

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

At a meeting of the Audit Committee held in the meeting space, Block One, Floor Two, County Hall Morpeth on Wednesday, 23 March 2022 at 10.15 a.m.

PRESENT

S. Watson (Chair, in the Chair)

COUNCILLORS

Cessford, T.
Dale, A.
Grimshaw, L.
Jackson, P.

Oliver, N.
Towns, D.
Wallace, A.

OFFICERS IN ATTENDANCE

Binjal, S.	Monitoring Officer and Interim Director of Governance
Candlish, T.	Group Assurance Manager
Henderson, C.	Group Assurance Manager
Hunter, P.	Senior Service Director
Mason, A.	Finance Manager
McDonald, K.	Acting Head of Internal Audit and Risk Management
McEvoy-Carr, C,	Executive Director of Adults and Children's Services
Todd, A.	Democratic Services Officer
Willis, J.	Interim Executive Director of Finance and S151 Officer
Williams, G.	Corporate Fraud Investigator

ALSO IN ATTENDANCE

Waddell, C. Mazars (External Audit)

One member of the press was also in attendance.

41 APOLOGIES FOR ABSENCE

Apologies for absence was received from Councillor A. Scott and P. Topping.

Ch.'s Initials.....

42 **MINUTES**

RESOLVED that the minutes of the meeting of the Audit Committee held on 26 January 2022, as circulated, be confirmed as a true record and signed by the Chair.

Following on from comments raised regarding the KPMG report detailed in the minutes, the Chair advised that Members would have the opportunity to discuss the report at a future meeting.

43 **REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER**

Northumberland County Council - Statement of Accounts 2021-22

J. Willis, Interim Director of Finance and Section 151 Officer presented the report which provided the Audit Committee with an overview of the timetable for publishing the 2021-22 Statement of Accounts and an update on the Accounting Policies to be applied in the preparation of the 2021-22 Statement of Accounts. (A copy of the report has been filed with the signed minutes).

It was noted that there were no proposals to amend the Accounting Policies.

Members were provided with an update regarding the CIPFA/LASAAC exceptional consultation which was issued on 3 February 2022 on time limited changes to the 2021-22 and 2021-22 Code to help alleviate delays to the publication of audited financial statements. Following the consultation, the preliminary decisions were to:

- (a) Not to progress any option to pause professional valuations for operational property, plant and equipment for a period of up to two years.
- (b) To pursue an option of deferring implantation of IFRS 16 Leases for a period of up to two years.

It was noted that the CIPFA Code changes would have minimal effect as officers had been planning to press ahead with the professional valuations without waiting for the decisions arising from the exceptional consultation. It was advised that a number of other Councils had also continued with their valuation programs.

RESOLVED that:

- a. the key dates in the final accounts process for 2021-22 be noted.
- b. the Accounting Policies to be used for the preparation of the 2021-22 Statement of Accounts be approved.
- c. the Interim Executive Director of Finance be authorised to review the accounting policies as necessary and report any changes to the Audit Committee.

44 **REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER**

Ch.'s Initials.....

Statement of Accounts - Group Boundary Review

J. Willis, Interim Director of Finance and Section 151 Officer presented that report which provided members with details of the boundary review which had been undertaken to determine those organisations which should have their financial statements consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2022. Particular consideration was given to the position of Active Northumberland. (A copy of the report had been filed with the signed minutes).

Members were advised that the Council had undertaken an assessment (Boundary Review) in advance of producing its 2021-22 Statement of Accounts to ascertain if there were any relationships which fell under the definition of the Code and should therefore be consolidated into the group position.

The outcome of the review was that the financial statements of the following entities should be consolidated with Northumberland County Council's Statement of Accounts for the financial year ended 31 March 2022:

- Advance Northumberland Limited
- Northumberland Enterprise Holdings Limited

Regarding Active Northumberland, it was noted that the Council did not legally own Active Northumberland, nor did it have direct control, via members on the Active Northumberland Board. It was a third-party legal entity with a contractor relationship with the Council. The review concluded that Active Northumberland did not fall within the scope of group accounts as per the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22 and IFRS 10 and should therefore continue to be out of scope of Northumberland County Council's consolidated Statement of Accounts for the financial year ended 31 March 2022.

The Chair queried if External Audit were satisfied with the conclusions reached within the Boundary review. In response the External Auditor confirmed that they concurred with the Council. The appropriate Code of Practice principles had been followed and agreed that the Council did not have adequate control of Active Northumberland to enable it to be consolidated within its statement of accounts.

Following a question about leisure services buildings, it was confirmed that the Council still maintained ownership of those buildings and therefore were included within the Council's balance sheet.

RESOLVED that:

- a. the contents of the report be noted.
- b. the financial statements of Advance Northumberland Limited will continue to be consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2022 be noted.
- c. Northumberland Enterprise Holdings Limited's financial statements will be consolidated with the Council's Statement of Accounts be noted.

Ch.'s Initials.....

d. Active Northumberland's financial statements should not be consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2022.

45 **REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER**

Changes to the Code of Practice for Local Authority Accounting in the UK for 2021-22

J. Willis, Interim Director of Finance and Section 151 Officer provided a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code) which would apply to the 2021-22 Statement of Accounts. (A copy of the report has been filed with the signed minutes).

RESOLVED that the changes detailed in the report and in Appendix A which will be taken into account in the preparation of the 2021-22 statement of accounts be noted.

46 **REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER**

Corporate Fraud Team – Counter Fraud Interim Report

G. Williams, Corporate Fraud Investigator updated all on the work undertaken by the Corporate Fraud Team within the Council covering the period 1 April 2021 - 30 September 2021. (A copy of the report has been filed with the signed minutes).

The Chair praised the work of the service which was a valuable resource to the Council. The team, led until recently by Barry Haigh, had grown as a service in recent years and continued to stop and prevent fraud. The Committee sent their condolences to Barry's family and the rest of the Corporate Fraud Team following the sad news of his passing.

It was noted that the Corporate Fraud Team investigated Right to Buy applications. In the period detailed within the report a total of 80 Right to Buy applications were scrutinised in detail. In the same period, 19 were withdrawn by the tenants resulting in a total saving of £865,070 that would have been allowed as a discount to the property purchase price. Councillor Wallace stated that because of the work of the Corporate Fraud Team in scrutinising the Right to Buy applications the 19 properties remained part of the housing stock available to Northumberland tenants which should be applauded.

Councillor Dale welcomed the fact that the Corporate Fraud Team continued to work with housing providers to provide tenancy investigation services including training within the housing arena and were expanding this partnership work to others.

RESOLVED that the progress in work undertaken by the Corporate Fraud Team

Ch.'s Initials.....

since the last report in September 2021 and the steps being taken to recover any monies owed to the Council be noted.

47 **REPORT OF THE EXTERNAL AUDITOR**

External Audit Progress Report

The report provided Members with progress in delivering the 2020/21 audit and assurance work, and a summary of recent relevant reports and publications for information. (A copy of the report has been filed with the signed minutes).

C. Waddell, Mazars reported that there were three pieces of assurance work that had been carried out in terms of grant claims for 2020/21. The work around teachers' pension returns had been completed in November with no issues arising. The pooling of housing capital receipts return had been completed in February with no issues arising. The third piece of work was around housing benefits subsidy return where External Audit worked closely with the Council and the DWP. This piece of work was nearly complete although some errors had been found resulting in another sample needing to be taken. External Audit was working with the Council to complete this work before it was reported off to DWP, hopefully by the end of the month. Members were reassured that it was not uncommon to find errors in benefits claims.

In terms of the accounts there were a few key areas arising. Following some issues last year on the property plant equipment valuations the sample pool had been extended. More work was being carried out this year, but some additional errors had been found which needed to be addressed. External Audit was working with officers on this to understand the implications, but it was believed that there probably would be a material correction needed to the accounts, possibly in a prior year. This was because some of the valuations were out of date by some distance.

Regarding pensions, as previously highlighted, the Council had obtained a revised pensions report from the Actuary, resulting in a decrease to the net pensions' liability of £44 million.

The work on infrastructure was the result of the Council's follow-up of an issue identified during the 2019/20 audit and an internal control recommendation was raised. Following this a more written branch review of the asset register had been requested. The Council was carrying out further work to confirm that the infrastructure and asset values were now complete following a number being written off in the previous financial year. External Audit's work was on-going in this area. It was reported that this was linked to a national issue regarding the way in which infrastructure assets were recorded across all parts of the country.

An update on the Group Accounts was provided. Members were informed that last year there was a claim in relation to Farrans and a payment made within the last 12 months which had been reflected in Advance Northumberland's Accounts. External Audit had spent time seeking Advance Northumberland's views on the probability of having to pay out for this claim. The view of External Audit was that the principles of Article 37 had not been met in terms of the need to make provision in the accounts. Discussions were still taking place regarding if

Ch.'s Initials.....

contingent liability may or may not be appropriate. It was thought that this provision could potentially be taken out of the accounts, but this would increase Advance Northumberland's P&L reserve as well as the Groups.

Also, within Advance Northumberland's accounts Council officers had identified an error regarding the revaluation reserve which had resulted in a miscalculation of the Council's Group Accounts. It was stated that this was due to an increase in the valuation of assets held by Advance Northumberland. Officers were working together to see how this should be accounted for, but it would probably result in an increase in the Groups usable reserves of around £60 million. It was advised that this would be a non-distributable reserve.

Under value for money the SOLACE review was still underway. Any matters arising from the review would be reflected in the External Audit's work on this. The Annual Governance Statement would also be informed by any outcomes of the SOLACE review before being confirmed.

Councillor Oliver thanked officers from Advance Northumberland and the Council for their work in resolving the Farrans issue with the amount paid being significantly lower than initially thought. In response it was confirmed that the Farrans claim was still ongoing. It was the view of External Audit that there was still a risk. However, based on evidence provided this was improbable resulting in the accounts showing an ongoing claim but there would be no need to recognise this within the balance sheet.

Councillor Oliver queried whether the revaluation reserve error in Advance Northumberland would impact on their corporation tax. In response External Audit confirmed that this would be better addressed to the Interim Director of Finance and Section 151 Officer.

Councillor Oliver asked when the Value for Money Statement for 2019/20 was to be completed. In response it was stated that once all issues had been resolved for that year it would be concluded. However, it was looking like there would be a qualified Value for Money conclusion for 2019/20. It would then go through a second partner review and then through Mazars Central Technical Quality Team to ensure everyone was in agreement with the wording and evidence gathered to reach the decisions made. This could all take some time. In terms of 2020/21 Value for Money this would depend on any outcomes arising from the SOLACE review. If any significant weaknesses were identified, then appropriate actions would need to be taken before conclusions reached. In terms of getting back on track with the timetable for publishing audited accounts it was noted that the deadline had been pushed back to November after only 9% of Government bodies had been signed off by the timetabled deadline last year. The External Auditor stated that it was too early to confirm if the financial statements would be signed off by this year's deadline.

RESOLVED that the report and comments made be noted.

48 **REPORT OF THE ACTING HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT**

Ch.'s Initials.....

Audit Committee Work Programme 2022/23

K. McDonald, Acting Head of Internal Audit and Risk Management presented the report which proposed an updated programme of core business for the Audit Committee for 2022/23, in accordance with its Terms of Reference as set out in the Council's Constitution. (A copy of the report has been filed with the signed minutes).

The programme reflected known changes in service delivery; ensured that legal requirements relating to governance, risk and control obligations could be met; and aimed to ensure that the Audit Committee received information at the optimum times during the year to properly perform its role as set out in the Constitution and its Terms of Reference. It was noted that work was ongoing to establish a suitable work programme for the Group Audit Committee. It was reported that Internal Audit would continue to present an update of its work in relation to the Council's active group entities to each scheduled meeting of the Audit Committee. The active companies within the Council's group currently relate to those within the Advance Northumberland Group of Companies.

Councillor Oliver questioned whether there was an update on NEHL Group's activities and the paused contract with a consultancy firm. In response the Acting Head of Internal Audit and Risk Management confirmed that at present the Group Audit Committee work included only those non-dormant companies that Internal Audit provided a service for. However, it was envisaged that from April Internal Audit would be providing a service to NEHL and therefore going forward would be included within Group Audit Committee updates to Members. The Interim Director of Finance and Section 151 Officer reported that Cabinet had been presented with a report on the financial performance of Council owned companies including NEHL. At the Cabinet meeting Members were advised that the stage three contract had been paused. Since the Cabinet meeting there had been further developments. An additional report was now to be drafted for Cabinet to update Members on the current position of NEHL's activities.

The Chair advised Members that it was hoped that an action plan/monitoring report would be drafted for the next meeting of the Audit Committee to help keep abreast of any actions arising from meetings and plan future business. The programme would be reviewed at each meeting so that it could be adjusted to reflect the wishes of the Committee and take account of any changes made.

RESOLVED that the Committee agrees:

- a) the proposed 'core business' work programme set out within the report, for 2022/23;
- b) that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues, and to respond to emerging trends during the year;
- c) that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference, in the usual way, and

Ch.'s Initials.....

d) that work is ongoing to establish a work programme to allow the Committee to demonstrate how it discharges its responsibilities as Group Audit Committee for all group entities as set out in the Group Audit Committee's Terms of Reference and this will be reported to a future meeting of Audit Committee.

49 **DATE OF NEXT MEETING**

RESOLVED that the next meeting is scheduled for Wednesday, 25 May 2022 at 10.15 am.

50 **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

(a) That under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following items on the Agenda as it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act, and

(b) That the public interest in maintaining the exemption outweighs the public interest in disclosure for the following reasons:-

Agenda Item

13 & 14 Paragraph 3 of Part 1 of Schedule 12A

Information relating to the financial or business affairs of any particular person (including the authority holding the information).

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

15 Paragraphs 3 and 4 of Part 1 of Schedule 12A

Information relating to the financial or business affairs of any particular person (including the authority holding that information), and information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the Authority.

Disclosure would adversely affect commercial confidentiality requirements and hence the Authority's ability to conduct its affairs.

51 **REPORT OF THE ACTING HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT**

Strategic Audit Plan 2022/23

Members were advised of the Strategic Audit Plan for 2022/23 from K. McDonald, Acting Head of Internal Audit and Risk Management. (A copy of the report has been attached to the signed minutes and coloured pink).

Ch.'s Initials.....

Following a question on how councillors could help inform future policy and performance, particularly in relation to debt arrears due to the current rising financial pressures. The Interim Director of Finance and Section 151 Officer agreed that this was not part of Internal Audit's remit. However, she was happy to consider how enhanced reporting through more appropriate Council Committees could be achieved.

RESOLVED that the recommendation, as detailed in the report, be agreed.

52 **REPORT OF THE ACTING HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT**

Group Audit Committee: Advance Northumberland Internal Audit Update

K. McDonald, Acting Head of Internal Audit and Risk Management presented the report which updated Group Audit Committee on Internal Audit work completed within the Advance Northumberland Group of Companies. (A copy of the report has been attached to the signed minutes and coloured pink).

RESOLVED that the recommendation, as detailed in the report, be agreed.

53 **REPORT OF THE ACTING HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT**

Conclusion of Shared Service Arrangement (Internal Audit and Risk Management)

Audit Committee were updated on the upcoming changes to service delivery arrangements for Internal Audit and Risk Management within Northumberland County Council by K. McDonald, Acting Head of Internal Audit and Risk Management. (A copy of the report has been attached to the signed minutes and coloured pink).

The Committee congratulated K. McDonald on his successful appointment as the new Head of Internal Audit and Risk Management following a robust interview process. He would step into this new role soon.

RESOLVED that the recommendation, as detailed in the report, be agreed.

CHAIR.....

DATE.....

Ch.'s Initials.....