



Northumberland County Council

Your ref:

Our ref:

Enquiries to: Andrea Todd

Email:

Tel direct: 01670 622606

Date: Tuesday, 22 November 2022

Dear Sir or Madam,

Your attendance is requested at a meeting of the **AUDIT COMMITTEE** to be held on **WEDNESDAY, 30 NOVEMBER 2022 at 10.15 a.m. in the Council Chamber, County Hall, Morpeth, NE61 2EF.**

Please note:

- The period between 9.30 a.m. and 10.00 a.m. is restricted to only the Members of the Audit Committee and Internal and External Audit to allow discussion without the presence of senior officers.

Yours faithfully

Rick O'Farrell
Interim Chief Executive

To the Audit Committee Members



Rick O'Farrell, Interim Chief Executive
County Hall, Morpeth, Northumberland, NE61 2EF
T: 0345 600 6400
www.northumberland.gov.uk



AGENDA

PART I

It is expected that the matters included in this part of the agenda will be dealt with in public.

1. APOLOGIES FOR ABSENCE

2. MINUTES

(Pages 1
- 12)

Minutes of the meeting of the Audit Committee held on 28 September 2022, as circulated, to be confirmed as a true record and signed by the Chair.

3. DISCLOSURE OF MEMBERS' INTERESTS

Unless already entered in the Council's Register of Members' interests, members are required where a matter arises at a meeting;

a. Which **directly relates to** Disclosable Pecuniary Interest ('DPI') as set out in Appendix B, Table 1 of the Code of Conduct, to disclose the interest, not participate in any discussion or vote and not to remain in room. Where members have a DPI or if the matter concerns an executive function and is being considered by a Cabinet Member with a DPI they must notify the Monitoring Officer and arrange for somebody else to deal with the matter.

b. Which **directly relates to** the financial interest or well being of a Other Registrable Interest as set out in Appendix B, Table 2 of the Code of Conduct to disclose the interest and only speak on the matter if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain the room.

c. Which **directly relates to** their financial interest or well-being (and is not DPI) or the financial well being of a relative or close associate, to declare the interest and members may only speak on the matter if members of the public are also allowed to speak. Otherwise, the member must not take part in discussion or vote on the matter and must leave the room.

d. Which **affects** the financial well-being of the member, a relative or close associate or a body included under the Other Registrable Interests column in Table 2, to disclose the interest and apply the test set out at paragraph 9 of Appendix B before deciding whether they may remain in the meeting.

e. Where Members have or a Cabinet Member has an Other Registrable Interest or Non Registrable Interest in a matter being considered in exercise of their executive function, they must notify the Monitoring Officer and arrange for somebody else to deal with it.

NB Any member needing clarification must contact

monitoringofficer@northumberland.gov.uk. Members are referred to the Code of Conduct which contains the matters above in full. Please refer to the guidance on disclosures at the rear of this agenda letter.

- 4. MONITORING REPORT / ACTION LOG 2022-23** (Pages 13 - 18)
- The Audit Committee operates under an agreed programme of core business, in accordance with its Terms of Reference as set out in the Council's Constitution. The Committee is asked to review and note its monitoring report/action log for the 2022/23 council year.
- 5. INTERNATIONAL INVESTIGATION**
- John Gilbert will be attending the meeting remotely to give an update on the International investigation.
- 6. REPORT OF HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT** (Pages 19 - 38)
- Audit Committee Arrangements**
- The purpose of this report is to:
- Provide an update to Audit Committee on revised guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in relation to the operation of Audit Committees in local authorities and police;
 - present a self-assessment of Audit Committee arrangements, undertaken with reference to the revised good practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA);
 - highlight those areas where development areas should be focused, to ensure that our Audit Committee arrangements reflect all parts of CIPFA's latest publication.
- 7. REPORT OF HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT** (Pages 39 - 58)
- Key Outcomes From Internal Audit Reports (Issued May 2022 to October 2022)**
- The purpose of this report is to advise Audit Committee of key outcomes from Internal Audit reports issued between May 2022 and October 2022 (Appendix 1).
- 8. REPORT OF HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT** (Pages 59 - 70)
- Strategic Audit Plan 2022/23 – Interim Monitoring Statement**
- The purpose of this report is to provide the Audit Committee with an interim (half yearly) monitoring statement in respect of the Strategic Audit Plan for 2022/23 (this document is attached as Appendix 1).
- 9. REPORT OF INTERIM EXECUTIVE DIRECTOR OF FINANCE AND S151 OFFICER** (Pages 71 - 88)
- Treasury Management Mid-Year Review Report for the Period 1 April**

to 30 September 2022

This report provides a mid-year review of the activities of the Treasury Management function for the period 1 April to 30 September 2022, and performance against the Treasury Management Strategy Statement (TMSS) 2022-23 - as approved by the County Council on 23 February 2022. The report provides a review of borrowing and investment performance for the period set in the context of the general economic conditions prevailing so far during the year. It also reviews 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 Council in the TMSS.

- 10. REPORT OF INTERIM EXECUTIVE DIRECTOR OF FINANCE AND S151 OFFICER** (Pages 89 - 96)

Corporate Fraud Team – Counter Fraud Annual Report 21/22

The purpose of this report is to update the Audit Committee on work undertaken by the Corporate Fraud Team within the Council covering the period 1 April 2021 - 31 March 2022.

- 11. REPORTS OF THE EXTERNAL AUDITOR** (Pages 97 - 132)

(a) Audit Strategy Memorandum – year ending 31 March 2022

The purpose of the document is to summarise Mazars audit approach, highlight significant audit risks and areas of key judgements and provide details of the audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises considerations and conclusions on Mazars independence as auditors.

(b) Update on Audit of 2021-22 Statement of Accounts

To receive a verbal update.

- 12. URGENT BUSINESS**
- 13. DATE OF NEXT MEETING**

The next meeting is scheduled for Wednesday, 25 January 2023 at 10.15 am.

PART II

It is expected that matters included in this part of the Agenda will be dealt with in private. Reports referred to are enclosed for members and officers only, coloured pink and marked "Not for Publication".

- 14. EXCLUSION OF PRESS AND PUBLIC**

The Committee is invited to consider passing the following resolution:

- (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 item 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	Paragraph of Part I of Schedule 12A
15	<p>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).</p> <p>Disclosure could adversely affect the business reputation or confidence in the person/organisation, and could adversely affect commercial revenue.</p>

15. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

(Pages
133 -
142)

Group Audit Committee: Advance Northumberland Internal Audit Plan Update

The purpose of this report is to provide an update to Group Audit Committee on the 2022-2023 Internal Audit Plan covering Advance Northumberland Group of Companies.

IF YOU HAVE AN INTEREST AT THIS MEETING, PLEASE:

- Declare it and give details of its nature before the matter is discussed or as soon as it becomes apparent to you.
- Complete this sheet and pass it to the Democratic Services Officer.

Name:		Date of meeting:	
Meeting:			
Item to which your interest relates:			
Nature of Interest i.e. either disclosable pecuniary interest (as defined by Table 1 of Appendix B to the Code of Conduct, Other Registerable Interest or Non-Registerable Interest (as defined by Appendix B to Code of Conduct) (please give details):			
Are you intending to withdraw from the meeting?		Yes - <input type="checkbox"/>	No - <input type="checkbox"/>

Registering Interests

Within 28 days of becoming a member or your re-election or re-appointment to office you must register with the Monitoring Officer the interests which fall within the categories set out in **Table 1 (Disclosable Pecuniary Interests)** which are as described in "The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012". You should also register details of your other personal interests which fall within the categories set out in **Table 2 (Other Registerable Interests)**.

"Disclosable Pecuniary Interest" means an interest of yourself, or of your partner if you are aware of your partner's interest, within the descriptions set out in Table 1 below.

"Partner" means a spouse or civil partner, or a person with whom you are living as husband or wife, or a person with whom you are living as if you are civil partners.

1. You must ensure that your register of interests is kept up-to-date and within 28 days of becoming aware of any new interest, or of any change to a registered interest, notify the Monitoring Officer.
2. A 'sensitive interest' is as an interest which, if disclosed, could lead to the councillor, or a person connected with the councillor, being subject to violence or intimidation.
3. Where you have a 'sensitive interest' you must notify the Monitoring Officer with the reasons why you believe it is a sensitive interest. If the Monitoring Officer agrees they will withhold the interest from the public register.

Non participation in case of disclosable pecuniary interest

4. Where a matter arises at a meeting which directly relates to one of your Disclosable Pecuniary Interests as set out in **Table 1**, you must disclose the interest, not participate in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest, just that you have an interest.

Dispensation may be granted in limited circumstances, to enable you to participate and vote on a matter in which you have a disclosable pecuniary interest.

5. Where you have a disclosable pecuniary interest on a matter to be considered or is being considered by you as a Cabinet member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it.

Disclosure of Other Registerable Interests

6. Where a matter arises at a meeting which **directly relates** to the financial interest or wellbeing of one of your Other Registerable Interests (as set out in **Table 2**), you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

Disclosure of Non-Registerable Interests

7. Where a matter arises at a meeting which **directly relates** to your financial interest or well-being (and is not a Disclosable Pecuniary Interest set out in **Table 1**) or a financial interest or well-being of a relative or close associate, you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest.
8. Where a matter arises at a meeting which **affects** –
- a. your own financial interest or well-being;
 - b. a financial interest or well-being of a relative or close associate; or
 - c. a financial interest or wellbeing of a body included under Other Registrable Interests as set out in **Table 2** you must disclose the interest. In order to determine whether you can remain in the meeting after disclosing your interest the following test should be applied
9. Where a matter (referred to in paragraph 8 above) **affects** the financial interest or well- being:
- a. to a greater extent than it affects the financial interests of the majority of inhabitants of the ward affected by the decision and;
 - b. a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest

You may speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise, you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

Where you have an Other Registerable Interest or Non-Registerable Interest on a matter to be considered or is being considered by you as a Cabinet member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it.

Table 1: Disclosable Pecuniary Interests

This table sets out the explanation of Disclosable Pecuniary Interests as set out in the [Relevant Authorities \(Disclosable Pecuniary Interests\) Regulations 2012](#).

Subject	Description
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain. [Any unpaid directorship.]
Sponsorship	Any payment or provision of any other financial benefit (other than from the council) made to the councillor during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a councillor, or towards his/her election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract made between the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners (or a firm in which such person is a partner, or an incorporated body of which such person is a director* or a body that such person has a beneficial interest in the securities of*) and the council — (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land and Property	Any beneficial interest in land which is within the area of the council. 'Land' excludes an easement, servitude, interest or right in or over land which does not give the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners (alone or jointly with another) a right to occupy or to receive income.
Licenses	Any licence (alone or jointly with others) to occupy land in the area of the council for a month or longer
Corporate tenancies	Any tenancy where (to the councillor's knowledge)— (a) the landlord is the council; and (b) the tenant is a body that the councillor, or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners is a partner of or a director* of or has a beneficial interest in the securities* of.
Securities	Any beneficial interest in securities* of a body

	<p>where—</p> <p>(a) that body (to the councillor’s knowledge) has a place of business or land in the area of the council; and</p> <p>(b) either—</p> <ul style="list-style-type: none"> i. the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or ii. if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the councillor, or his/ her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners has a beneficial interest exceeds one hundredth of the total issued share capital of that class.
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* ‘director’ includes a member of the committee of management of an industrial and provident society.

* ‘securities’ means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

Table 2: Other Registrable Interests

You have a personal interest in any business of your authority where it relates to or is likely to affect:

- a) any body of which you are in general control or management and to which you are nominated or appointed by your authority
- b) any body
 - i. exercising functions of a public nature
 - ii. any body directed to charitable purposes or
 - iii. one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union)

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

At a meeting of the Audit Committee held in the Council Chamber, County Hall, Morpeth 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.

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.

34. REPORT OF INTERIM EXECUTIVE DIRECTOR OF FINANCE & SECTION 151 OFFICER

Ch.'s Initials.....

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

Ch.’s Initials.....

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.

Ch.'s Initials.....

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 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 Section 115 Officer.

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

Annual Governance Review and Annual Governance Statement 2020/21

Ch.'s Initials.....

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.

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.

Ch.'s Initials.....

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.

Ch.'s Initials.....

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).

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.

Ch.'s Initials.....

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 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

Ch.'s Initials.....

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.

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.....

Ch.'s Initials.....

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

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

Stephen Watson, Chair of Audit Committee
E-mail Stephen.Watson03@northumberland.gov.uk

Updated: 22 November 2022

**NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE ACTION LIST**

Ref	Date	Report	Action	To be actioned by	Outcome
1.	23.03.22	External Audit Report	Councillor Oliver queried whether the revaluation reserve error in the NCC Group Account would impact on their corporation tax?	Interim Director of Finance and Section 151 Officer to respond.	Verbal response provided but a formal written response was to be produced.
2.	28.09.22	Treasury Management Annual Report for the Financial Year 2021-22	Councillor Dale's question regarding borrowing to be clarified with the Section 151 Officer after the meeting.	Interim Director of Finance and Section 151 Officer to respond.	
3.	28.09.22	Treasury Management Annual Report for the Financial Year 2021-22	CIPFA audit report to be emailed to Members. A report on the subject also be brought to the next meeting.	Interim Director of Finance and Section 151 Officer and Democratic Services to arrange for the report to be emailed to members.	Final CIPFA Financial Management Assessment report emailed to Audit Committee Members. Report on Audit Committee Arrangements be scheduled for November meeting.
3.	28.09.22	Caller Report	Regular updates on progress made to address issues raised from the Caller Report including monitoring the Action Plan. For the item to be placed on the Work Programme.	Interim Director of Finance and Section 151 Officer to update when appropriate.	

Updated: 22 November 2022

4.	28.09.22	Strategic Transformation Programme Business Case	To receive a report on the business case to ensure best value for money. For the item to be placed on the Work Programme.	Interim Director of Finance and Section 151 Officer.	
5.	28.09.22	Adult Social Care and wider NHS changes	Monitor any impacts and for the item to be placed on the Work Programme.	Interim Director of Finance and Section 151 Officer to update when appropriate.	
6.	28.09.22	Report on the processes and practices of employment and redundancy payments	Report to be presented to the November meeting.	Interim Director of Finance and Section 151 Officer.	
7.	28.09.22	Update on the Independent Review of International	Report to be presented to the November meeting.	Interim Director of Finance and Section 151 Officer.	Agenda item scheduled for the November meeting to receive an update.

WORK PROGRAMME

ISSUE
30 November 2022
<u>Internal Audit & Risk Management</u> <ul style="list-style-type: none">• Key Outcomes from Internal Audit Assignments• Strategic Audit Plan Interim Monitoring Statement
<u>Corporate Finance</u> <ul style="list-style-type: none">• Treasury Management In-year Update Report• New Position Statement on Audit Committees• Draft Annual Governance Statement 2021-22 <i>*subject to completion of 2020-21 statement</i>
<u>External Audit</u> <ul style="list-style-type: none">• Audit Strategy Memorandum 2021-22 (deferred from September 22 Meeting)• Update on Audit of 2021-22 Statement of Accounts
<u>Counter Fraud Team</u> <ul style="list-style-type: none">• Counter Fraud Annual Report (deferred from September 22 Meeting)
<u>Group Audit Committee</u> <ul style="list-style-type: none">• Update Report
<u>Report Requests from Members</u> <ul style="list-style-type: none">• Update on the Independent Review of International• Audit Committee Arrangements (CIPFA report)
25 January 2023

Updated: 22 November 2022

Internal Audit & Risk Management

- Approach to preparing the Strategic Audit Plan 2023-24
- Risk Management Update Report (deferred from November 22 meeting)

Corporate Finance

- NCC Statement of Accounts 2021-22 (deferred from November 22 meeting)
- Statement of Accounts 2022-23 - Timetable and Policies
- Changes to Code of Practice for 2022-23
- Treasury Management Strategy Statement for the Financial Year 2023-24

External Audit

- Audit Strategy Memorandum 2022-23
- Audit Progress Report

Education and Safeguarding Performance

- Review of External Inspection Reports

Group Audit Committee

- Update Report

29 March 2023Internal Audit & Risk Management

- Strategic Audit Plan 2023-24
- Annual Audit Committee Work Programme
- Annual Review of Audit Committee Effectiveness

Corporate Finance

- Group Boundary Review 2022-23
- Statement of Accounts 2020-21 (deferred from September 22 Meeting)
-

External Audit

- Audit Progress Report
- Final Audit Completion Report 2021-22 (deferred from November 22 Meeting)
- Annual Audit Letter 2021-22 (deferred from November 22 Meeting)
- Audit Completion Report 2020-21 (deferred from September 22 Meeting)
- Auditors Annual Report 2020-21 (deferred from September 22 Meeting)

Counter Fraud Team

- Counter Fraud Update

Group Audit Committee

- Update Report

MEETING DATES TO BE CONFIRMED/SCHEDULED

- Regular updates on progress made to address issues raised from the Caller Report including monitoring the Action Plan.
- Examine the Strategic Transformation Programme Business Case
- Monitor any impacts from recent changes within Adult Social Care and wider NHS changes.



Northumberland County Council

AUDIT COMMITTEE

30 NOVEMBER 2022

AUDIT COMMITTEE ARRANGEMENTS

Report of Head of Internal Audit and Risk Management

Purpose of report

The purpose of this report is to:

- (a) Provide an update to Audit Committee on revised guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in relation to the operation of Audit Committees in local authorities and police;
- (b) present a self-assessment of Audit Committee arrangements, undertaken with reference to the revised good practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA);
- (c) highlight those areas where development areas should be focused, to ensure that our Audit Committee arrangements reflect all parts of CIPFA's latest publication.

Recommendations

It is recommended that the Audit Committee:

- 1) notes that CIPFA have published revised guidance, including a revised Position Statement on Audit Committees in Local Authorities and Police, attached as **Appendix A**, and that some future changes are likely to be needed to the current Terms of Reference of Audit Committee as set out in the Constitution, to ensure that all aspects of CIPFA's latest guidance can be reflected;
- 2) considers and endorses the latest self-assessment of our Audit Committee arrangements against the good practice guidance recommended by CIPFA, attached as **Appendix B**;
- 3) Agrees that the Head of Internal Audit and Risk Management works with the Chair of Audit Committee to undertake a wider review of Audit Committee arrangements using the revised CIPFA guidance in order to prepare a plan of actions which may be needed to ensure that our Audit Committee arrangements reflect CIPFA's latest guidance;

- 4) Agrees that this report and the Action Plan recommended at 3) above will form the basis of an annual report from Audit Committee, which will be prepared for presentation to Council, demonstrating how Audit Committee meets its Terms of Reference and providing a summary of the work of the committee during the year.

Link to Corporate Plan

The work of the Audit Committee contributes to the overall achievement of all priorities the Council's Corporate Plan. In particular it supports the "How" priority of the Corporate Plan 2021-24.

Background

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) periodically publishes good practice guidance covering the role, functions and operation of Audit Committees in Local Government. The latest such guidance ('Audit Committees: Practical Guidance for Local Authorities and Police') was published in October 2022.
2. Included within CIPFA's guidance is an updated Position Statement on Audit Committees. The Position Statement within CIPFA's previous guidance, dated March 2018, is fully reflected by the Audit Committee's current Terms of Reference. Some minor amendments will therefore be required, to update Audit Committee's Terms of Reference accordingly. CIPFA's updated 'Position Statement on Audit Committees in Local Authorities and Police' is attached as **Appendix A**.
3. It is good practice to undertake an annual review of the effectiveness of Audit Committee arrangements. The most recent self-assessment of our Audit Committee arrangements was undertaken and reported to Audit Committee in March 2021. The self-assessment demonstrated that our Audit Committee arrangements reflected the good practice areas recommended by CIPFA, with some areas for development. This self-assessment has been deferred during 2022/23, whilst awaiting the release of the updated guidance by CIPFA.
4. This self-assessment against the requirements of the updated guidance, is attached as **Appendix B** and again shows our Audit Committee arrangements already reflect a number of the good practice areas recommended by CIPFA.
5. There are some areas highlighted in the self-assessment in which further development is needed to ensure that the good practice recommended by CIPFA is fully reflected. To help ensure that all good practice arrangements become fully embedded, it is recommended that a wider review of Audit Committee arrangements with Audit Committee members is progressed by the Head of Internal Audit and Risk Management and Chair of Audit Committee, using the revised CIPFA guidance, to develop a plan of actions which may be needed to ensure that CIPFA's latest good practice is fully reflected. It is proposed that the review undertaken will be reported to Audit Committee in March 2023 and will subsequently help form the basis of a report from Audit Committee to Council for 2022/23.

Implications

Policy	<p>The Audit Committee contributes to the Council’s governance framework, including the review of financial governance as appropriate.</p> <p>The role of Audit Committee is set out in the Council’s Constitution and the Audit Committee’s Terms of Reference.</p>
Finance and value for money	<p>Through its review of a range of audit, accounting and governance related items, the Audit Committee assesses the Council’s use of financial resources and value for money.</p> <p>There are no financial implications arising from the recommendations set out in this report.</p>
Legal	<p>The Public Sector Internal Audit Standards, and related Local Government Application Note, presume that local authorities will have an Audit Committee undertaking the purpose identified by CIPFA in its 2022 publication “Audit Committees: Practical Guidance for Local Authorities and Police”.</p>
Procurement	<p>There are no procurement implications arising directly from this report.</p>
Human Resources	<p>There are no human resources implications arising directly from this report.</p>
Property	<p>There are no property implications arising directly from this report.</p>
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	<p>An equalities impact assessment is not applicable to this report.</p>
Risk Assessment	<p>Any risks and opportunities identified will be managed in accordance with the Authority’s established risk management processes.</p>
Crime Disorder &	<p>There are no crime and disorder issues directly arising from this report.</p>
Customer Consideration	<p>There are no direct customer considerations arising from this report.</p>
Carbon reduction	<p>There are no carbon reduction issues directly arising from this report.</p>

Wards	All
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Consultation

The analysis against CIPFA’s good practice guidance, taken from the 2022 publication “Audit Committees: Practical Guidance for Local Authorities and Police”, is included in this report for consultation with current members of Audit Committee.

Background Papers

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

- (a) Audit Committees: Practical Guidance for Local Authorities and Police, CIPFA, 2022 (P)
- (b) Northumberland County Council Audit Committee Terms of Reference (P)
- (c) Northumberland County Council Corporate Plan 2021-24, 2021 (P)

Reports sign off

Finance Officer	N/A
Monitoring Officer/Legal	N/A
Human Resources	N/A
Procurement	N/A
I.T.	N/A
Portfolio Holder(s)	N/A

Author and Contact Details

Kevin McDonald, Head of Internal Audit and Risk Management
07966 325215
Kevin.McDonald@northumberland.gov.uk

CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

Scope

This position statement includes all principal local authorities in the UK, corporate joint committees in Wales, the audit committees for PCCs and chief constables in England and Wales, PCCFRAs and the audit committees of fire and rescue authorities in England and Wales.

The statement sets out the purpose, model, core functions and membership of the audit committee. Where specific legislation exists (the Local Government & Elections (Wales) Act 2021 and the Cities and Local Government Devolution Act 2016), it should supplement the requirements of that legislation.

Status of the position statement

The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt. It has been prepared in consultation with sector representatives.

CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

The 2022 edition of the position statement replaces the 2018 edition.

The Department for Levelling Up, Housing and Communities and the Home Office support this guidance.

CIPFA's Position Statement 2022: Audit committees in local authorities and police

Purpose of the audit committee

Audit committees are a key component of an authority's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

In a local authority the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council. In policing, the police and crime commissioner (PCC) and chief constable are both corporations sole, and thus are the individuals charged with governance.

The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.

Independent and effective model

The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.

The committee should:

- be directly accountable to the authority's governing body or the PCC and chief constable
- in local authorities, be independent of both the executive and the scrutiny functions
- in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
- have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

The audit committees of the PCC and chief constable should follow the requirements set out in the Home Office Financial Management Code of Practice and be made up of co-opted independent members.

The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.

Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.

Core functions

The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

The specific responsibilities include:

Maintenance of governance, risk and control arrangements

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

Financial and governance reporting

- Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and conformance to professional standards
 - support effective arrangements for internal audit
 - promote the effective use of internal audit within the assurance framework.

- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

Audit committee membership

To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.

Characteristics of audit committee membership:

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.
- A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
- A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - maintaining the focus of the committee on matters of greatest priority.
- Willingness to operate in an apolitical manner.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.
- Knowledge, expertise and interest in the work of the committee.

While expertise in the areas within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance.

The appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members.

Engagement and outputs

The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs.

To discharge its responsibilities effectively, the committee should:

- meet regularly, at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- be able to meet privately and separately with the external auditor and with the head of internal audit
- include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required; police audit committees should recognise the independence of the chief constable in relation to operational policing matters
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

Impact

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.

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Audit Committee Arrangements: Initial Self-Assessment of Good Practice (November 2022)

(taken from CIPFA, *Audit Committees: Practical Guidance for Local Authorities and Police*, published October 2022)

CIPFA states that this checklist provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement on Audit Committees in Local Authorities, and the wider *Practical Guidance* publication referred to above. CIPFA states:

"Where an audit committee has a high degree of performance against the good practice principles, it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee. A regular self-assessment should be used to support the planning of the audit committee work programme and training plans. It will also inform the annual report."

	Good Practice Questions	Does not comply	Partially complies and extent of improvement needed			Fully complies	Comments
		Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement	
Audit Committee purpose and governance							
1	Does the authority have a dedicated audit committee that is not combined with other functions (e.g. standards, ethics, scrutiny)?					✓	Dedicated Audit Committee established as a full, politically balanced committee of Council. Audit Committee is not combined with any other function.
2	Does the Audit Committee report directly to the governing body (PCC and chief constable/full council/full fire authority, etc)?					✓	Minutes of all Audit Committee meetings are considered by the next meeting of full Council. An annual report from Audit Committee to Council has been discussed with the Chair and Vice Chair of Audit Committee and will be prepared for the 2022/23 year.

	Good Practice Questions	Does not comply	Partially complies and extent of improvement needed			Fully complies	Comments
			Major improvement	Significant improvement	Moderate improvement		
3	Has the committee maintained its advisory role by not taking on any decision-making powers?					✓	
4	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's 2022 Position Statement?					✓	The Audit Committee's Terms of Reference preceded CIPFA's updated guidance and Position Statement, although were fully in accordance with CIPFA's previous Position Statement. Necessary updates to Audit Committee's Terms of Reference will be proposed as part of work currently being undertaken to update the County Council's Constitution.
5	Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the committee?					✓	It is proposed that an evaluation of required training and support for members of Audit Committee and potential wider elected members' training programme is undertaken as part of a wider review of Audit Committee arrangements during the remainder of 2022/23.

	Good Practice Questions	Does not comply	Partially complies and extent of improvement needed			Fully complies	Comments
		Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement	
6	Does the audit committee escalate issues and concerns promptly to those in governance and leadership roles?					✓	The introduction of a monitoring report / action log for Audit Committee helps to ensure that any issues or concerns are escalated for appropriate action.
7	Does the governing body hold the audit committee to account for its performance at least annually?	✓					See question 2 above. Minutes of all Audit Committee meetings are considered by the next meeting of full Council. However, it is intended that an annual report from Audit Committee, for the 2022/23 year, is prepared for presentation to Council.
8	Does the committee publish an annual report in accordance with the 2022 guidance, including:						See question 2 above. Minutes of all Audit Committee meetings are considered by the next meeting of full Council. However, it is intended that an annual report from Audit Committee, for the 2022/23 year, is prepared for presentation to Council.
	• compliance with the CIPFA Position Statement 2022	✓					
	• results of the annual evaluation, development work undertaken and planned improvements	✓					

	Good Practice Questions	Does not comply	Partially complies and extent of improvement needed			Fully complies	Comments
			Major improvement	Significant improvement	Moderate improvement		
	• how it has fulfilled its terms of reference and the key issues escalated in the year?	✓					

Functions of the committee

9	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement as follows?						
	Governance arrangements				✓		<p>The Audit Committee's Terms of Reference preceded CIPFA's updated guidance and Position Statement, although were fully in accordance with CIPFA's previous Position Statement.</p> <p>Necessary updates to Audit Committee's Terms of Reference will be proposed and agreed as part of the County Council's normal processes.</p>
	Risk management arrangements				✓		
	Internal control arrangements, including: <ul style="list-style-type: none"> • financial management • value for money • ethics and standards • counter fraud and corruption 				✓		
	Annual governance statement				✓		
	Financial reporting				✓		
	Assurance framework				✓		
	Internal audit				✓		
	External audit				✓		

	Good Practice Questions	Does not comply	Partially complies and extent of improvement needed			Fully complies	Comments
			Major improvement	Significant improvement	Moderate improvement		
10	Over the last year, has adequate consideration been given to all core areas?					✓	Core areas are considered when developing and agreeing the Audit Committee's work programme each year. This area will be assessed further as part of a wider review of Audit Committee arrangements during the remainder of 2022/23.
11	Over the last year, has the committee only considered agenda items that align with its core functions or selected wider functions, as set out in the 2022 guidance?					✓	'Wider functions' such as Treasury Management and External Assessment Reports form the Audit Committee's agreed annual work programme, with core functions as set out in CIPFA's guidance.
12	Has the committee met privately with the external auditors and head of internal audit in the last year?					✓	Regular meetings have been held privately with the external auditor and head of internal audit, including regular meetings prior to each meeting of Audit Committee.

Membership and support

13	Has the committee been established in accordance with the 2022 guidance as follows?						
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	Good Practice Questions	Does not comply	Partially complies and extent of improvement needed			Fully complies	Comments
			Major improvement	Significant improvement	Moderate improvement		
	• Separation from executive					✓	
	• A size that is not unwieldy and avoids use of substitutes					✓	
	• Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation					✓	
14	Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled?			✓			As a local authority, members of our audit committee are appointed from current serving elected members.
15	Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?			✓			The required knowledge, skills and training needs have previously been discussed with Audit Committee members with no issues identified. It is proposed however, that required knowledge, skills and associated training and support for Audit Committee members, is undertaken as part of a wider review of Audit Committee arrangements during the remainder of 2022/23.

	Good Practice Questions	Does not comply	Partially complies and extent of improvement needed			Fully complies	Comments
			Major improvement	Significant improvement	Moderate improvement		
16	Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?			✓			See questions 14 and 15 above. Whilst some training and support has been provided to Audit Committee, it is proposed that an appropriate training programme is assessed as part of a wider review of Audit Committee arrangements during the remainder of 2022/23, using the 2022 guidance.
17	Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?				✓		
18	Is adequate secretariat and administrative support provided to the committee?					✓	
19	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?					✓	
Effectiveness of the committee							
20	Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?	✓					It is intended that an annual report from Audit Committee, for the 2022/23 year, is prepared for presentation to Council.

	Good Practice Questions	Does not comply	Partially complies and extent of improvement needed			Fully complies	Comments
			Major improvement	Significant improvement	Moderate improvement		
21	Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?					✓	
22	Are meetings effective with a good level of discussion and engagement from all the members?					✓	
23	Has the committee maintained a non-political approach to discussions throughout?					✓	This has regularly been discussed with Audit Committee and reinforced by the Chair during the year.
24	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?					✓	Audit Committee has been attended by a range of officers, according to the content of reports presented. Inviting responsible officers to attend Audit Committee to discuss audit findings or risks has previously been considered and is an option open to Audit Committee. It is proposed that this is discussed as part of a wider review of Audit Committee arrangements during the remainder of 2022/23.

	Good Practice Questions	Does not comply	Partially complies and extent of improvement needed			Fully complies	Comments
			Major improvement	Significant improvement	Moderate improvement	Minor improvement	
25	Does the committee make recommendations for the improvement of governance, risk and control arrangements?					✓	It would not be usual for recommendations from Audit Committee to be made regularly, but this is a facility which Audit Committee has utilised when appropriate.
26	Do audit committee recommendations have traction with those in leadership roles?					✓	This has been helped by the introduction of the monitoring report / action log for Audit Committee. This has been introduced to help ensure that any request / recommendation of Audit Committee can be recorded and the log is considered and reviewed as a standing agenda item of Audit Committee meetings.
27	Has the committee evaluated whether and how it is adding value to the organisation?				✓		Audit Committee has previously evaluated value added as part of earlier reviews of Audit Committee arrangements. It is proposed that this evaluation is undertaken as part of a wider review of Audit Committee arrangements during the remainder of 2022/23.

	Good Practice Questions	Does not comply	Partially complies and extent of improvement needed			Fully complies	Comments
			Major improvement	Significant improvement	Moderate improvement		
28	Does the committee have an action plan to improve any areas of weakness?				✓		An action plan will be developed, including actions arising from the self-assessment and from the proposed review and reported back to future meetings of Audit Committee.
29	Has this assessment been undertaken collaboratively with the audit committee members?					✓	The assessment has been undertaken with the Chair and Deputy Chair of Audit Committee and all members of the Audit Committee consulted, prior to discussion of the self-assessment by Audit Committee.



Northumberland County Council

AUDIT COMMITTEE

DATE: 30 NOVEMBER 2022

KEY OUTCOMES FROM INTERNAL AUDIT REPORTS (Issued May 2022 to October 2022)

Report of the Head of Internal Audit and Risk Management

Purpose of report

The purpose of this report is to advise Audit Committee of key outcomes from Internal Audit reports issued between May 2022 and October 2022 (**Appendix 1**).

Recommendations

It is recommended that the Audit Committee considers the key findings from, good practice identified in, and management action taken in response to the Internal Audit reports issued in this period, summarised in **Appendix 1**.

Link to Corporate Plan

The work of Internal Audit and the Audit Committee contributes to the overall achievement of all priorities in the Council's Corporate Plan. In particular, it supports the "How" priority of the Corporate Plan 2021-24.

Key issues

A Key Outcomes statement, summarising the outcomes from Internal Audit reports issued during the period May 2022 – October 2022 is attached as **Appendix 1**. Information has been provided on the level of assurance for each audit, the number of recommendations made (classified according to priority), areas of good practice identified, and main findings.

Background

The work programme established for the Audit Committee ensures that the Committee receives regular reports summarising the outcomes from Internal Audit's planned work during the year. This is important in ensuring that Audit Committee is able to maintain oversight of emerging risks and governance themes as these arise during the year. This also reflects the Public Sector Internal Audit Standards (PSIAS), which state that "in addition to the annual report, the Chief Internal Auditor should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should

address emerging issues in respect of the whole range of areas to be covered in the annual report”.

A summary of key outcomes from planned Internal Audit reports issued between May 2022 and October 2022, including findings, areas of good practice identified, and action taken to date by management in response to each audit, is attached as **Appendix 1**. This information, along with intelligence gained from other substantive audit work and project assurance work, supports the development of the Annual Opinion from the Chief Internal Auditor on the Framework of Governance, Risk Management and Control.

Internal Audit has also supported a number of special investigations and management requests in this time period. Key themes arising from this work are included in Internal Audit’s annual report. At the time of writing this report, additional reports are at final clearance stage and will be issued imminently. These reports will be included in the next report to the Audit Committee.

Implications

Policy	Effective internal audit is an essential part of the County Council’s governance arrangements. Internal Audit examines the Council’s systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The Strategic Audit Plan sets out the planned areas in which this coverage will be focused, based on an assessment of risk.
Finance and value for money	The audit of the Council’s activities promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.
Legal	The Accounts and Audit Regulations 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards require that the Chief Internal Auditor should make arrangements for interim reporting to the organisation in the course of the year.
Procurement	None
Human Resources	None
Property	None

Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	N/A
Risk Assessment	Risks have been considered and there are no risks identified directly arising from this report. The Strategic Audit Plan is prepared using a risk-based approach, thus ensuring that coverage is focused on those areas of Council activity with high levels of risk to the achievement of key objectives.
Crime & Disorder	There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.
Customer Consideration	All Internal Audit reviews were shared with and reported to the relevant audit client upon conclusion of each audit assignment, with actions agreed by management. Management comments on the summary of key outcomes from Internal Audit reports have been included in the report.
Carbon reduction	None
Wards	All

Background papers:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

- Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, revised April 2017;
- Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors;
- The Accounts and Audit Regulations 2015, April 2015;
- Northumberland County Council Finance and Contract Rules, December 2011;
- Strategic Audit Plan 2021/22, July 2021 & Strategic Audit Plan 2022/23, March 2022; and
- Internal Audit Reports and Briefing Notes prepared during 2022/23.

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

	initials
Monitoring Officer/Legal	N/A
Executive Director of Finance & S151 Officer	N/A
Relevant Executive Director	N/A
Chief Executive	N/A
Portfolio Holder(s)	N/A

Author and Contact Details

Kevin McDonald, Head of Internal Audit and Risk Management
07966 325215
Kevin.McDonald@northumberland.gov.uk

Chris Henderson, Group Assurance Manager
Christine.Henderson01@northumberland.gov.uk



Northumberland
County Council

Internal Audit and Risk Management Service

Key Outcomes from Internal Audit Assignments (May 2022 – October 2022)

1 Introduction – Governance Framework

- 1.1 Internal Audit is an independent, objective assurance function designed to add value and improve an organisation’s operations. Under the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to help an organisation accomplish its objectives by “bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
- 1.2 It is important that the Audit Committee receives regular updates on key findings and governance themes from Internal Audit’s work. This is also emphasised in the PSIAS which require the Chief Internal Auditor to provide an annual opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control and also to report on emerging issues in year.

2 Purpose of this Report

- 2.1 This report summarises the outcomes from Internal Audit reports which have been finalised, in consultation with management, and issued in the period from May 2022 – October 2022. Information has been provided on the level of assurance for each audit (described below), the number of recommendations made (classified according to priority), areas of good practice identified, and main findings. The progress made / action taken by management in respect of key issues identified from each audit has also been included.
- 2.2 It is intended that by providing regular reports on key outcomes from Internal Audit’s work, this will enable the Audit Committee to develop an ongoing awareness of the soundness of the framework of governance, risk management and control, in addition to receiving the Chief Internal Auditor’s annual opinion on this matter each May.
- 2.3 In this report, details of eight audit assignments are presented. Five of the audit assignments received a ‘significant assurance’ opinion and three received a ‘limited assurance’ opinion. There were three ‘high’ priority recommendations made and no ‘critical’ priority recommendations. These reports are detailed in **Section 4** below.
- 2.4 It is too early to report on action taken for a number of recommendations as the target dates have not yet been reached. In these cases, recommendations will be followed up later in the year in accordance with Internal Audit’s agreed processes. Where recommendations have been self-certified as implemented by management, evidence checking is undertaken by Internal Audit. Details of evidence checking undertaken during May to October 2022 is included at **Section 5** below.
- 2.5 In addition to performing internal audits of existing systems within the Authority and responding to queries on the operation of such systems, Internal Audit has a significant and increasing role in advising on new systems within the Authority. Whilst the time spent on such assurance work reduces the number of available audit days, it is considered an efficient use of Internal Audit’s resource, in that assurance is obtained that effective controls are incorporated into new major systems from the outset. In turn, this minimises the risk of weaknesses in systems and strengthens the control environment.

- 2.6 Internal Audit has continued to be involved in the post payment assurance and counter fraud elements of the business grants, as well as having completed the certification of a number of other central government grant returns.
- 2.7 A summary of the programme assurance and grant certification work undertaken by Internal Audit in the period is included at **Section 6** of this report.
- 2.8 Internal Audit has also supported a number of special investigations and management requests. Key themes arising from this work will be included in Internal Audit’s annual report.

3 Opinion Framework

- 3.1 A framework of opinion classifications is used in Internal Audit reporting. The framework applies an overall assurance judgement to each system audited, as defined below.

Level of Assurance	Description
Full Assurance	The system of internal control is designed to meet the organisation’s objectives and controls are consistently applied in all the areas reviewed.
Significant Assurance	There is a generally sound system of control designed to meet the organisation’s objectives. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk in some of the areas reviewed.
Limited Assurance	Weaknesses in the design of, or regular non-compliance with, key controls put the achievement of the organisation’s objectives at risk in some or all of the areas reviewed.
No Assurance	Significant weaknesses in the design of, or consistent non-compliance with, key controls could result (have resulted) in failure to achieve the organisation’s objectives in the areas reviewed.

- 3.2 The opinions given to audits issued during this period are shown in **Section 4**.
- 3.3 In addition to the overall opinion given on every internal audit, individual recommendations within each report are classified as critical, high, medium or low priority. This prioritisation is designed to assist management in assessing the importance of each recommendation. The definitions of these priority classifications are set out in the following table:

Classification	Description
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Critical	Action that is considered critical to ensure the organisation is not exposed to unacceptable risk and the recommendation should be implemented immediately.
High	Action that is considered urgent to ensure the service area is not exposed to high risks and the recommendation should be implemented as a priority.
Medium	Action that is considered necessary to avoid exposure to considerable risks and the recommendation should be implemented within an appropriate time frame.
Low	Action that is considered desirable or best practice and would result in enhanced control or better value for money.

3.5 Prioritisation of Internal Audit recommendations is moderated through Internal Audit's quality control and file review processes.

IA/KM/CH
November 2022

4 Main Outcomes – Audit Reports Issued during period May 2022 – October 2022

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Arrangements for Managing Delivery of The Council's Climate Change Action Plan	To review and appraise the adequacy and effectiveness of controls established in relation to the Arrangements for Managing Delivery of the Council's Climate Change Action Plan.	Significant	0	0	5	3
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>The County Council has a Climate Change Team in place including two Analysts and support from Communications. The Team reports to the Service Director: Climate Change, Business Intelligence and Performance, the Climate Change Steering Group, the Climate Change (Members) Working Group and Communities and Place Overview and Scrutiny Committee.</p> <p>The Climate Change Action Plan is subject to ongoing review.</p>		<ul style="list-style-type: none"> Although the Response to Climate Change has been identified and assessed as a corporate risk the Climate Change Action Plan and its internal and external dependencies have not been risk assessed (Medium). The Council's emissions were reported for the year to 31st March 2021 and achieved a 50% target reduction in emissions. A number of errors were identified in the calculation. The recalculated emissions were 3% higher, resulting in the reduction in emissions being slightly below the 50% target (2 x Medium). The emissions figures for the County and also the County Council have not been reported directly to Cabinet (Medium). Financial information was not included in the October 2021 report to the Communities and Place Overview & Scrutiny Committee but was included in the March 2022 report. Financial information was not presented in reports to the Steering Group (Medium). 		<p>The Final Report was issued in July 2022.</p> <p>A programme risk register is to be developed as part of a revised Climate Change Action plan and will be reviewed on a quarterly basis.</p> <p>The Project Manager has advised that the emissions figures for the County and the County Council will be reported directly to Cabinet and calculations of emissions will be made clear and reported to the Overview and Scrutiny Committee together with proposals for further emission reductions and include financial information.</p> <p>Medium priority recommendations have not yet passed their implementation date and will be following up in due course.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	ICT Incident, Problem and Change Management	To determine whether ICT Incident, Problem and Change Management procedures are operating effectively, including, reporting and recording of incidents and changes; clearly identifiable roles and responsibilities; documented procedures; investigation and resolution of incidents; change management procedures; and performance management.	Limited	0	0	8	16
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>The County Council uses the Hornbill ICT Service Desk software. The system can be accessed external from the corporate network which allows for reporting and monitoring of issues during periods of network unavailability. The system also has a good level of functionality that can be utilised by the Council, such as the capability of linking incidents and changes, problem management, web chat, FAQs and self-service.</p>		<ul style="list-style-type: none"> • There are no documented procedures for Service Desk employees/service users for raising issues. (Medium). • Only one IS employee is responsible for management and administration of the Hornbill service management system (Medium). • Documents used to support major incidents are out of date. Outage of an ICT server was encountered but no incident documents could be provided (2 x Medium). • Hornbill is now used as an ICT support system by Children's Services. All issues recorded in Hornbill are visible to all users with licenses irrespective of the team they are in (Medium). • Change advisory board (CAB) meetings had not taken place for four months at the time of the audit, with approvals managed via email (Medium). • A review of implemented changes identified inadequate testing and rollback plans (Medium). • There are no formalised problem management processes and procedures in place (Medium). 		<p>The Final Report was issued in August 2022. Management has self-certified that five medium recommendations have been implemented:</p> <ul style="list-style-type: none"> • Documentation has been created for recording incidents and requests and guidance issued. • A knowledge transfer was carried out in relation to the service management system. • A new major incident process is in place and has been circulated to employees. • IS are investigating the possibility of the set up within Hornbill in relation to Children's Services' user access. <p>A follow up review will be incorporated within the Audit Plan 2023/24 and evidence of implementation of recommendations undertaken as part of that review.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Health & Wellbeing	To evaluate compliance with the procedural framework put in place to manage sickness absence and to assess whether the level of compliance present is sufficiently robust.	Significant	0	0	4	5
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<ul style="list-style-type: none"> The Health & Wellbeing Policy was reviewed in 2022, well ahead of its original 2024 scheduled review date. A monthly Workforce Committee Dashboard showing sickness by service area is produced for the Executive Team. 		<ul style="list-style-type: none"> Incorrect sickness related information has been recorded in Oracle and some sickness documentation was not retained in line with the requirements of the Policy (Medium). Reports produced by the Business Intelligence Team have not been utilised in full to improve sickness data and/or processes (Medium). Further training and improved verification processes for sickness recording are required (2 x Medium). 		<p>The Final Report was issued in September 2022.</p> <p>A revised Health & Wellbeing Policy includes the requirements for the storage of sickness documentation.</p> <p>HR have advised that communications will be issued to all managers requesting correct details are entered in the system. Following this two months later a review of the data will be undertaken.</p> <p>E-Learning training is to be reviewed and updated in line with revised Health & Wellbeing Policy which will then be rolled out as mandatory training. The Statutory and Mandatory training report regularly shared with managers will pick up non compliances.</p> <p>The remaining medium priority recommendation has not yet passed its target date for implementation and will be followed up in due course.</p>			

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	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Schools' Local Account Administration Thematic Review	To ascertain whether systems and procedures in operation for local accounts and their control are functioning satisfactorily and are in accordance with Scheme for Financing Schools and Local Authority guidance. To provide an opinion to management on the effectiveness of the system of internal control in place within a sample of schools.	Significant	0	0	3	2
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<ul style="list-style-type: none"> Detailed Guidance Notes on the operation of Local Accounts have been drawn up by Cashiers and are shared with schools at account start up and when the school staff administering the account change. 		<ul style="list-style-type: none"> A documented process for the calculation and approval of schools' local account control totals is not in place (Medium). Requirements as set out within the Scheme for Financing Schools and Local Authority Guidance across the sample of schools reviewed are regularly not adhered to (2 x Medium). 		<p>The Final Report was issued in July 2022.</p> <p>Internal Audit have evidenced checked the three medium priority recommendations and can confirm they have been implemented.</p> <p>In relation to the calculation and approval of schools' local accounts guidance notes have been updated and re-issued.</p> <p>The Scheme for Financing Schools, Local Account Guidance Notes and a summary of Internal Audit findings from a review of a sample of schools' local accounts have been shared with all maintained schools.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	School Local Account - High School	To provide assurance to the Authority and Headteachers that controls in place in relation to the administration of the School's Local Account are robust, and Financial Procedures are complied with	Significant	0	0	6	1
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>The school has in place four cheque signatories, with two required to sign each cheque. This provides an element of business continuity should any of the signatories not be available.</p>		<ul style="list-style-type: none"> • Key information is missing from the School Financial Procedures Manual in one area and in another the area contradicts the requirements set out in the Scheme for Financing Schools (Medium). • There was evidence of verbal orders being placed, which is not in adherence with the School Financial Procedures Manual (Medium). • There is a lack of separation of duties with the Office Manager reconciling the local account, and being authorised to raise orders, certify payments, and certify good received (Medium). • The petty cash float is reimbursed from school income sources (2 x Medium). • Requirements in accordance with School Financial Regulations relating to purchases greater than £10k are not always followed (Medium). 		<p>The Final Report was issued in May 2022.</p> <p>The Headteacher has updated the School Financial Procedures Manual and forwarded a revised copy to Internal Audit.</p> <p>The remaining five medium recommendations have been confirmed as implemented by the Headteacher.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
6	Payroll	The audit was to evaluate the controls within the payroll system designed to prevent and /or detect fraud, irregularity or error, and to ensure that transactions are processed in accordance with Council Policy, Financial Regulations, Government Legislation and the requirements of external bodies such as HM Revenues and Customs.	Limited	0	1	3	4
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>There was evidence of increased automation in some areas. For example, the move to online overtime and lieu timesheets for central teams (IT, Finance, Revenue and Benefits, Housing and Transport) with an aim to have most Authority employees included by the end of the financial year. The move to electronic systems should bring efficiencies and additional controls to aid the payroll system.</p>		<ul style="list-style-type: none"> • A secondary quality assurance check of the payroll flow prior to the final submission is not in place. This resulted in an error in employee deductions being undetected until after the payroll run was finalised (High). • HR authorisation was not always correctly recorded for the creation of new posts within the system (Medium). • The employee termination checklists are not being routinely used (Medium). • Gross to Net and BACS Payment Register Reports examined did not have a secondary signature evidencing review and approval of the reports (Medium). 		<p>The Final Report was issued in June 2022.</p> <p>The Payroll Manager has advised the monthly checklist has been amended to include PAYE checks prior to the payroll run being finalised. Employee checklists are available for staff to use, and staff have been reminded of the importance of ensuring a secondary signature evidencing review and approval of reports.</p> <p>The Financial Transactions Manager advised new posts will only be created following authorisation from HR.</p> <p>The payroll audit for 2022/23 has now commenced and evidence to substantiate implementation of recommendations will be sought as part of that review.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
7	Communities Together Grant Payments	To review and appraise the adequacy and effectiveness of controls in relation to Communities Together Grant Funding arrangements to ascertain whether a robust system for the assessment, approval, payment and monitoring of grant monies to individuals and organisations accessing the Communities Together initiatives for financial support is in place.	Significant	0	0	4	2
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>Internal Audit's review of the overarching assurance framework for the decision making and approval of proposed spending for grants received identified a comprehensive and sound procedure with adequate evidence of authorisation and monitoring in place.</p>		<ul style="list-style-type: none"> Expenditure records for the Northumberland Emergency and Transition Support (NETS) grants are not adequately reconciled (2 x Medium). There is inadequate recording of evidence to confirm expenditure in relation to NETS grants (2 x Medium). 		<p>The Final Report was issued in October 2022.</p> <p>Management have advised that NETS financial provision has been identified as at risk and is being addressed as part of the Council's cost of living and inequalities priorities.</p> <p>Additionally, an independent sampling of transactions is to be carried out together with regular reconciliations as part of monthly performance management.</p> <p>Medium priority recommendations have not yet passed their target date for implementation and will be followed up in due course.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
8	Planning Procedures	To review and appraise the adequacy and effectiveness of controls in Planning Procedures.	Limited	0	2	5	4
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>The processing of planning applications is carried out within the Uniform system which has a connected Electronic Document System in which all documentation relating to the application can be retained. Uniform supports the control of workflows and performance management through a traffic light type system to highlight approaching deadlines.</p>		<ul style="list-style-type: none"> Officer and Signing-Off Officer checklists were used as an aide-memoire rather than checklists (Medium). A number of applications which required a site visit did not have the site visit date completed (Medium). There are differences between the Terms of Reference presented to the Strategic Planning Committee meeting and the Terms of Reference for the Committee in the Constitution. An Officer Delegation Scheme is also out of date. 2 x High. Uniform contains an audit log, however, information, specifically regarding the determination of applications, could not be obtained from the audit log at the time of audit (2 x Medium). The review identified anomalies with system users and a review of user access levels had not been undertaken. (Medium). 		<p>The Final Report was issued in October 2022.</p> <p>The service has experienced increased numbers of planning applications coupled with lower numbers of officers in post. This might be expected to impact on the issues highlighted through the audit. With a revised structure agreed and recruitment taking place some improvement in performance figures was noted during the audit and this will be the subject of ongoing monitoring by management.</p> <p>High and medium priority recommendations have not yet passed their implementation date and will be followed up in due course.</p>			

5 Evidence Checking and Progress with Implementation of Recommendations

- 5.1 For recommendations where a Significant Assurance opinion has been issued Internal Audit evidence check that medium, high and critical recommendations have been implemented, once self-certified as implemented by management. For audits where a Limited Assurance opinion has been provided a follow-up audit is included in the following year's Strategic Audit Plan and full implementation and embeddedness of recommendations will be evidence checked at the time of the follow up. In these cases, prior to the undertaking of follow-up reviews, managers will be required to self-certify that medium, high and critical recommendations have been implemented.
- 5.2 Internal Audit reports issued during the period May 2022 to October 2022 included 3 high priority, 38 medium priority and 37 low priority recommendations. There were no critical priority recommendations in the period under review. Of these recommendations issued, the 3 high priority recommendations and 16 of medium recommendations relate to limited assurance opinion audits for which follow ups will be included within the 2023/24 Audit Plan, and evidence checking of recommendations carried out at this time. Of the remaining 22 medium priority recommendations, 3 have passed their implementation target date and have been subject to evidence checking and can be confirmed as implemented. Ten recommendations have not reached their target dates and will be followed up in due course and reported to Audit Committee. In relation to the Local Account Administration at a High School, the Headteacher has provided evidence of implementation of one medium recommendation and confirmed the remaining five have been implemented. Revised target dates have been agreed due to the absence of a key officer within HR for the Health and Wellbeing audit, where three medium recommendations had reached their target dates.

Updates in relation to recommendations contained in Section 4 of this report are included within the summary of each audit at Section 4. Recommendations reported in previous Key Outcomes Reports as having not passed their implementation dates continue to be monitored and evidence checked in accordance with the process set out above, the results of which are set out below:

Audit	Issues Identified	Details of Evidence Check
Housing Management System (Significant Assurance)	Access to the system administrator profile 'All Access' was in excess of the business need for Information Services staff.	Job roles have been amended, access for Information Services staff is now restricted to password reset / account unlock functionality only.
School Local Account - Primary School (Limited Assurance)	The school's Financial Procedures Manual' was out of date. Orders for goods/services were not always raised. There was a lack of separation of duties within the administration of the account. A debit card for an employee who had left the school had not been cancelled.	The Headteacher has confirmed that all 8 medium priority recommendations have now been implemented. Findings from a sample of schools' local accounts reviewed have been shared with all schools and a different sample of schools will be visited going forward to carry out further thematic reviews.

- 5.3 A summary of results from both evidence checking exercises is included within the table below:

Priority	Total Number of Recommendations Evidence Checked	Number confirmed as Implemented		Number Requiring Additional Action (or awaiting evidence)	
		No.	%	No.	%
Critical	Not Applicable	N/A	N/A	N/A	N/A
High	Not Applicable	N/A	N/A	N/A	N/A
Medium	5	5	100%	N/A	N/A
Total	5	5	100%	N/A	N/A

6 Programme Assurance and Grant Certification Work Undertaken

Area of Work	Summary of Work Undertaken
Covid-19 Capacity Fund Grant	The grant has been specifically designed to support people, businesses and local communities deeply impacted by the Covid-19 crisis. The grant to be used to assist those displaced in the labour market and help business resilience and recovery. Certification value of £1.3m.
Covid-19 Contain Outbreak Management Fund Grant	The purpose of the grant was to provide support to councils towards expenditure lawfully incurred in relation to the mitigation against and management of local outbreaks of Covid-19. Certification Value £13.1m.
Green Homes Grant	Certification Value £1.864m
The Sele - Grant	Teaching School Core Grant certification value of £0.013m
North East Rural Growth Network	Certification value of £7.3m
Local Transport Capital Block Funding 2021/22	Integrated Transport and Highways Maintenance. Completed and submitted to Department for Transport. Total value of grant £23.4m
Public Health Grant	Section 31 Local Authority grants for additional drug treatment crime and harm reduction activity - Universal funding component. Certification value of £0.35m
Bus Service Operators Grant 2021/22 Statement of Grant Usage	Statement of Grant Usage - completed and submitted to Department for Transport by deadline of 30 September 2022 – £0.5m.

Area of Work	Summary of Work Undertaken
Supporting Families Grant Certification	Programme of targeted intervention - Government pays local authorities for each family that meet set criteria. June 2022 claim certification value of £0.048m and September 2022 Claim value of £0.056m.
Programme Assurance - Covid-19 Business Grants Schemes	Providing advice and guidance to Finance colleagues regarding the Pre and Post Payment Assurance evidence return to BEIS, and associated s151 declaration, in relation to a number of business grant schemes
Programme Assurance - Energy Bills Rebate	Providing advice and guidance to colleagues in Finance regarding systems and processes as these are developed to identify and make payments to qualifying households.
Schools' Financial Value Standard	On behalf of the Chief Finance Officer (Section 151 Officer), Internal Audit co-ordinate, receive and review Schools' Financial Value Standard submissions, for the Authority's grant-maintained schools. This work has commenced for the year ending 2022/2023.
Participation in the Cabinet Office's National Fraud Initiative	<p>Northumberland County Council participates in the National Fraud Initiative data matching exercise to assist in the prevention and detection of fraud and are required to provide sets of data to the Minister for the Cabinet Office for matching for each exercise.</p> <p>The Cabinet Office have recently commenced their biennial National Fraud Initiative (NFI) data matching exercise. Internal Audit are liaising with relevant services to ensure the required data sets are extracted in adherence with NFI data specifications and successfully uploaded within the required timescales. Results from this exercise will be available in January 2023 for investigation.</p>

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Northumberland County Council

AUDIT COMMITTEE

DATE: 30 NOVEMBER 2022

STRATEGIC AUDIT PLAN 2022/23 – INTERIM MONITORING STATEMENT Report of Head of Internal Audit and Risk Management

Purpose of report

The purpose of this report is to provide the Audit Committee with an interim (half yearly) monitoring statement in respect of the Strategic Audit Plan for 2022/23 (this document is attached as **Appendix 1**).

Recommendations

It is recommended that the Audit Committee notes and considers the progress set out in the Strategic Audit Plan Interim Monitoring Statement, attached as **Appendix 1**, and the level of coverage achieved by Internal Audit at this stage in the year.

Link to Corporate Plan

The work of Internal Audit and the Audit Committee contributes to the overall achievement of all priorities in the Council's Corporate Plan. In particular, it supports the "How" priority of the Corporate Plan 2021-24.

Key issues

The Strategic Audit Plan 2022/23 was presented to, and approved by, the Audit Committee at its meeting on 23 March 2022. The Strategic Audit Plan helps to ensure that Internal Audit is able to meet its aims as an independent appraisal function for the Authority and sets out Internal Audit's objectives (based on an assessment of risks and opportunities for the organisation).

An Interim Monitoring Statement, outlining progress against the Strategic Audit Plan as at the end of September 2022, is attached as **Appendix 1**. During 2022/23, 48 assignments were programmed. At the mid-year point, 24 of these assignments (50%) were either in progress or completed. Work has also been undertaken to finalise 16 assignments from the previous financial year. In addition, a significant amount of unplanned work has been undertaken which is summarised below:

- Certification of an additional 6 grant claims, 5 of which have been finalised (and found to be compliant with the grant conditions) with a combined value of £23.91 million;
- Work has been undertaken on special investigations, where potential fraud and theft were suspected;
- Reviews requested by the Interim Executive Director of Finance (s151 Officer) in relation to potentially unlawful payments following s114A report.

The table below shows the current status of all planned audit assignments.

Status of Planned 2022/23 Assignments	Number	Percentage
Complete	3	6%
Underway	21	44%
Planned for second half of year	20	42%
At risk	0	0%
Reprogrammed to 2023/24	3	6%
No longer required	1	2%
Total	48	100%

Fig1. Planned Audit Analysis

A small number of assignments have been identified for reprogramming into 2023/24 due to timing or developments in those areas and an International Arrangements assignment is no longer required.

The resourcing of the Internal Audit team is kept under constant review and some reshaping of the team has been required during the first half of the year, following the ending of the Shared Internal Audit and Risk Management Service. The recruitment and induction of new staff members has impacted upon productive time available and the service currently have a vacant Senior Auditor position, for which a recruitment exercise is currently underway.

In order to ensure that we continue to support the Authority and provide coverage of emerging high-risk areas, the Strategic Audit Plan is kept under continuous review, particularly the impact of unplanned work and staff vacancies on completion of the planned activity scheduled for the second half of the year. Any assignments which do not take place this year will be re-assessed for inclusion within a future Strategic Audit Plan.

The Audit Plan will continue to be closely monitored for the remainder of the year and a full outturn will be reported to Committee in May 2023.

Implications

Policy	Effective internal audit is an essential part of the County Council's governance arrangements. Internal Audit examines the Council's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. Based on an assessment of risk, the Strategic Audit Plan sets out the planned areas in which this coverage will be focussed.
Finance and value for money	The audit of the Council's activities, as set out in the Strategic Audit Plan, promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste, and inefficiencies.
Legal	The Accounts and Audit Regulations 2015, require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards and related Local Government Application Note require that the Chief Audit Executive (Chief Internal Auditor) should report periodically to senior management and the board on Internal Audit matters, including performance relating to its plan.
Procurement	None
Human Resources	A robust Strategic Audit Plan provides clarity for officers within the Internal Audit service on the key outcomes which each audit assignment is intended to deliver. It is supported by an operational resourcing plan, ensuring that work can be properly planned and allocated.
Property	None
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	N/A
Risk Assessment	The audit plan is prepared using a risk-based approach, thus ensuring that coverage is focussed on those areas of Council activity with high levels of risk to the achievement of key objectives.
Crime & Disorder	Section 17 of the Crime and Disorder Act 1998 has been considered, and no implications have been identified. The Strategic Audit Plan includes planned coverage on counter fraud assurance work.

Customer Consideration	The Strategic Audit Plan 2022/23 was based on a risk-based audit needs assessment following consultation with customers of our service including the Executive Management Team and members of the Audit Committee.
Carbon reduction	None
Wards	All

Consultation

The Strategic Audit Plan 2022/23 was prepared following consultation with the following:

- Audit Committee
- Chief Executive
- Executive Directors
- Appropriate Service Directors and Heads of Service, and
- Cabinet Member for Corporate Services.

Background papers:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author:

- (a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, revised April 2017;
- (b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019;
- (c) Strategic Audit Plan 2021/22, March 2021
- (d) Strategic Audit Plan 2022/23, March 2022;
- (e) Northumberland County Council Constitution & Finance and Contract Rules, and
- (f) The Accounts and Audit Regulations 2015, April 2015.

Report sign off.

	initials
Monitoring Officer/Legal	N/A
Executive Director of Finance & S151 Officer	N/A
Relevant Executive Director	N/A
Chief Executive	N/A
Portfolio Holder(s)	N/A

Author and Contact Details

Kevin McDonald, Head of Internal Audit and Risk Management

07966 325215

Kevin.McDonald@northumberland.gov.uk

Tony Candlish, Group Assurance Manager

Tony.Candlish@northumberland.gov.uk

Advice & Programme Assurance

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Advice, Contingencies & Assurance	<ul style="list-style-type: none"> • Advice & Guidance • Contingencies & Work Requests • Fraud & Special Investigations 	Responding to ad-hoc queries and requests for advice; responding to requests for one-off audit assignments, where it is considered that audit involvement is necessary; project assurance and assuring appropriate consideration has been given to internal control & governance issues when new systems are introduced.	Ongoing throughout the year – on target . A number of additional, unplanned work items have been undertaken, including: <ul style="list-style-type: none"> • Procedures for the retention / deletion of email accounts; • Investigations into potential fraud and theft; • Reviews in relation to potentially unlawful payments following s114A report.
Programme Assurance	New Systems / Methods of Service Delivery	Internal Audit may be asked to add value by providing assurance on aspects of the approach and work undertaken and assessing the robustness of arrangements for benefits realisation. The systems, programmes and new initiatives to be supported are continually reviewed and assessed. Consultation on the Audit Plan identified the following areas that may benefit from Internal Audit’s support: <ul style="list-style-type: none"> • Covid-19 Business Grant Funding Assurance • Governance Review implications • New partnership arrangements with Harrogate • International Arrangements • Capital Programme Management Arrangements • Electoral Integrity Bill requirements • Public Health Grant arrangements • Arrangements for managing contracts we deliver and associated performance management • Support for Energy Bills Rebate 	Ongoing throughout the year – on target . 2021/22 review completed <ul style="list-style-type: none"> • Northumberland Communities Together – Grant Allocation Processes (Significant Assurance) 2022/23 Work so far includes: <ul style="list-style-type: none"> • Covid-19 Business Grant Funding • Capital Programme Management Arrangements • Arrangements for managing contracts we deliver and associated performance management • Support for Energy Bills Rebate Work scheduled for second half of the year: <ul style="list-style-type: none"> • Governance Review implications • Electoral Integrity Bill requirements • New partnership arrangements with Harrogate • Public Health Grant arrangements Work no longer required: <ul style="list-style-type: none"> • International Arrangements – external review commissioned

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Corporate and Cross Cutting	Pre-Submission Review of Grant Claims	There are a number of funding organisations that require an Internal Audit review prior to final claim submission. Internal Audit will undertake the necessary assurance checks as these grant submissions become due.	<p>Ongoing throughout the year. Additional unplanned work has been undertaken and we are aware of further certification work that will be required later in the year. Planned time budget is already exceeded. For all completed certifications the grant return was found to be compliant with the grant providers' audit requirements.</p> <p>Planned certification work:</p> <ul style="list-style-type: none"> • Local Transport Plan & associated grants – £23.4m - Complete • Bus Service Operators Grant - £0.5m - Complete • Supporting Families – £0.1m – Ongoing throughout the year • The Sele First School - £0.01m - Complete <p>Unplanned certification work completed:</p> <ul style="list-style-type: none"> • Covid 19 Capacity Fund - £1.3m • North East Rural Growth Network £7.3m • Test and Trace Contain Outbreak Management Fund - £13.1m • Public Health Funding for Additional Drug Treatment, Crime and Harm Reduction Activity - £0.35m • Green Homes - £1.86m • Digital Inclusion Project – review currently being undertaken

Audit and Assurance – Corporate and Cross Cutting (continued)

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Corporate and Cross Cutting	Follow up on Recommendations	Monitoring the implementation of Internal Audit recommendations in consultation with the service areas which have received these recommendations. During the year, Internal Audit will review the process benefitting from shared learning within the Internal Audit and Risk Management Service and against best practice to ensure recommendations are followed up and reported upon to Audit Committee in a timely, efficient and effective manner.	Ongoing throughout the year – on target.
	Annual Opinion	An annual opinion on the ‘adequacy and effectiveness of the framework of governance, risk management and control’ will be drafted and presented to the Chief Executive, Executive Team and Audit Committee, outlining the audit work performed during the year and summarising key themes. This will be timed to support production of the Council’s Annual Governance Statement.	Annual Opinion for 2021/22 complete.

Audit and Assurance – Corporate and Cross Cutting (continued)

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Corporate and Cross Cutting	Governance and Value for Money Reviews	<p>To review whether appropriate internal controls exist within a sample of significant business arrangements within Northumberland County Council. Where it is possible to assess the economy, efficiency and effectiveness of specific aspects of these arrangements, this will also be undertaken. Areas proposed to be reviewed under this heading in 2022/23 include:</p> <ul style="list-style-type: none"> • Governance arrangements over accountable body status for Borderlands and Future High Street Funds • Civil Contingencies & Business Continuity • Performance Management Framework • Information Governance • Recruitment and retention, processes governing changes to terms and conditions and how employees leave the organisation. • Delivery of Major Capital Projects – Follow-up review • Contract Management Arrangements - Follow-up review • Finance Assumptions - Asset Management Arrangements and Valuation of Assets • Exceptional Governance Matters – Management of Identified Risks • Ethical Governance arrangements • Advance Northumberland – shareholder governance arrangements • Northumberland Enterprises Holdings Limited – shareholder governance arrangements • Youth Services - Follow-up review • S106 Arrangements – Follow-up review 	<p>2021/22 reviews completed:</p> <ul style="list-style-type: none"> • Health & Wellbeing (Significant Assurance) • Arrangements for Managing Delivery of the Council’s Climate Change Action Plan (Significant Assurance) • Planning Procedures (Limited Assurance) <p>2022/23 Reviews underway:</p> <ul style="list-style-type: none"> • Governance arrangements over accountable body status for Borderlands and Future High Street Funds • Civil Contingencies & Business Continuity • Information Governance • Recruitment and retention • Ethical Governance Arrangements <p>Work scheduled for second half of the year:</p> <ul style="list-style-type: none"> • Performance Management Framework • Contract Management Arrangements - Follow-up review • Finance Assumptions - Asset Management Arrangements and Valuation of Assets • Exceptional Governance Matters – Management of Identified Risks • Advance Northumberland – shareholder governance arrangements • Youth Services - Follow-up review • S106 Arrangements – Follow-up review <p>Work reprogrammed to 2023/24 (to optimise timing or reflect developments)</p> <ul style="list-style-type: none"> • Delivery of Major Capital Projects – Follow up Review • Northumberland Enterprises Holdings Limited – shareholder governance arrangements

Audit and Assurance – Service Area Specific (continued)

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Education and Skills	Schools' Financial Value Standard (SFVS)	To co-ordinate schools in the completion of their mandatory returns, and provide assurance to the Section 151 Officer relating to their annual report to the Department for Education.	Commenced – on target.
	Schools & Other Educational Establishments	To assess, on a thematic basis, the application of controls associated with the discharge of responsibilities relating to delegated school budgets, within a sample of the County's schools on a risk assessed basis.	<p>2021/22 reviews completed:</p> <ul style="list-style-type: none"> • To provide assurance to the Council and Headteachers regarding the administration of School Local Accounts. Five schools were selected for the review, with individual final reports issued to each school (3 Significant and 2 Limited Assurance Opinions). • A central report to the County Council summarising the findings and themes from all five reviews provided (Significant Assurance). <p>2022/23 school reviews:</p> <ul style="list-style-type: none"> • Planning for the 2022/23 thematic reviews has commenced – on target.

Counter Fraud and Internal Control and Probity

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Counter Fraud	Pro-active anti-fraud work	To undertake pro-active anti-fraud and corruption work (including participation in the Cabinet Office’s National Fraud Initiative and performing internal data matching exercises); and to raise the awareness of counter fraud and corruption measures across the organisation.	Ongoing throughout the year – on target.
Internal Control and Probity	Core Financial Systems; Business Rates; Council Tax; Payroll; Creditor Payments; Cash and Bank; Debt and Income Management; Rent Assessment and Collection; Housing and Council Tax Benefit	The core financial systems encompass the main ways in which the Council either pays money out (Creditor Payments, Payroll, Housing & Council Tax Benefit) or receives monies in (Business Rates, Council Tax, Debt and Income Management, Rent Assessment and Collection). Each of these areas will be given some audit coverage in each financial year, with emphasis dictated by the organisation’s risk profile determined on an annual basis.	<p>2021/22 reviews completed</p> <ul style="list-style-type: none"> • Council Tax (Full Assurance) • Payroll (Limited Assurance) <p>2022/23 Reviews underway:</p> <ul style="list-style-type: none"> • Payroll • Debt and Income Management <p>Reviews scheduled for second half of the year:</p> <ul style="list-style-type: none"> • Business Rates • Creditors • Cash and Bank • Housing and Council Tax Benefits • Council Tax • Rent Assessment and Collection

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Northumberland County Council

AUDIT COMMITTEE

30 NOVEMBER 2022

Treasury Management Mid-Year Review Report for the Period 1 April to 30 September 2022

Report of Jan Willis, Interim Executive Director of Finance and S151 Officer

Cabinet Member: Councillor Richard Wearmouth – Deputy Leader and Portfolio Holder for Corporate Services

1. Purpose of the Report

This report provides a mid-year review of the activities of the Treasury Management function for the period 1 April to 30 September 2022, and performance against the Treasury Management Strategy Statement (TMSS) 2022-23 - as approved by the County Council on 23 February 2022. The report provides a review of borrowing and investment performance for the period set in the context of the general economic conditions prevailing so far during the year. It also reviews 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 Council in the TMSS.

2. Recommendations

It is recommended that Members:

- **Receive the report and note the performance of the Treasury Management function from 1 April to 30 September 2022.**
- **Present the report to County Council.**

3. Link to the Corporate Plan

This report is aligned to the priorities outlined in the Corporate Plan 2021-24 “A Council that Works for Everyone”.

4. Key Issues

The Local Government Act 2003 (the Act) and supporting regulations require the Council to produce a mid-year review of treasury management activities and actual performance against prudential and treasury indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

The report provides a review of the Treasury Management activities for the six-month period from 1 April to 30 September 2022 and sets out performance against the Treasury Management Strategy Statement for 2022-23.

TREASURY MANAGEMENT MID-YEAR REVIEW REPORT FOR THE PERIOD 1 APRIL TO 30 SEPTEMBER 2022

1. INTRODUCTION

1.1. Background

This Treasury Management mid-year report provides a review of the activities of the Treasury Management function for the period 1 April to 30 September 2022, and performance against the Treasury Management Strategy Statement (TMSS) for 2022-23. Its production and submission to Council is a requirement of the CIPFA Code of Practice on Treasury Management.

Treasury management is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Council operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, with a main aim of providing sufficient liquidity, ahead of the achievement of the best possible investment returns.

The second main function of the treasury management service is to arrange the funding of the Council’s capital programme. The capital programme provides a guide to the borrowing need of the Council, and there needs to be longer term cash flow planning to ensure capital spending requirements can be met. The management of longer-term cash may involve arranging long or short-term loans, utilising longer term cash flow surpluses and, occasionally, debt restructuring to meet Council risk or cost objective

1.2. Statutory and Regulatory Requirements

The Local Government Act 2003 (the Act) and supporting Regulations requires the Council to produce an mid-year review of treasury management activities and the actual performance against prudential and treasury indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important as it provides details of the performance of the treasury management activities and highlights compliance with the Council’s policies previously approved by Members.

1.3. Basis and Content of Treasury Management Mid-Year Review Report for 2022-23

The report covers:

- Overview of the Treasury Management Strategy for the financial year 2022-23.
- Economic conditions and interest rates for the period 1 April to 30 September 2022.
- Overview of the treasury position at 30 September 2022.
- Borrowing activity.
- Investment activity; and,
- Treasury management limits and prudential indicators position.

2. BACKGROUND - TREASURY MANAGEMENT STRATEGY FOR 2022-23

2.1. Overview of the 2022-23 Strategy (prepared in November 2021)

The expectation for interest rates within the Treasury Management Strategy Statement for 2021-22 was for UK Bank Rate (often referred to as Base Rate) to remain at 0.50% for most of year with only one increase to 0.75% in the final quarter (January 2023 – March 2023). Longer term borrowing rates were also forecast to remain low at around 2.00% with only slight increases of 0.10% to 0.20% during the year.

Overall, the pace of economic recovery from the pandemic was expected to be steady. Forecasts were however subject to major uncertainty, particularly around whether the recovery may run out of steam, and in turn create a dilemma for the Bank of England's Monetary Policy Committee (MPC) as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

Against this backdrop that interest rates were projected to remain low, and the risks within the economic forecast, the proposed strategy for 2021-22 was to continue to operate with an under borrowing position - i.e., use investments in lieu of external borrowing – and to meet the remaining external borrowing requirement for the year primarily from medium from shorter term / temporary borrowing (up to 2 years). At that time, the external borrowing requirement for the year was estimated at £185.000 million, after taking into consideration maturing loans.

2.2. Compliance

Significant levels of additional grant were received from Central Government to help support the Council's response to the Covid-19 pandemic. It was essential that those funds remained liquid and were readily accessible at short notice. This necessitated a temporary increase in April 2020 (authorised by the Executive Director of Finance and S151 Officer), in the approved limits for Money Market Funds, in order to support the management of the increased overnight cash balances from £25.000 million to £35.000 million per Counter Party / Bank, and from £150.000 million to £170.000 million for overall Money Market Fund balances. This temporary increase remained in place until 31 March 2022.

With the exception of the above, all other treasury activities met the Treasury indicators set out in the TMSS, and borrowing was within the borrowing limits set by the Council. Throughout the period, all treasury activities have been conducted within

the parameters of the TMSS 2022-23, alongside best practice suggested by the CIPFA Treasury Management Code and Central Government.

3. ECONOMIC CONDITIONS AND INTEREST RATES FOR PERIOD 1 APRIL TO 30 SEPTEMBER 2022

3.1. Economy - At 07 October 2022

The rapid increase in economic activity after the pandemic created significant supply chain challenges which, although appearing to ease slightly, continue to drag down growth projections. This has had a significant impact on both inflation and recessionary fears.

In its World Economic Outlook published on 11 October 2022, the International Monetary (IMF) downgraded 2023 GDP growth forecasts for many countries, reflecting a “sharper-than-expected slowdown” due in part to high inflation. It said “the cost-of-living crisis, tightening financial conditions in most regions, Russia’s invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook. Global growth is forecast to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic.”

UK

Like many economies, the UK economy continues to be dominated by high levels of inflation, which first reached double digits in July 2022 at 10.1% before easing to 9.9% in August. Supply chain disruptions, arising during the global recovery from the effects of the pandemic, caused the initial pick-up in inflation in 2021 but more recently the main driver has come from higher energy prices and elevated food prices, both linked to Russia’s invasion of Ukraine.

UK GDP is estimated to have increased by 0.2% in Quarter 2 (Apr to Jun) 2022, following an increase of 0.7% in quarter 1. The level of real GDP is now estimated to be 0.2% below where it was pre-coronavirus at Quarter 4 (Oct to Dec) 2019. This compares with Eurozone GDP being 1.8% higher than its pre-pandemic level, while US GDP was 3.5% higher.

The IMF forecast UK GDP growth of 3.6% for 2022, and 0.3% for 2023 – down from 0.5% from its previous forecast made in July - although the forecasts were made before the Government’s “growth plan” mini-budget on 23 September.

Bank Rate

Faced with persistent inflation and a robust labour market, the Bank of England accelerated the increase in its bank rate, with a further hike by 0.50% at its meeting on 22 September, bringing it to 2.25%. The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the global financial crisis.

Bond/Gilt Yields and PWLB Rates

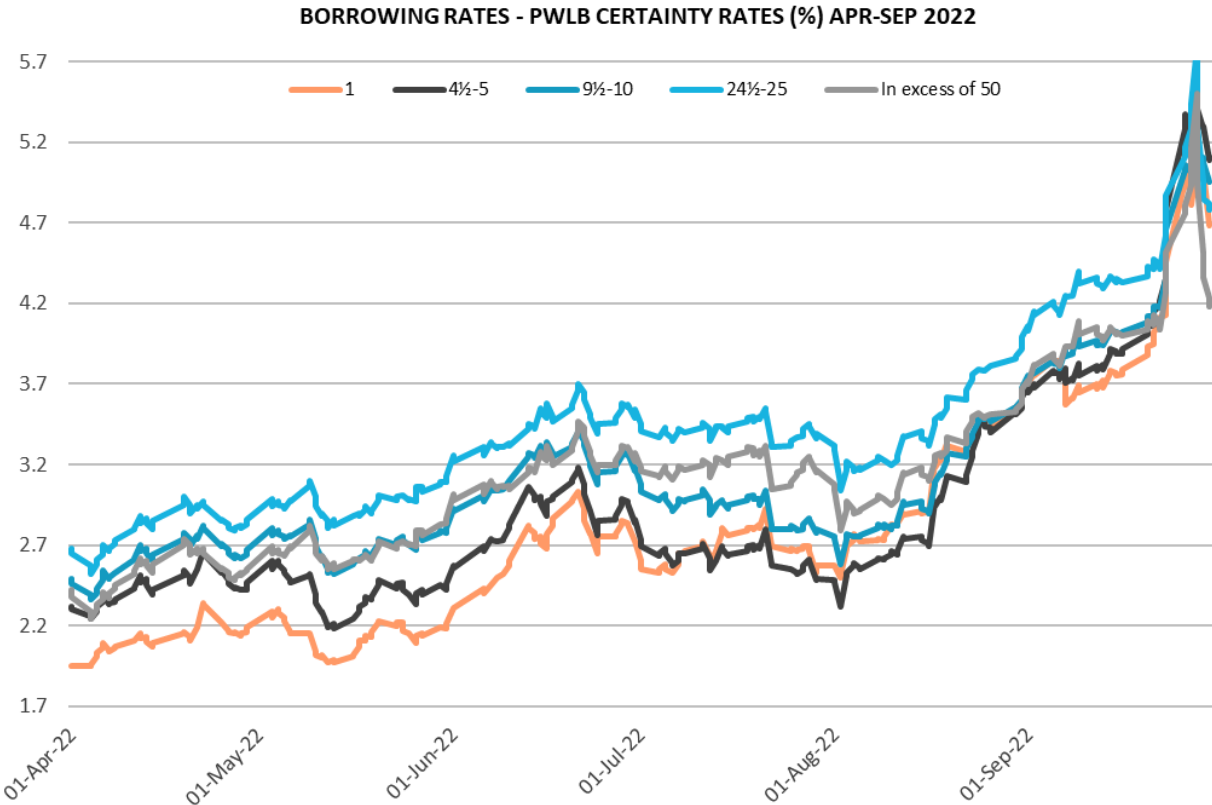
UK Gilt yields, and therefore PWLB rates, have been on a steadily increasing trend throughout 2022-23. They were initially caught up in the global surge in bond yields

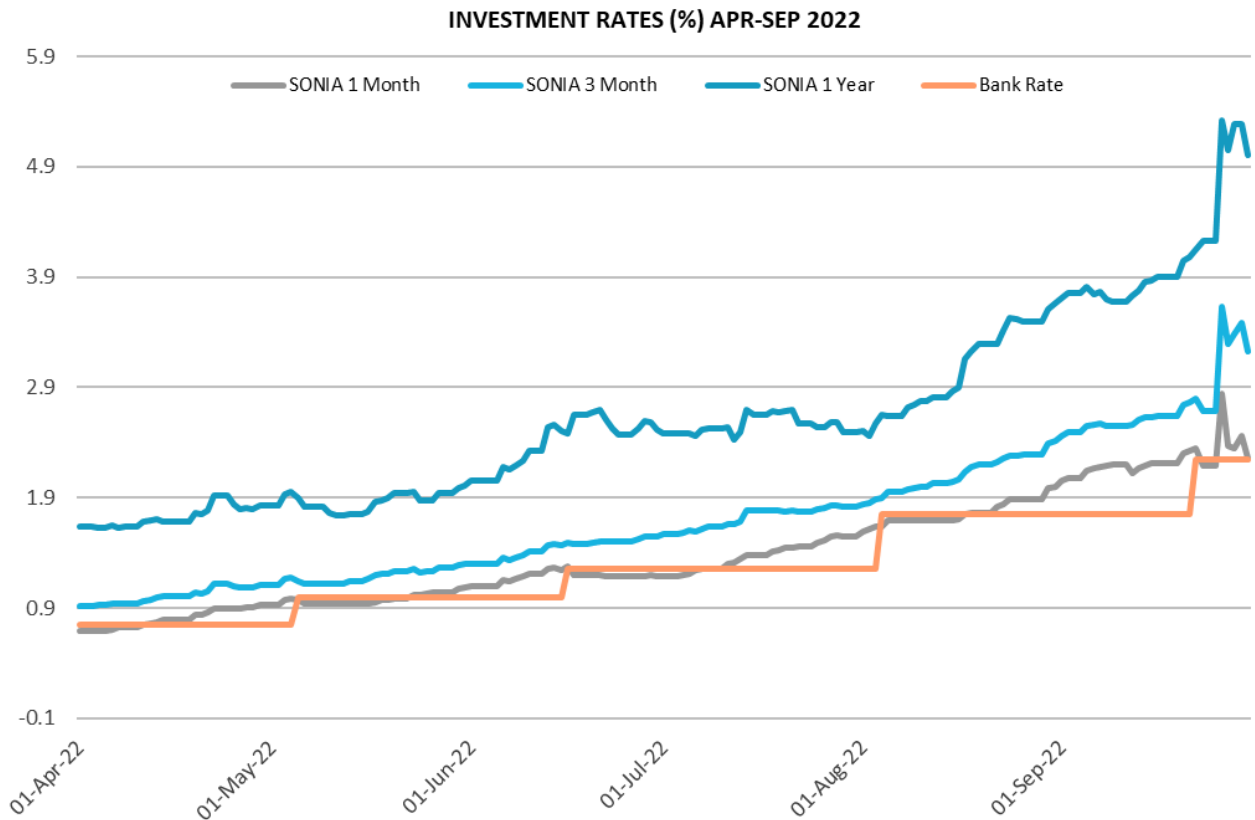
triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in UK two-year gilt yields (to a peak of 2.37% on 21 June 2022) and 10-year yields (to a peak of 2.62%) took them to their highest level (at that time) since 2008 and 2014 respectively.

However, there were exceptionally sharp increases at the end of September 2022 following the “growth plan” mini-budget of the new Prime Minister and Chancellor on 23 September 2022. At this time the 30-year gilt yield rose from 3.60% to 5.10%, which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, and to “restore orderly market conditions”, the Bank of England postponed its plans to start selling some of its quantitative easing (QE) gilt holdings and instead committed to buy up to £65 billion of long-term gilts (i.e. restarting QE; albeit for financial stability reasons rather than monetary policy reasons).

3.2. Actual Interest Rates 1 April to 30 September 2022

The following graphs show interest rate movements over the period, for various terms of borrowing and investment:





3.3. Forecast Interest Rates

The Council’s treasury advisor, Link Asset Services, current interest forecast (dated 28 September 2022) is shown below:

	Quarter 3 2022-23 (Q/E Dec 2022)	Quarter 4 2022-23 (Q/E Mar 2023)	Quarter 1 2023-24 (Q/E Jun 2023)	Quarter 2 2023-24 (Q/E Sep 2023)
Bank Rate	4.00%	5.00%	5.00%	5.00%
5-year PWLB	5.00%	4.90%	4.70%	4.50%
10-year PWLB	4.90%	4.70%	4.60%	4.30%
25-year PWLB	5.10%	4.90%	4.80%	4.50%
50-year PWLB	4.90%	4.60%	4.50%	4.20%

This was accompanied with the following comments:

“The MPC continues to grapple with getting inflation back on track over a three-year horizon.

Our revised forecasts have been based on several assumptions, all of which are potentially subject to market challenge in due course.

First, we have assumed that there will not be an emergency Bank Rate change ahead of the next MPC scheduled meeting, to be held on 3rd November. However, because

of the Government's expansionary fiscal policies, we expect to see the MPC hike rates aggressively from the prevailing 2.25%.

Our thinking is that the Bank of England will want to double-down on its efforts to squeeze inflation out of the economy, and this will be difficult to do unless labour market pressures loosen (essentially unemployment to rise from a near 50-year low of 3.6%), and for wage increases to reduce from the prevailing levels of 5.2% - 5.5% to a more sustainable c3%.

Furthermore, there is every chance that the on-going steep rises in gas, electricity and food inflation, when added to significant increases in fixed rate mortgages and rents, may see the UK head into recession despite the Government's best intention to prevent this occurrence. Markets will be looking closely at the upcoming inflation, employment and growth numbers for early signs as to how the new policies are performing, accepting that many of the announcements (outside of the support for caps on household and energy costs) have yet to be implemented.

Regarding the gilt market, after the [recent] unsettling events, we are anticipating that markets will, in time, give the benefit of the doubt to the Chancellor to the extent that some of the sell-off in gilts will be reversed in the near-term. Consequently, we expect PWLB Certainty rates to peak shortly before falling through 2023.

Of course, what happens outside of the UK is also critical to movement in gilt yields. The US Federal Open Market Committee (FOMC) has led with increases of 300 basis points [3%] in the year to date and is expected to increase rates further before the end of the year. Similarly, the European Central Bank has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan. Arguably, though, it is US monetary policies that are having the greatest impact on global bond markets.

What happens in Ukraine will also impact the global economy, but particularly in Europe. The search for alternative providers of energy, other than Russia, will take both time and effort. The weather will also play a large part in how high energy prices stay and for how long. Not forgetting developments in Taiwan, where China is viewed as a protagonist by the West. In summary, geo-political factors are a variable that it is difficult to discount from impacting UK economic performance and, therein, fiscal and monetary policies."

4. THE PORTFOLIO POSITION AT 30 SEPTEMBER 2022

4.1. Current Borrowing

The Council's debt at the beginning of the year and at 30 September 2022 is shown below:

TABLE 1: BORROWING	Total Principal 1 Apr 2022 £m	Weighted Average Rate %	Total Principal 30 Sep 2022 £m	Weighted Average Rate %
Public Works Loan Board Loans	451.281	2.66	450.264	2.66
LOBOs	176.500	3.95	176.500	3.95

TABLE 1: BORROWING	Total Principal 1 Apr 2022 £m	Weighted Average Rate %	Total Principal 30 Sep 2022 £m	Weighted Average Rate %
Market / Local Authority (>1 year)*	129.100	2.62	119.100	2.80
Market / Local Authority (<1 year)*	0.000	0.00	0.00	0.00
Salix	0.049	0.00	0.039	0.00
TOTAL EXTERNAL BORROWING	756.930	2.96	745.903	2.98

* Note: above figures are based on the term of loans at their inception

4.2. Current Investments

The table below summarises the investment position at 30 September 2022:

TABLE 2: INVESTMENTS	Total Outstanding 1 Apr 2022 £m	Weighted Average Rate %	Total Outstanding 30 Sep 2022 £m	Weighted Average Rate %
Fixed Term Investments – Long Term (>1 year)*	25.000	3.23	25.000	3.24
Fixed Term Investments – Short Term (<1 year)*	65.000	0.42	90.000	1.63
Money Market Funds and Call Accounts	98.100	0.53	57.300	2.11
TOTAL INVESTMENTS (excl. Cash)	188.100	0.85	172.300	2.02

* Note: above figures are based on the term of investments at their inception

5. BORROWING ACTIVITY 2022-23

Cash balances have remained high in the first half of the financial, largely due to the increased levels of reserves and balances reported in 2021-22. And given the current volatility of financial markets and interest rates, a decision was taken to minimise external borrowing and instead, wherever possible, increase the reliance on internal borrowing – i.e., use these additional investment balances to support the cash flows associated with the capital programme instead of borrowing externally. So far, in year external borrowing has been limited to two 1-year loans from other local authorities totalling £20.000 million.

Two reviews of the capital programme, one in June 2022 and another in September 2022, have also identified that a considerable proportion of the original budgeted capital expenditure for 2022-23 will not now be spent until later years (see 7.1 below). As a result of this, and the increased reliance on internal borrowing, the anticipated net borrowing requirement for the year is expected to be considerably lower than the anticipated £185.000 million outlined in the original strategy (see 2.1 above). Based on the latest projections, it is currently estimated that at most a further £50.000 million of external borrowing may now be required within 2022-23 – likely in the final quarter of 2022-23. This is down £114.971 million from the £185.000 million outlined in the

original strategy (see paragraph 2.1 above). It is expected that the £50.000 million requirement for the year will be covered by shorter term / temporary borrowing.

The forecast reduction in the borrowing requirement of £114.971 million is a temporary position, as most of the capital spend has been reprofiled into later years, and will instead impact on future years' borrowing requirements. In addition, the reliance on internal borrowing may not be sustainable if, for example, the reserves and balances supporting this position themselves reduce. Therefore, at some point external loans may be required to replace the reduction in cash. Added to which, the notional saving of borrowing internally, in the form of the foregone investment compared to cost of borrowing externally, is also subject to the volatility of the interest rate environment.

As shown in the table above, total external borrowing has decreased by £11.027 million, from £756.930 million at the start of year to £745.903 million at 30 September 2022. This is due to maturing existing loans. However, taking into account future maturities and the anticipated further borrowing requirement of around £50.000 million, overall borrowing is projected to total around £775.378 million by 31 March 2023.

It should be noted that savings resulting from the reduced levels of borrowing will be partly offset by the higher than expected interest rates payable on those new loans taken out within the year. As a result, is expected to generate an overall saving of around £0.543 million compared to the original interest payable budget for 2022-23 of £23.527 million.

6. INVESTMENT ACTIVITY 2022-23

The Council's investment policy (as set out in the Treasury Management Strategy Statement for 2022-23) is governed by the Communities and Local Government's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by two of the main credit rating agencies (Moody's and Fitch Group), supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

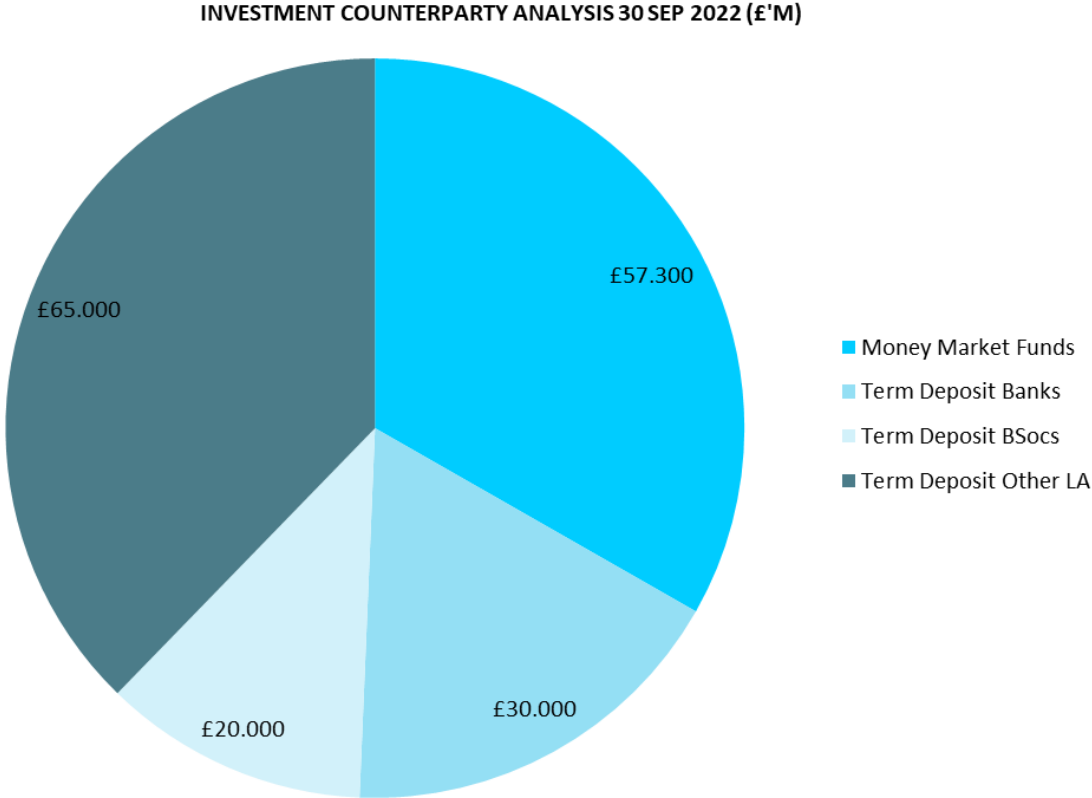
All investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

As identified above, the current policy is to use a significant proportion of available investment balances as 'internal borrowing' to support the financing of the Capital Financing Requirement (CFR).

Overall external investments (excluding cash) have reduced slightly during the first six months of the year from £188.100 million to £172.300 million.

Based on the forecast revised capital spend for the year, investment balances are anticipated to reduce to around £55.784 million by 31 March 2022 - due to the increased utilisation of investment balances to cover the Capital Financing Requirement (CFR) in lieu of borrowing externally.

An analysis of the mid-year investment balance (excluding cash) by counterparty is shown in the following chart:



The internally managed funds earned an overall average rate of return of 1.37% during the first 6 months of 2022-23. Taking into consideration that a significant proportion of funds are being kept liquid to support cash flow and facilitate future internal borrowing requirements, the returns are reasonable compared against the average Sterling Overnight Index Average (SONIA) benchmark indicators of:

- SONIA overnight 1.22%
- SONIA 1 month 1.39%
- SONIA 3 month 1.70%
- SONIA 1 Year 2.61%

The Council’s budgeted investment return for 2022-23 was originally £0.734 million (excluding interest of loans to thirds parties). Due to the significant (unexpected) increase in interest rates in recent months, and the higher than anticipated level of balances available for investment, returns have already exceeded the original budget. Based on existing investments, returns already total £1.635 million, and will likely be in excess of £2.000 million by the year end.

The above figures are exclusive of interest received on loans from third parties, such as the facilities to Advance Northumberland and Northumbria Healthcare NHS Foundation Trust etc. These loans are made for policy/service reasons, and not day-to-day treasury undertakings in relation to the investment of cash flows.

7. PRUDENTIAL INDICATORS AND TREASURY LIMITS 2022-23

The Prudential Code has been developed by CIPFA. The Code has a central role in capital finance decisions, including borrowing for capital investment. Its key objectives are to provide a framework for local authority finance that will ensure individual authorities' capital expenditure plans are affordable; all external borrowing is within prudent and sustainable levels; and, that treasury management decisions are taken in accordance with good professional practice.

Performance against the approved prudential indicators, as set out in the 2022-23 Treasury Management Strategy Statement, is outlined below. None of the indicators have been exceeded during the year to 30 September 2022.

7.1. Capital Expenditure

This table shows the original approved capital programme (as agreed as part of the MTFP), current expenditure and forecast outturn for the year:

Capital Expenditure	2022-23 Original Estimate £m	2022-23 Current Budget £m	Position 30 Sept 2022 £m	2022-23 Forecast Outturn £m
Adult Social Care and Commissioning	8.191	7.230	0.740	4.589
Chief Executive's	1.999	2.500	0.205	1.603
Children's Services	24.540	22.286	6.352	22.255
Communities & Business Dev	15.579	12.709	5.959	12.811
Finance	35.453	47.882	3.659	20.366
Planning & Local Services	47.955	61.229	21.756	54.642
Public Health & Community Services	28.441	20.957	3.765	15.805
Regeneration	145.198	154.178	19.518	95.630
TOTAL EXPENDITURE	307.356	328.971	61.954	227.701

7.2. Authorised Limit and Operational Boundary

The authorised limit - is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level.

The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

The table below demonstrates that during 2022-23 the Council has maintained gross borrowing within its authorised limit and operational Boundary.

	Authorised Limit for External Debt £m	Operational Boundary for External Debt £m	Actual 30 September 2022 £m

	Authorised Limit for External Debt £m	Operational Boundary for External Debt £m	Actual 30 September 2022 £m
Borrowing	1,252.818	1,044.015	745.903
Other Long-Term Liabilities (PFI)	76.603	63.836	64.879
TOTAL EXTERNAL DEBT	1,329.421	1,107.851	810.782

7.3. Limits to Borrowing Activity

One of the key controls over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of Capital Financing Requirement (CFR) [i.e. the underlying need to borrow] in the preceding year plus the estimates of any additional CFR for 2022-23 and next two financial years.

CFR vs Borrowing	2022-23 Original Estimate £m	Position at 30 Sept 2022 £m	2022-23 Forecast Outturn £m
Borrowing	890.349	745.903	775.378
Other Long-Term Liabilities (PFI)	64.635	64.879	61.105
TOTAL EXTERNAL DEBT	954.984	810.782	836.483
CFR	1,179.389	N/A	1,071.944

The Interim Executive Director of Finance reports that no difficulties are envisaged for the current or future years in complying with this indicator.

The purpose of the following limit is to restrain the activity of the treasury function within certain limits; thereby managing risk; and reducing the impact of any adverse movement in interest rates.

Interest Rate Exposure	Limit for 2022-23	Actual 30 Sep 2022
Fixed Rate Exposure	0% - 100%	83.78%
Variable Rate Exposure	0% - 100%	16.22%

Lender option, borrower option loans (LOBOs) callable within 12 months are classed as variable; if the rate is fixed for a longer period they are classed as fixed. At 30 September 2022 the total of variable rate loans was £121.000 million and is within the set limit.

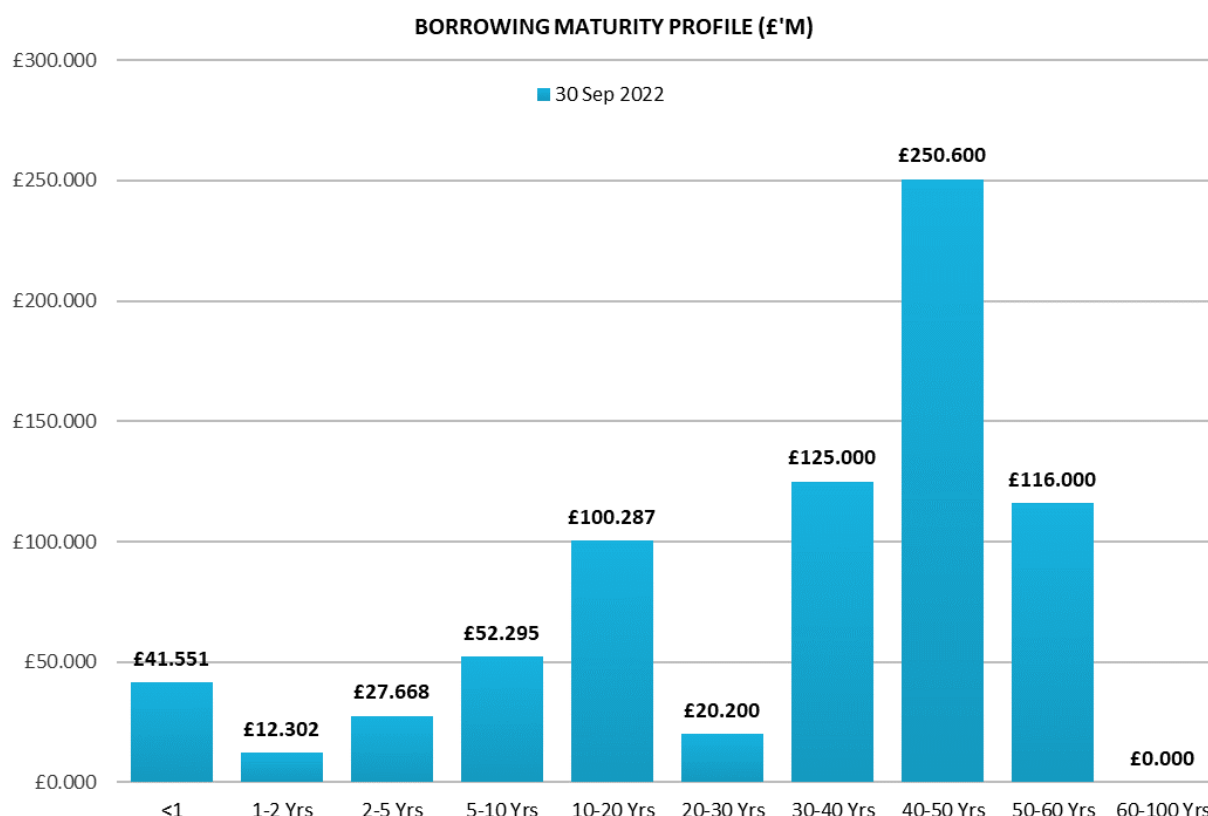
7.4. Maturity Structure of Borrowing

Measuring maturity structure of borrowing ensures a reasonable spread of maturing debt as a safety mechanism to ensure significant amounts of debt do not mature at a time when interest rates for refinancing the debt may be high.

Maturity Structure	Upper Limit for	Actual
--------------------	-----------------	--------

	2022-23	30 Sep 2022
Under 12 months	25%	6%
1 year - 2 years	40%	1%
2 years within 5 years	60%	4%
5 years within 10 years	80%	7%
10 years and above	100%	82%

The following graph shows maturity of loans by monetary value. LOBOs are shown as held to maturity. It should however be noted that, given the recent increase in interest rates, there is a possibility that some of these loans may be called.



7.5. Investments for periods longer than 365 days

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

	Limit 2022-2023 £m	Actual Highest £m	Actual 30 Sept 2022 £m
Principal sums invested > 364 days	120.000	0.000	0.000

Implications

Policy

The report provides a half-year review of the Treasury Management activities for 2022-23 and sets out performance against the Treasury Management Strategy Statement for 2022-23. It is aligned to the priorities outlined in the Corporate Plan 2021-24_“A Council that Works for Everyone”.

Finance and value for money

The financial implications of the 2022-23 investment and borrowing transactions have been taken into account within the revenue budget for 2022-23.

Northumberland County Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Capita benchmarking clubs.

Legal

Under Section 1 of the Local Government Act 2003 (the Act) the Council may borrow money for any purpose relevant to its functions under any enactment, or for the purpose of the prudent management of its financial affairs.

The Act and supporting regulations also require the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice (which were adopted by Northumberland County Council in February 2010).

Procurement

There are no direct procurement implications for the County Council.

Human Resources

There are no direct staffing implications for the County Council.

Property

There are no direct property implications for the County Council.

Equalities

There are no direct equalities implications for the County Council.

(Impact Assessment attached)

Yes No N/A

Risk Assessment

The report highlights the principal financial risks within the Treasury Management function. The identification, monitoring and control of risk are the prime criteria by which the effectiveness of the County Council’s Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council. The investment priority is security and liquidity rather than yield, which is a secondary aim.

Crime & Disorder	There are no Crime and Disorder implications for the County Council.
Customer Consideration	There are no Customer Considerations for the County Council.
Carbon reduction	There are no carbon reduction implications for the County Council.
Health & Wellbeing	There are no health and wellbeing implications for the County Council.
Wards	All divisions.

Background Papers:

Treasury Management Strategy Statement for 2022-23 – County Council 23 February 2022

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance notes (revised 2011)

CIPFA Prudential Code for Capital Finance in Local Authorities

Guidance on Local Government Investments The Local Government Act 2003

Local Authorities (Capital Finance and Accounting) Regulations 2012 (S.I.2012/265)

Report sign off:

Authors must ensure that officers and members have agreed the content of the report:

	Name
Monitoring Officer	Suki Binjal
Interim Executive Director of Finance & Section 151 Officer	Jan Willis
Relevant Executive Director	Jan Willis
Chief Executive	Rick O'Farrell
Portfolio Holder	Richard Wearmouth

Author and Contact Details

Alistair Bennett – Technical Accountant

(01670) 625504

Alistair.Bennett@northumberland.gov.uk

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Northumberland County Council

AUDIT COMMITTEE

30 NOVEMBER 2022

CORPORATE FRAUD TEAM – COUNTER FRAUD ANNUAL REPORT 21/22

Report of Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth, Portfolio Holder for Corporate Services, and Deputy Leader of the Council

Purpose of report

The purpose of this report is to update the Audit Committee on work undertaken by the Corporate Fraud Team within the Council covering the period 1 April 2021 - 31 March 2022.

Recommendations

It is recommended that the Audit Committee

1. Receive this report and note the progress undertaken by the Corporate Fraud Team since the last report in received in March 2022 and the steps being taken to recover any monies owed to the Council.

Link to Corporate Plan

This report is relevant to the Council's Corporate Plan by delivering a service that has a positive outcome for the community by stopping or preventing losses from public money through an effective counter fraud service.

INTRODUCTION

The Council is committed to providing an effective Anti-Fraud Service which is supported by efficient policies and sanctions for those that offend. Counter fraud is the responsibility of everyone in the Council and by ensuring that effective measures are in place to prevent, detect, investigate, and report fraud we can ensure that public money is spent where it should be, on services for the community.

Failure to investigate fraud will see money leaving the Council by way of fraud or error and failure to tackle this effectively could lead to qualified subsidy claims and loss of revenue for the Council.

It is therefore important to demonstrate that resources are focused on fraud reduction and to identify, investigate and rectify administrative weaknesses to assure Members of the quality and integrity of investigations.

At the end of March 2022, the team consisted of the Interim Corporate Fraud Manager/investigator, 1 Corporate Fraud Investigator, 1 Single Person Discount Project Lead/Investigator, and an Investigations Assistant. This was a temporary structure following the sad loss of their manager Barry Haigh in January 2022.

ANNUAL REPORT OF ALL SUSPECTED FRAUD – 1 April 2021 to 31 March 2022

Internal Fraud

All reports of suspected fraud continue to be documented, whether investigated or not, and during the year there has been 1 referral in relation to potential internal fraud and a further 2 remained under investigation from previous years.

The new referral received related to an allegation of abuse of position, no evidence was found to support the allegation and the case was closed unproven.

One case, which related to an overpayment of wages was closed, the overpayment amounting to £5190.05 has been recovered in full and the member of staff is no longer employed by NCC having taken voluntary redundancy. No criminal charges were

brought as the case was rejected by NCC solicitors due to a lack of evidence to prove dishonesty.

One case remained open, under consideration by NCC solicitors and relates to allegations of theft and abuse of position. An update on this case will be given in future reports.

External Fraud

There was a total of 754 fraud referrals received during the period 1 April 2021 to 31 March 2022 in the following case types:

Revenues (inc Business rates, CTR, SPD) - 283
Covid-19 Self Isolation payments- 128
Insurance - 8
Schools - 7
Tenancy - 262
Blue Badge/Concessionary Passes - 10
Other (inclusive of DWP information requests) – 56

As the figures above show, most referrals received from 1 April 2021 to 31 March 2022 have been in the Revenues and Tenancy arena.

It is natural to link the reduction of referrals with Covid-19 and the national restrictions since March 2020. In the reporting year prior to the pandemic, April 19 to March 20 we recorded 1758 referrals.

The proactive single person discount (SPD) exercise remained suspended throughout the period 1st April 2021 - 31st March 2022 to prevent reputational damage to the authority during the pandemic. This continues to reflect a significant reduction in our previous years results in this area.

At the end of March 2022 a project began to begin the roll out to review all SPD claims, with the aim to review all council tax accounts where single person discount is being claimed on an ongoing basis. Further information, updates and results will be provided in future reports.

The Council Tax Support fraudulent overpayments identified during investigations amounted to £24,619.88. Single Person Discount cases and recoverable amounts for this period amounted to £60,710.30, this figure is mainly a result of reactive investigations. .

Due to the pandemic, all joint working with our counterparts at DWP was suspended and with no clear guidance from DWP as to what would happen with ongoing investigation most were closed due to delay. 1 case remains open due to the amount of evidence which has been gathered however is pending review once DWP investigators return to investigative work.

During the year, although the Council no longer have remit to investigate Housing Benefit fraud, often it is the case that overpayments are created when we deal with Council Tax Support fraud cases. Overpayments of Housing Benefit that have been calculated whilst investigating Council Tax Support during the period 1 April 2021 to 31 March 2022 amounted to £28,917.19. This figure is reducing over time with claimants moving to Universal Credit claims.

There was an upturn in the number of Covid-19 Self Isolation payment referrals for the period 1 April 2021 – 31 March 2022. In the same period, 55 were found to be recoverable, amounting to £27,500.

As documented in previous reports, the team continues in our work providing all verification and anti-money laundering checks on Right to Buy applications received. The enhanced vetting procedures incorporate stringent money laundering checks and home visits to ensure residency and identity. As a result of this initiative, a total of 149 Right to Buy applications were scrutinised in detail. In the same period, 46 were withdrawn by the tenants resulting in a total saving of £1,843,292.00 that would have been allowed as a discount to the property purchase price.

In addition to the savings outlined above, the 46 properties remain as part of our housing stock and continue to generate rental income.

There have been 8 properties recovered during this period, 5 of which were NCC properties and 3 social housing properties with Karbon/Bernicia. The recovery of these homes have allowed us to offer secure and affordable homes to applicants registered on Homefinder reducing the waiting list as well as temporary accommodation costs.

Under the guidelines issued by The Cabinet Office (NFI Report) the recovery of properties is worth a minimum of £93,000 (NCC properties) or £3,240 (Social Housing Providers) per property to the Council amounting to £474,720 for this period.

We have closed 17 referrals of suspicion from the Insurance Team, with investigation and enquiries being made by the team, resulting in 3 cases being fully denied liability and 1 case where the settlement figure was reduced. The value of our reserve figures not being paid in these cases totalled £12,564.00

We also continue to assist with school allocations and have been asked to investigate 7 individual referrals to identify any potential false information being supplied on application for school places. These cases are all now closed resulting in 1 school place being withdrawn and a formal caution was issued in that instance.

The Corporate Fraud Team also investigate reports of illegal evictions and harrassment by private landlords. Between 1 April 2021 and 31 March 2022 we have investigated 12 allegations of illegal eviction and harrassment received from tenants of private landlords. As well as working with our homeless team to help prevent homelessness and work with the private landlords to explain their responsibilities our investigations have resulted in 1 landlord receiving a formal caution and 1 landlord being prosecuted.

Total Sanctions Accross all areas Investigated

	2021-2022	Investigation Category
Prosecution	1	Illegal Eviction
Formal Caution	2	Illegal Eviction, School Application
Admin Penalty	0	
Total Sanctions	3	

The Covid-19 pandemic has had a significant effect on the way in which we have been able to carry out our work and investigate fraud and error. This has specifically affected our ability to conduct face to face evidence gathering and interviews which in turn has impacted on our sanction results. Due to the restrictions enforced by the pandemic, not having a Covid secure interview room and considering the courts and the pressure they were under with cases waiting to be heard, that cases would not be considered for sanctions or prosecution during this period. However the flexibility in our team and commitment to continue to protect the public purse and the reputation of NCC has meant that we have found alternative ways of working, meaning that we are still able to

report significant financial results. As we return to a new normal, which will incorporate some of the old and new ways of working, we anticipate the number of sanctions will increase again.

PROACTIVE COUNTER FRAUD WORK

Plans for proactive work were postponed during this period due to the pandemic, but we are committed to build on the work undertaken so far and will concentrate on the following key risk areas:

- IDIS, our in house data matching system, is proving to be an essential tool within the team. Since April 2019, we have raised over 1,100 cases for investigation from data input into the hub. This has produced savings of over £294,188.92 up to 31 March 2022. IDIS will continue to be used as a tool for identifying fraud and error.
- The Right to Buy verification and money laundering checks will remain a top priority for future work and it is envisaged that this will be expanded to look at other areas of Housing Fraud.
- We continue to provide a Right to Buy/Acquire verification process for Karbon Homes. For this period, we concluded 18 applications. In the same period, 3 applications were withdrawn saving £62,900 that would have been allowed as a discount. This service is chargeable and has generated £5,400 for the Council.
- Bernicia Housing also benefit from partnership working with the Corporate Fraud Team with the Council conducting the same verification and anti-money laundering checks on their Right to Buy/Acquire applications. For the period of this annual report, we concluded 57 applications. In the same period, 25 applications were withdrawn saving £615,707.80 that would have been allowed as a discount. This is the same chargeable service as Karbon Homes and has generated £17,100 for the Council.
- The regional Tenancy Fraud Forum Group for all local authorities and Registered Social Landlords in the area continues to meet on a regular basis. The purpose of the forum is to work closer together, share best practices and assist each other with housing fraud matters. NCC's Corporate Fraud members chair and organise this forum.

During the year members of the team have also attended several conferences and seminars to both actively publicise the team and gain additional knowledge and experience.

REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

Since the last report to the Audit Committee there have been no applications for Directed Surveillance by the Corporate Fraud Team.

Implications

Policy	None.
Finance and value for money	Investigations into suspected fraud, corruption and theft help identify financial losses incurred by the Council and assist in the process of seeking recovery of such sums. It also supports the governance framework.
Legal	Section 151 of the Local Government Act 1972 requires local authorities to plan for the proper administration of their financial affairs and appoint a S151 Officer, also known as a Chief Financial Officer (CFO), to have responsibility for those arrangements.
Procurement	None.
Human Resources	None.
Property	None.
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	None. An impact assessment is not applicable as the report does not require a key decision.
Risk Assessment	Work carried out within the scope of this report reduces the risk of financial loss and adverse publicity to the Authority through fraud.
Crime & Disorder	A programme of pro-active counter fraud work reduces the potential opportunities for fraud and corruption within the Council's activities.

Customer Consideration	None.
Carbon reduction	None.
Wards	All.
Consultation	Section 151 Officer

Report sign off

	Full Name
Interim Monitoring Officer/Legal	Suki Binjal
Interim Executive Director of Finance & Section 151 Officer	Jan Willis
Executive Director	Jan Willis
Chief Executive	Rick O'Farrell
Portfolio Holder(s)	Richard Wearmouth

Author and Contact Details:

Report Authors: Amy Hodgson – Corporate Fraud Manager

Phone: (01670) 624272

Email: amy.hodgson@northumberland.gov.uk

Audit Strategy Memorandum

Northumberland County Council

Year ending 31 March 2022

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Agenda Item 11

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This document is to be regarded as confidential to Northumberland County Council and Group. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committees charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.



Audit Committee Members
Northumberland County Council
County Hall
Morpeth
Northumberland
NE61 2EF

November 2022

Dear Members

Audit Strategy Memorandum – year ending 31 March 2022

We are pleased to present our Audit Strategy Memorandum for Northumberland County Council and the Group (Council and Group) for the year ending 31 March 2022. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Council and Group which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit. If we identify any risks or changes to our planned strategy following completion of our planning, we will ensure we communicate these to the Audit Committee.

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07813 752 053..

Yours faithfully

Cameron Waddell
Mazars LLP

Mazars LLP
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

01

Section 01:

Engagement and responsibilities summary

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1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of the Council and Group for the year to 31 March 2022. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

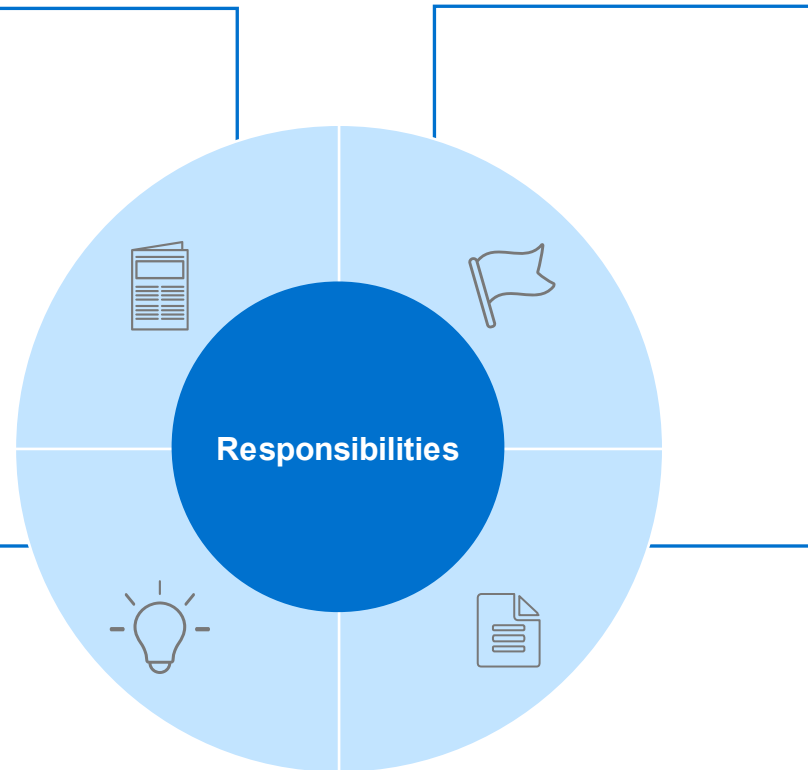
Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

The Interim Executive Director of Finance and s151 Officer is responsible for the assessment of whether it is appropriate for the Council and Group to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Interim Executive Director of Finance and s151 Officer's use of the going concern basis of accounting in the preparation of the financial statements.

Value for money

We are also responsible for forming a commentary on the arrangements that the Council and Group has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Fraud

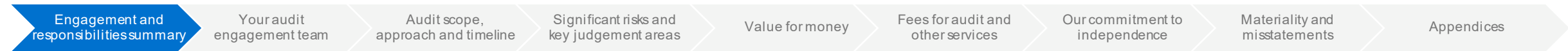
The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Wider reporting and electors' rights

We report to the NAO on the consistency of the Council and Group's financial statements with its Whole of Government Accounts (WGA) submission.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and Group and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.



02

Section 02:

Your audit engagement team

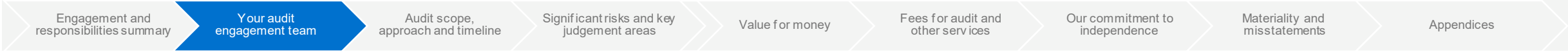
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2. Your audit engagement team

Your external audit service will continue to be led by Cameron Waddell

Who	Role	Contact
Cameron Waddell	Partner and Audit Engagement Lead	cameron.waddell@mazars.co.uk 0781 375 2053
Jim Dafter	Engagement Manager	jim.dafter@mazars.co.uk 07815 876 042
Ian Rutter	Engagement Team Leader	ian.rutter@mazars.co.uk 07881 283 347

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03

Section 03:

Audit scope, approach and timeline

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3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

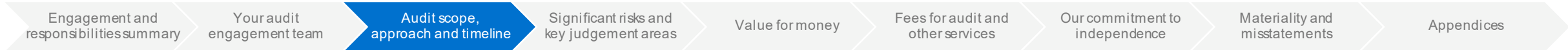
Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



3. Audit scope, approach and timeline

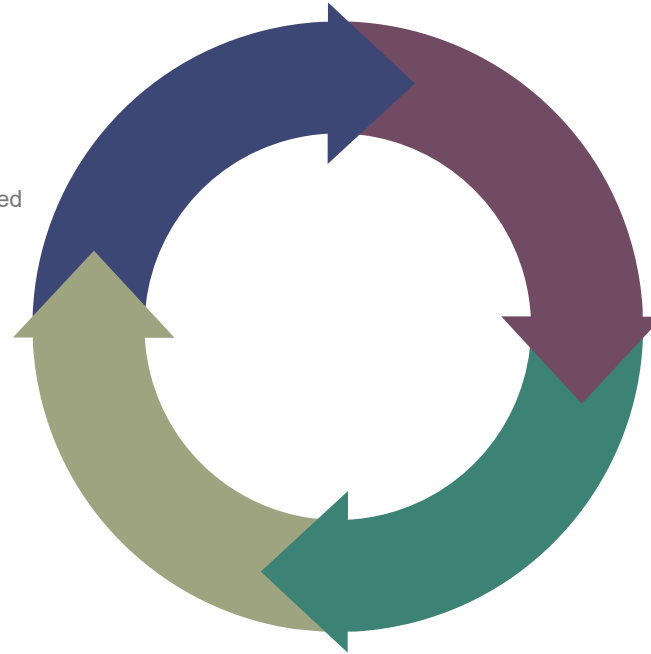
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Planning September – October 2022

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion December 2022 – March 2023

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Accounting and Technical Service review of the financial statements
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor's report

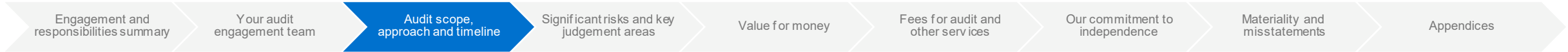


Interim September - October 2022

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork October – December 2022

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



3. Audit scope, approach and timeline

Group audit approach

In line with the requirements of the CIPFA Code of Practice, the Council has considered its interests in other entities and determined that group accounts are required which will consolidate its interest in Advance Northumberland only. This section sets out the planned work in respect of those entities which we refer to here as components.

Group materiality

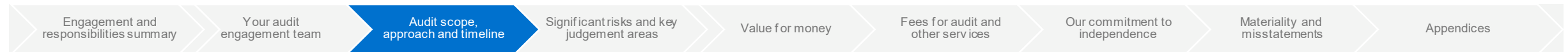
Our assessment of group materiality is set out in section 8.

We assess the significance of the component as part of determining the level of work required. In assessing the significance of components, we consider a range of quantitative and qualitative factors including:

- whether a component exceeds a minimum of 15% of key benchmarks (income, expenditure, assets and liabilities);
- whether any financial statement area (FSA) is greater than 15% of the relevant FSA in the consolidated accounts and greater than performance materiality; and
- whether there are any risks of material misstatement in the components likely to result in material misstatement in the group financial statements.

Our assessment is summarised in the table below.

Entity	Nature of component / ownership	Auditor	Significant in terms of benchmarks?	Risks of material misstatement?	Scope / Commentary
The Council	Parent – local authority.	Mazars LLP	Yes	Yes	Full – ultimate parent.
Advance Northumberland Group	100% owned company of the Council. The principal activities of the Company are in relation to housing, commercial property, regeneration and business growth.	Mazars LLP	No	Yes	Material transactions and balances exist in relation to investment properties, work in progress (developments for sale outside the group), borrowings, gross income and gross expenditure



3. Audit scope, approach and timeline

Group audit approach (continued)

Nature and scope of planned work

The table below sets out the estimated proportion of each component, relative to the overall Group, as well as the nature and scope of planned work. Note these are estimates and we will update our assessment for any significant changes. This work is in addition to our review of group-wide controls and the consolidation process.

Nature of work

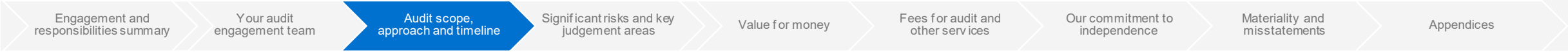
Planned procedures are split into the following categories:

- full scope audit;
- limited or specific review ; and
- other audit procedures, including group analytical procedures.

The component being treated as 'significant' and subject to a full scope audit review is Advance Northumberland.

Analysis of components

Component	% of total group revenues	% audited by Mazars	Nature of work	Scope of work
The Council	93.3%	100%	Full scope audit	Not applicable – this is the 'parent'
Advance Northumberland	6.7%	100%	Review of work undertaken by auditors of Advance in relation to investment properties, work in progress, borrowings, gross income and gross expenditure.	Critical evaluation of the findings by auditor of Advance Northumberland Group in the areas stated.
	100%	100%		



3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management’s and our experts

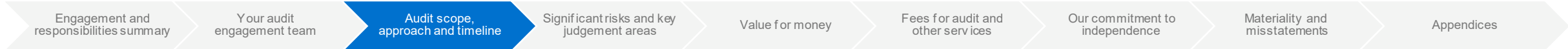
Management makes use of experts in specific areas when preparing the financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Defined benefit liability	AON Hewitt Limited (Actuary)	National Audit Office, prepared by PwC.
Property, plant and equipment	Bruton Knowles (Valuer)	We will take into account relevant information which is available from third parties, including the NAO’s consulting valuer (Gerald Eve)
Financial instrument disclosures	Link Asset Services	We do not typically engage an audit expert to assess the reasonableness for your expert’s financial instrument valuation estimates. Where this is required we will engage our own internal experts

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council and Group that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

There are no material service organisations to consider for this Council.



04

Section 04:

Significant risks and other key judgement areas

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4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

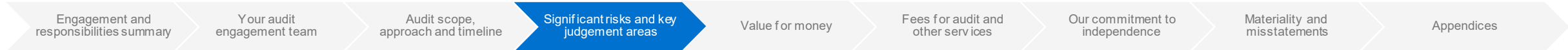
An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

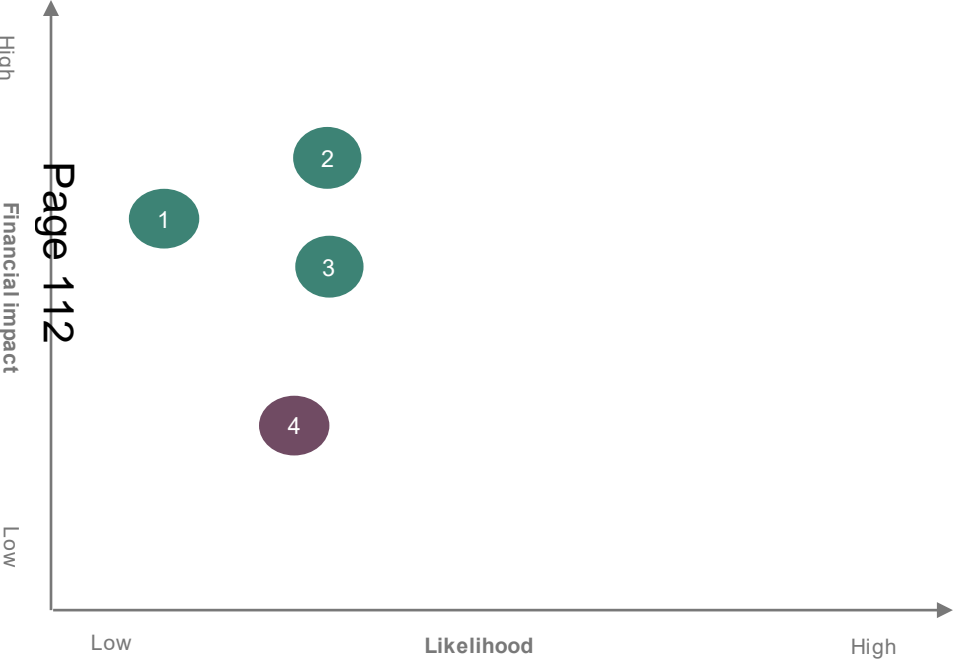
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4. Significant risks and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council and Group. We have summarised our audit response to these risks on the next page.



- 1 Management override of controls (relevant to the Council and Group)
- 2 Defined benefit liability valuation (relevant to the Council and Group)
- 3 Property, plant and equipment valuation, including investment property (relevant to the Council and Group)
- 4 Enhanced risk: accounting for PFI arrangements

Key: ● Significant risk ● Enhanced risk / significant management judgement

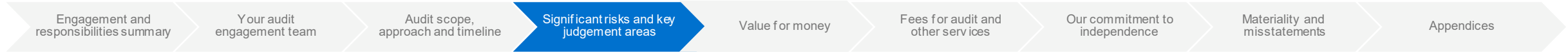
4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

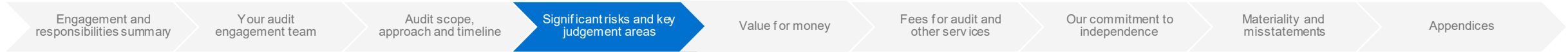
	Description	Fraud	Error	Judgement	Planned response
Page 113	<p>1 Management override of controls (single entity and group accounts)</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>



4. Significant risks and other key judgement areas

Significant risks

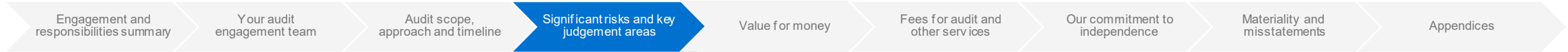
	Description	Fraud	Error	Judgement	Planned response
Page 114	<p>2 Defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> critically evaluate the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and challenge the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office; critically assess the competency, objectivity and independence of the Actuary; liaise with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively; compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and agree data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements;.



4. Significant risks and other key judgement areas

Significant risks

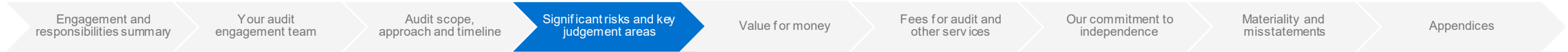
	Description	Fraud	Error	Judgement	Planned response
Page 115	<p>3 Property, plant and equipment valuation, including investment property</p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (including the Council's PFI waste facility).</p> <p>The Council employs valuation experts to provide information on valuations, however there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> critically assess the Council's arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated; critically assess the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuers, including the PFI shared waste facility; consider the competence, skills and experience of the Valuers and the instructions issued to the Valuers; substantively test revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated; liaise with the Council's new external valuation expert, Bruton Knowles, to understand their approach; and where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.



4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
4 Page 116	<p>Enhanced risk: accounting for PFI arrangements</p> <p>The Council has two PFI arrangements, covering:</p> <ul style="list-style-type: none"> • fire & rescue; and • a shared waste facility. <p>The method of accounting for PFI assets/liabilities is complex, therefore, this increases the risk of misstatement.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> • review the Council’s adopted approach for accounting for its PFI arrangements; • review any changes from prior years to the long term financial model used; • critically review the assumptions made by management; and • assess the completeness and accuracy of disclosures.



05

Section 05:

Value for money arrangements

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5. Value for money arrangements

The framework for our work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

2021/22 will be the second audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

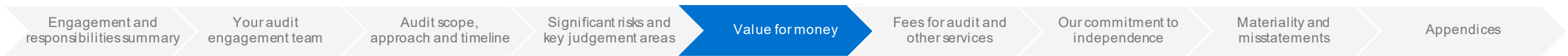
The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services.
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks.
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

<p>Planning and risk assessment</p>	<p>Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:</p> <ul style="list-style-type: none"> • NAO guidance and supporting information; • information from internal and external sources including regulators; • knowledge from previous audits and other audit work undertaken in the year; and • interviews and discussions with officers and Members.
<p>Additional risk based procedures and evaluation</p>	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
<p>Reporting</p>	<p>We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none"> • significant weaknesses identified and our recommendations for improvement; and • emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.



5. Value for money arrangements

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

As a consequence of the delayed completion of our 2019/20 and 2020/21 audits we have not yet fully completed our planning and risk assessment work. Once completed, we will report our initial risk assessment to the Audit Committee.

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06

Section 06:

Fees for audit and other services

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6. Fees for audit and other services

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA, subject to consideration by Public Sector Audit Appointments Limited of any recurring fee increases arising from the 2019/20 audit, in relation to testing of:

- property, plant and equipment valuations; and
- audit work in respect of the net defined benefits liability.

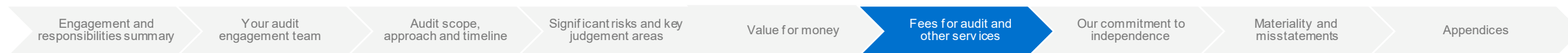
Area of work	2021/22 proposed fee	2020/21 fee
Code audit work – scale fee	£170,000*	£170,000*
Additional work in response to regulatory recommendations to increase level of audit work on the valuation of property plant and equipment	To be agreed	To be agreed
Additional work in response to regulatory recommendations to increase level of audit work on defined benefit liability schemes.	To be agreed	To be agreed

* an additional fee in respect of 2019/20, 2020/21 and 2021/22 work will be calculated and discussed with officers; the next stage will be consideration and approval by Public Sector Audit Appointments Limited.

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2021/22 fee	2020/21 fee
Assurance Services: Housing Benefit Subsidy	£10,610	£10,300
Assurance Services: Teachers' Pension return	£4,250	£4,120
Assurance Services: Pooling of Housing Capital Receipts	£3,280	£3,190



07

Section 07:

Our commitment to independence

Page 122

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

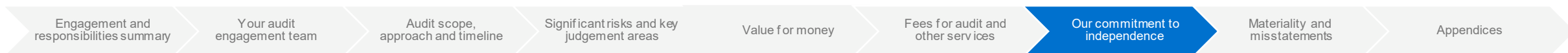
- partners and staff are required to complete an annual independence declaration;
- new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

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08

Section 08:

Materiality and misstatements

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8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold Council £'000s	Initial threshold Group £'000s
Overall materiality	18,032	18,735
Performance materiality	12,622	13,114
Trivial threshold for errors to be reported to the Audit Committee.	541	562

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

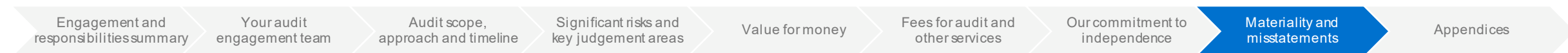
The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.



8. Materiality and misstatements

Materiality (continued)

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross expenditure at the net cost of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that the gross expenditure at the net cost of services level remains the key focus of use of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 1.8% of the benchmark.

Based on the prior year financial statements, we anticipate the overall materiality for the year ending 31 March 2022 to be in the region of £18.032 million for the Council and £18.735 million for the Group (prior year at the planning stage was £15.398 million for the Council and £16.655 million for the Group).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 70% of overall materiality as performance materiality.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £541,000 for the Council and £562,000 for the Group based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

Reporting to the Audit Committee

The following three types of audit differences above the trivial threshold will be presented:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

Engagement and
responsibilities summary

Your audit
engagement team

Audit scope,
approach and timeline

Significant risks and
key judgement areas

Value for money

Fees for audit and
other services

Our commitment to
independence

Materiality and
misstatements

Appendices



Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

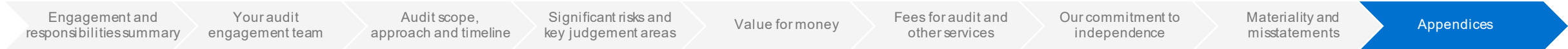
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

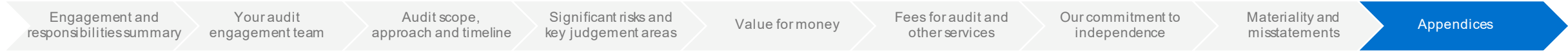
- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



Appendix: Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

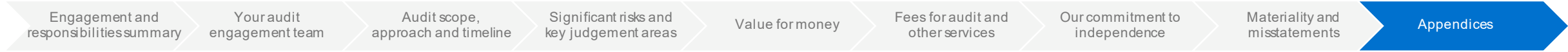
Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
<p>With respect to misstatements:</p> <ul style="list-style-type: none"> • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant. 	Audit Completion Report
<p>With respect to fraud communications:</p> <ul style="list-style-type: none"> • enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud. 	Audit Completion Report and discussion at the Audit Committee Audit planning and clearance meetings



Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: <ul style="list-style-type: none"> • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity. 	Audit Completion Report
Significant findings from the audit including: <ul style="list-style-type: none"> • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

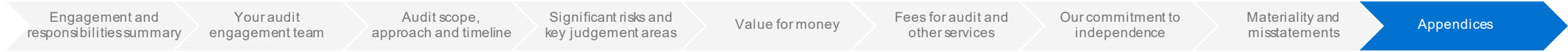
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Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report and Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements. 	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity.	Audit Completion Report

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Cameron Waddell, Partner – Public Services

cameron.waddell@mazars.co.uk

Mazars

Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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