

## **NORTHUMBERLAND COUNTY COUNCIL**

### **AUDIT COMMITTEE**

At the meeting of the **Audit Committee** held at Council Chamber - County Hall on Wednesday, 28 September 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.

#### **CO-OPTED MEMBERS**

Topping, P.

#### **OFFICERS IN ATTENDANCE**

Gorman, C.

Henderson, C.  
Masson, N.  
McDonald, K.

Todd, A.  
Willis, J.

Principal Accountant (Pensions) -  
Project Officer  
Group Assurance Manager  
Senior Manager – Legal Services  
Head of Internal Audit and Risk  
Management  
Democratic Services Officer  
Interim Executive Director of  
Finance and S151 Officer

#### **ALSO IN ATTENDANCE**

Waddell, C.

Mazars (External Audit)

1 member of the press was in attendance

#### **30 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors J. Reid and A. Wallace.

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31 **MINUTES**

**RESOLVED** that the minutes of the meeting of the Audit Committee held on 27 July 2022, as circulated, be confirmed as a true record and signed by the Chair.

32 **DISCLOSURE OF MEMBERS' INTERESTS**

Councillor Cessford declared an interest in item 8 on the agenda (Annual Report of the Firefighters' Pension Scheme Local Pension Board 2021-2022) as he was a retired member of the Tyne and Wear Metropolitan Fire Brigade with a pension managed by West Yorkshire Pension Fund. He advised he would not take part in any debate relating to this. N. Masson advised Councillor Cessford that he should also leave the room when this item was to be debated.

33 **MONITORING REPORT / ACTION LOG 2022-23**

The Committee was asked to review and note its monitoring report/action log for the 2022/23 council year (a copy of which had been filed with the signed minutes).

Regarding Action 1, it was confirmed that although a verbal response had been given a formal response would be prepared.

Regarding Action 2, the terms of reference for the Independent Review of International had been agreed. J. Gilbert a former Chief Executive of Swindon Borough Council, had been appointed to lead the investigation and it was envisaged that key interviews would commence in the next three to four weeks. Councillor Jackson welcomed the update and suggested a report to inform Audit Committee on progress made be prepared for the next meeting.

Councillor Jackson requested a report detailing the processes and practices of employment and redundancy payments to be added to the work programme. J. Willis advised that an Internal Audit report had been drafted on this issue. She stated that she may need to seek further legal advice, but it was hoped to present the paper to the next meeting of Audit Committee.

Councillor Jackson commented on the Caller Report which identified a number of governance issues. Actions to address the concerns raised had begun but he suggested Audit Committee scrutinise and monitor improvements throughout the process.

Councillor Dale asked if the CIPFA audit report could be included in the work programme. J. Willis confirmed that the report had been received by officers and had been subsumed into the Strategic Change Work Programme. It was envisaged that an update could be ready to be reported to the next meeting of the Audit Committee. However, in the meantime the CIPFA report could be circulated to Members.

**RESOLVED** that the monitoring report/action log and comments made be noted.

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**REPORT OF INTERIM EXECUTIVE DIRECTOR OF FINANCE & SECTION 151 OFFICER****Northumberland County Council – Consideration of ‘Going Concern Status’ for the Statement of Accounts for the year ended 31 March 2022**

Northumberland County Council was required to assess whether it should be considered as a ‘going concern’ organisation, and whether the Council’s annual Statement of Accounts should be prepared on that basis. The report considered the Council’s status as a going concern and recommended that Members approve this. (A copy of the report has been filed with the signed minutes).

J. Willis, Interim Executive Director of Finance and S151 Officer introduced the report which detailed all of the considerations that were taken into account in arriving at the judgment that the statement of accounts should be prepared on a ‘going concern’ basis.

Members were reminded that there had been a forecast outturn for this financial year with a gross overspend of £17 million and a net of the exceptional inflation reserve, which was set aside at the beginning of the year, of just under £12 million.

She commented that it was helpful that an intervention was being made to address rising energy costs which would help the Council as well as helping residents and businesses.

However, the latest issue was rising interest rates with the latest estimates of where interest rates could potentially end up being around the 6% mark. This was significantly higher than anticipated when this year’s budget was set and even planning assumptions for the following year. The risks associated were increasing which would mean that it was more important than ever to maintain an adequate level of reserves to deal with the unforeseen. The Council was going into a very challenging period, and it would be very difficult over the next eighteen months.

Nevertheless, the financial position of the Council for the time being remained healthy, with significant reserves and strong financial disciplines.

The Chair welcomed the report and the financial position of the Council. However, he stated that it was uncertain times and Audit Committee would need to monitor and be kept up to date with developments.

Councillor Oliver commented that the final two candidates for the central government leadership election had both made strong statements about local authorities delivering more public services. He questioned whether there had been any indication of what might happen in terms of local authority funding at the end of the year. Or was it anticipated that it would be another one year funding settlement. In response J. Willis stated that unfortunately there had been no indications other than the announcement of a £500 million funding package around social care and hospital discharge which would probably go to the NHS rather than local authorities. Ordinarily the Chancellor’s Autumn announcement

would happen in October, but it was now being pushed back to the end of November. Local authorities would normally get their financial settlements in December, but it was quite possible that this would also be pushed back. Usually there was intelligence ahead of what was likely to be in the financial settlement, but this year there had been no indication which was of concern to local authorities. It was believed that it would be another one year funding settlement and it was not anticipated that there would be any funding reforms before the next general election. But the consensus was that local authorities would need help, although what that would look like and when it would be announced no one could answer.

Councillor Jackson felt reassured that the report highlighted that Northumberland did have high reserves and was in a much better position than others. However, there was a need to continue to plan ahead. There was a proposal to spend £3 million over the next three years on a Strategic Transformation Programme. He questioned if the business case had been finalised yet and whether from a value for money perspective Audit Committee could examine it to ensure that the £3 million per year would produce real results. J. Willis confirmed that the business case would be finalised by the end of October. She had first sight of the opportunity analysis which identified all the areas where there were real opportunities to make savings and an initial quantification of those savings had started. The Programme Board had also seen the opportunity analysis and the underlying assumptions were currently being validated. The business case would set out the prioritisation, phasing and investment needed to deliver the savings over the next three financial years. The Transformation Programme was needed to drive efficiencies across the whole organisation and was part of the Council's approach to pursue value for money. Having the correct governance and resourcing in place was essential. Councillor Jackson requested that the Audit Committee be informed of the outcome of the process once at the relevant stage.

Councillor Towns commented on recent local press articles and comments made by councillors about a reported '£17 million black hole in the Council's finances. However, looking at the report there was a overspend forecast of £17 million but that seemed to be offset by a £5.2 million from exceptional inflation reserve. Therefore, there was a £12 million forecasted overspend not £17 million as wrongly reported in the press. He suggested that better communication was needed with residents to inform them that Northumberland's finance position was strong especially compared to other local authorities in the region and around the country. He felt the press had reported Northumberland's finances unfairly and had worried residents into thinking council services would be cut, their council tax would increase and there would be job losses. He hoped that something could be done to reassure the public and change the perception created by these such newspaper headlines. J. Willis advised that she could not control what was written in the local press. However, the Council's financial status was audited each year by Mazars as part of the value for money assessment. Members of the public could take comfort that not only officers but also an external body felt that the Council was in a financially strong position.

Councillor Towns queried why there was an exceptional inflation reserve, had it been put aside specifically for this kind of eventuality or was it coming out of the healthy general reserves of £70 million. J. Willis confirmed that when the budget was set for this year inflation was starting to increase particularly around energy

costs which resulted in some additional allowance being built in. As the 2020/21 accounts were reporting an underspend Cabinet agreed to set aside £5.2 million in the exceptional inflation reserve to accommodate further inflationary increases. However, no one could have predicted the scale of the cost of living crisis and the speed at which it had developed. Undoubtedly, it would have a significant impact on the Council's budget going forward, as well as on households.

Councillor Dale commented on the pay award which she felt could have come in earlier and the concerns from members of the public over the delivery of council services. She commented on the voluntary redundancy scheme in place but was reassured that there were no plans for voluntary redundancies in hard to recruit roles, such as social workers. She discussed the issue of recruitment and the concerns faced in trying to attract the right people to the right posts to deliver services. Councillor Dale asked if it was believed that enough had been done to ensure the Council could maintain its 'going concern' status next year. J. Willis confirmed that yes it was believed that the status would be maintained although difficult choices would need to be made along with efficiency savings. The Council would continue to balance the budget and try to protect frontline services. The Strategic Change Programme would drive out some of the efficiencies in the longer term. It was hoped that by doing this the Council would not be forced into cutting services that residents valued the most.

P. Topping asked about those village schools who were using oil for heating and whether there was any energy relief tariff to help them. J. Willis reported that there had been recognition that households would need financial help with their heating along with businesses, but the detail contained within the package of support had not been provided yet. It was hoped this would also cover oil heating.

Councillor Grimshaw raised concerns regarding benefit payments and the precepts for grants and the possible impact to the Council if people could not keep up with repayments. She also sought reassurance around the inflation rate and the current borrowing rates for the Council. J. Willis confirmed that monitoring the collection fund performance was taking place. It was expected that the cost of living crisis would impact on collection rates both for business rates, rents and council tax. Within the second quarter of this financial year a small dip in performance had been seen. When council tax was to be set for next year any surpluses or deficits on the collection fund would need to be taken into account. Money had been set aside from previous year's surpluses that could be used for collection fund smoothing. However, there would need to be a review of the provision for doubtful and bad debts ahead of budget setting for next year. Regarding borrowing, the Council had high cash reserves and had been under borrowing. The Council had recently taken on some external debt and locked into some fixed rate deals on a short term basis to help mitigate against rising interest rates.

The capital programme was being examined and it could be that there would be the need to look at rephrasing some of the capital commitments. Work was also taking place to examine all the debt charge forecasts.

The Chair thanked J. Willis for her honest and detailed report. He stated that he

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hoped regular reports would be brought to Audit Committee to allow members to monitor the situation going forward.

**RESOLVED** that the Audit Committee approve that the Council is considered to be a going concern and that the Statement of Accounts 2021-22 is prepared on that basis.

35 **REPORT OF INTERIM EXECUTIVE DIRECTOR OF FINANCE & SECTION 151 OFFICER**

**Treasury Management Annual Report for the Financial Year 2021-22**

This report provided details of performance against the Treasury Management Strategy Statement (TMSS) 2021-22, approved by the County Council on 24 February 2021. The report provided a review of borrowing and investment performance for 2021-22, 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 has been filed with the signed minutes).

The report was introduced by J. Willis, Interim Executive Director of Finance and S151 Officer. The report reviewed the activities of the Treasury Management function for the period 01 April 2021 to 31 March 2022. It was noted that with the exception of a temporary increase to approved limits for Money Market Funds, all other treasury activities met the Treasury indicators set out in the TMSS, and borrowing was within the borrowing limits set by the Council. The half yearly report would be presented to the November meeting of Audit Committee.

The Chair commented that since the end of March economic conditions and interest rates had changed considerably as discussed at length in the last agenda item.

Councillor Oliver asked about short term borrowing and where officers expected PWLB rates to go. He questioned why the Council was locking into short term loans. J. Willis confirmed that PWLB rates normally followed a similar pattern to Gilts. With the prediction of further rises it was beneficial to lock in some borrowing on a short term basis, mainly authority to authority lending. By doing this it would give the Council time to determine where the markets were likely to go.

Councillor Dale asked about other borrowing and lending that was not locked in. J. Willis suggested they discuss outside of the meeting to clarify the question being asked to ensure a full response could be provided.

**RESOLVED** that:

- (a) The report and performance of the Treasury Management function for 2021-22 be received.
- (b) Members recommend County Council review and note the report.
- (c) A response be provided to Councillor Dale's query once clarified by the

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Section 151 Officer.

36 **REPORT OF INTERIM EXECUTIVE DIRECTOR OF FINANCE & SECTION 151 OFFICER**

**Annual Governance Review and Annual Governance Statement 2020/21**

The purpose of this report was to enable the Audit Committee to review the final Annual Governance Statement for 2020-21 and consider whether it properly reflected the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. (A copy of the report has been filed with the signed minutes).

The report was presented by J, Willis, Interim Executive Director of Finance and S151 Officer who highlighted the main points of the report and advised that the final Annual Governance Statement (AGS) for 2020-21 took account of the S114 Notice, the final report of the Caller Review and other significant events that occurred post 31 March 2021.

Councillor Jackson commented that he had been very critical of past governance reviews from the Council. However, he felt this Annual Governance Review was laudable, the three lines of defence were detailed, and the overall objectives were good. But he felt that it still did not detail what would happen if the three lines of defence were breached. He also felt that Audit Committee's role was not fully established within the document to ensure it would provide an independent review of the Council's governance, risk management and control frameworks and oversee the financial reporting and annual governance processes. He questioned how Audit Committee would ensure the procedures and processes of the Council followed good governance, particularly in light of the Caller Report recommendations.

The Chair stated that he thought the report did clearly set out the responsibilities of the Audit Committee and showed that it would have a key role in addressing the lessons learnt from the Caller Review.

J. Willis confirmed that Audit Committee had a key role in ensuring that lessons learnt, and actions agreed following the Caller Report were acted upon. A request for Audit Committee to receive regular Caller Report progress reports had already been made and would take place. Internal Audit also produced regular assurance reports to Audit Committee which gave an opinion on the adequacy of the governance arrangements. Audit Committee also had an essential role in overseeing governance processes and ensuring follow up in terms of agreed actions from previous annual governance statements. She commented that maybe in the past Audit Committee had not asserted its role enough. However, Audit Committee were in full control of their own work programme, and it would be up to Members to determine how much involvement they wanted to have in monitoring the implementation of the agreed actions set out in the governance statement.

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The Chair agreed that the Committee needed to decide how they wanted to be updated on these issues, whether that be in a cyclical way or a more granular approach. Officers confirmed that there was no issue in bringing reports or providing information to Audit Committee.

Councillor Dale commented there was not enough detail within the governance statement. The statement quoted that during the latter part of 2020 and early 2021 it became apparent that there were significant weaknesses in the Council's corporate governance arrangements. However, there was no detail as to what the significant weaknesses were, how they were recorded or how the weaknesses came to light. She felt that by having more information regarding governance and where it went wrong measures could be put in place to ensure such things did not happen again. J. Willis advised that Audit Committee along with two statutory officers, the Leader of the Council and the external auditor had all raised concerns about past governance arrangements. In this instance the mechanism for addressing the issues raised was to commission the Caller Review and the issuing of the S114 report. It was widely recognised that there were issues which needed to be properly investigated and rectified. Councillor Dale felt that this information should have been included to provide clarity and detail on the severity of the weaknesses found.

Councillor Oliver stated that the Caller Review was only necessary because the governance arrangements had failed or been overridden. The findings and recommendations from the Caller Report needed to be fully addressed and progress monitored regularly. The work of the Caller Review Working Group needed to be meaningful and properly scrutinised by Audit Committee and that of the relevant Scrutiny Committees. Robust mechanisms were needed to ensure that there were safe places where concerns could be voiced and heard along with procedures in place to deal with any breaches of the three lines of defence.

P. Topping commented that he had similar concerns to that of Councillor Jackson about where Audit Committee sat within the Annual Governance Statement but stated that the response from the Section 151 Officer had been extremely helpful in alleviating his initial concerns. He asked if there was clarity in the minds of officers on the relationship and responsibilities of the Challenge Board, the Members' Oversight Group, the Programme Group and Full Council and the reporting and information sharing between them. J. Willis advised that it was very early on in the process with the Challenge Board just being established. The Caller Report Action Plan was being broken down into much more granular detail to clearly identify for each recommendation the responsible officer, work packages, timescales and resources for delivery. The overall aim was to ensure the Caller Review recommendations were delivered in a joined-up way. However, expectations about timescales for implementing all of the recommendations from the Caller Report needed to be realistic. There would be an important role for the Audit Committee to ensure that the longer term improvements were delivered in full and embedded in the organisation.

P. Topping commented on the recent changes to the Adult Social Care Partnership with Northumbria Healthcare NHS Foundation Trust, the new partnership with Harrogate and District NHS Foundation and creation of the Integrated Care Boards. He suggested this may be an area of interest to Audit Committee because of all the recent changes within the NHS. J. Willis agreed



with the comments made and stated there were also a number of significant reforms happening in Adult Social Care such as the Fair Cost of Care Review and changes to charging arrangements which would need monitored to ensure services were not destabilised during the transition period.

**RESOLVED** that Audit Committee:

- (a) Approve the final Annual Governance Statement (shown in Appendix A)
- (b) Note the further planned improvement actions, to strengthen the Council's governance arrangements following the recent Independent Review of Governance (the 'Caller Review') and the issue of the S114 Report.

At this point Councillor Cessford left the meeting while the next item was to be considered. C. Waddell declared an interest as he was the external auditor for West Yorkshire Pension Fund and therefore also left the meeting for the duration of the agenda item.

### 37 **REPORT OF INTERIM EXECUTIVE DIRECTOR OF FINANCE & SECTION 151 OFFICER**

Annual Report of the FPS Local Pension Board for 2021/22

Audit Committee was asked to receive the Annual Report of the FPS Local Pension Board for 2021/22, attached as Appendix 1 to this report and provide comment to the Board and NCC's FPS Scheme Manager, if appropriate. (A copy of the report has been filed with the signed minutes).

C. Gorman, Principal Accountant (Pensions) - Project Officer highlighted the main points of the report which provided a summary of the work of the LPB over the previous year including data on FPS membership, statement of accounts, and issues progressed through the Internal Disputes Resolution Procedure (IDRP) and Fire Disputes Panel. The Board considered one breach relating to the administration of the FPS in NCC which was recorded in 2021/22 but concluded it was not of material significance to the Regulator and should not be reported. One Stage Two IDRP complaint was made in the year and the Board was satisfied that a fair and transparent process had taken place.

**RESOLVED** that the Annual Report of the FPS Local Pension Board for 2021/22, attached as Appendix 1 to this report be received.

At this point Councillor Cessford and C. Waddell returned to the meeting.

### 38 **REPORT OF THE EXTERNAL AUDITOR**

#### **External Audit Progress Report**

(A copy of the progress report has been filed with the signed minutes).

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The External Audit progress report provided the Committee's September 2022 meeting with:

- an update in respect of 2019/20 value for money (VFM) work;
- an update in respect of 2020/21 remaining audit work;
- an update in respect of 2021/22 audit work; and
- a summary of recent relevant reports and publications for your information (Section 2).

C. Waddell drew members' attention to the main points in the report.

He reported that the conclusions in respect of the Council's value for money arrangements remained outstanding for the 2019/20 financial year.

In terms of the 2020/21 accounts this work was fundamentally complete. There was an issue regarding the note that had set out how much senior officers were paid which related back to the S114a report and the International allowance. External Audit were looking carefully into the wording of the Code of Practice and Audit Regulations to establish clearly what must be included in the note. If there was sufficient disclosure within the accounts around the Section 114a notice, then the implications of that would not result in the External Auditor qualifying the accounts in relation to this. It was envisaged that conclusions reached would be reported formally when the audits were concluded hopefully later in the year, subject to the infrastructure issue being resolved. One other issue within the 2020/21 accounts was exit packages, with External Audit examining the information recently received to determine if further disclosure was needed.

The infrastructure issue was still not resolved and impacting on most local authorities. Until a solution was found accounts could not be signed off. It was reiterated that this was a national issue and not specific to Northumberland.

In a response to a query from Councillor Dale, it was confirmed that External Audit were examining the Caller Report and the Section 114 notice and various other issues gathered over the course of the last two years while trying to pin down the year it related to either the 2019/20, 2020/21 or 2021/22 account. It was envisaged that most outstanding issues related to the 2019/20 accounts but not all. However, External Audit would strive to try to capture it all together including the value for money Group Accounts to hopefully speed up the process. It was noted that value for money applied to the County Council not Advance Northumberland but would apply in terms of some of the issues raised by the previous External Auditor and the Caller Report around governance arrangements for Council subsidiary companies.

Councillor Jackson commented that there had recently been a resolution of an employment tribunal in relation to Advance Northumberland and questioned whether the outcome would have any bearing on the value for money view and that of the Council's Group position. C. Waddell confirmed that he was not aware of the resolution as he was not Advance Northumberland's auditor, it was carried out by another team within Mazars. That team would conclude on the implications from the tribunal in the context of Advance's accounts which would then be consolidated through into the Group. Separate Group instructions would then be issued, and their file would be reviewed. Depending on the resolution

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from the tribunal, that would determine whether there was any impact on the value for money opinion judgment around the County Council. However, Advance Northumberland's value for money was separate but their accounts were reported to the Northumberland Audit Committee. Councillor Jackson stated that he would pick up this issue at that time.

**RESOLVED** that the External Audit Progress report be noted.

39 **DATE OF NEXT MEETING**

**RESOLVED** that the next meeting is scheduled for Wednesday, 30 November 2022 at 10.15 a.m.

40 **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 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.

41 **REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT**

**Group Audit Committee: Advance Northumberland Internal Audit Update**

The purpose of the report was to update Group Audit Committee on progress with the Internal Audit plan of work for Advance Northumberland Group of Companies. A report presented to Advance Northumberland Audit Committee on 13 September 2022, summarising Internal Audit coverage, was provided at Appendix 1. (A copy of the report has been filed with the signed minutes, coloured pink and marked "Not for Publication").

K. McDonald, Head of Internal Audit and Risk Management detailed the main points of the report for members.

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**RESOLVED** that Group Audit Committee notes the update in relation to the progress of Internal Audit work within Advance Northumberland Group of Companies, summarised in Appendix 1, and considers this as part of its ongoing evaluation of the framework of governance, risk management and control within Northumberland County Council's accounting group boundary.

**CHAIR**.....

**DATE**.....

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