After the

extended leave of the Chief Executive was announced, Ms Mitchell said she and Councillor Hill had discussed whether it would be reasonable to convene an extraordinary Audit Committee meeting. Ms Mitchell said had said that she had not considered it to be the right thing to do at that juncture, the reason being down to the role of the Audit Committee and timing as it was too soon in the process, and other due processes needed to take their course. In terms of how the decision was made, Ms Mitchell agreed that there should be clear written rules and procedures.

Following further comments, the Chair emphasised that the meeting was not refused on Internal Audit's recommendation.

In terms of the next steps, the Chair said that the constitution should be reviewed as it was too vague and needed urgent clarification, something she had raised previously. In response the Director of Corporate Assurance said the framework of governance in any organisation was constantly going to change which was why maintaining risk management and a good governance framework was so important. There would always be matters that would impact on the governance of the organisation and External Audit would maintain a watching brief on that, as would the Audit Committee, and the Chief Internal Auditor would decide on coverage from an Internal Audit perspective.

With regard to the Annual Governance Statement and the report received at the last meeting, she agreed there were some procedural processes that could be strengthened and she would discuss this with the Chief Internal Auditor, however, other members of the senior management team would also have a view on this.

In relation to the substantive matters it was likely that the Audit Committee would need to receive information at a suitable juncture and that was something she, the Acting Chief Executive and the Chief Internal Auditor would consider further and bring forward at a suitable time. To reiterate her previous comments, there was a question about the role of the Audit Committee, timing and a separate issue about processes and clarity. Areas for improvement had been identified and these would be taken forward in an appropriate way.

Mr Watson said the key item identified was clarity and there were questions about visibility and communication. The Chief Internal Auditor been asked to provide some assurance about the process undertaken in the preparation of the Annual Governance Statement and he had done that. He did not consider it helpful to continuously go over what had happened in the last 5 weeks but agreed there was a need for clarity.

Following further discussion, the Cabinet Member for Corporate Services referred to an email sent by the Acting Interim Chief Executive to the Chair on 12 August which he hoped clarified all of the above issues. The Chair pointed out that a lot more had happened after that and she had been given no explanation regarding the reason for refusal or the constitutional basis. Mrs Angus clarified that there was further correspondence after that email which was a further request from Councillor Hill for a meeting. Officers had provided advice throughout this to Councillor Hill and other Councillors but, to be clear, no officer was involved in the decision not to convene the meeting.

In conclusion the Chair said the constitution had no provision for any Councillor to refuse meetings and the Acting Interim Chief Executive had confirmed that no officer

had been involved in the decision. There was the provision for certain officers and the Business Chair to call a meeting or for 5 Councillors to petition for one but not for any Councillor to be able to refuse one.

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

RESOLVED – that the work performed by Internal Audit in reviewing the approach to the preparation of the Annual Governance Statement for 2019/20 had been considered and noted.

55. URGENT BUSINESS

The Chair advised that she had agreed to the consideration of an item under urgent business which needed to be considered today due to the concerns highlighted at the beginning of the meeting regarding the lack of assurance or answers given to questions raised about process. The Chair said the Acting Interim Chief Executive would give a verbal update about new arrangements and this would include some confidential staffing issues, as such, it would need to be discussed as a Part 2 item under the exclusion of press and public. The Chair added that she had received representations from Councillors asking her to raise the issue that, in the constitution, any suspension of a senior officer could only be for a maximum of 2 months. She asked the Acting Interim Chief Executive if there were any comments she could make to the public or councillors before moving into Part 2.

Mrs Angus said it was publicly known that a number of governance and risk issues were impacting on the Council's day to day business. These issues were taking a significant amount of officer time and she would talk through, in the private part of the meeting, what assurances she could give members in a wide range of governance matters. If required, she would be happy to present a report to the next Audit Committee in Part 1 to provide a wider assurance, following consultation with the Chief Internal Auditor and External Audit.

The Director of Corporate Assurance also had some exempt information to bring to the committee's attention.

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:-

Paragraphs 1, 2, 3 and 5 of Part 1 of Schedule 12A

Disclosure could adversely affect the Council's ability to conduct its affairs in an effective manner.

Verbal update from the Acting Interim Chief Executive - Governance and Risk Issues

Mrs Angus provided an update to members on a number of governance and risk issues.

RESOLVED that

- a) The information be received.
- b) Terms of reference for the Governance Accountability Group and Statutory Officer Group be circulated to members of the Audit Committee

CHAIR: _____

DATE: _____

Ch.'s Initials.....

Audit Committee, 30 September 2020