

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

At the Annual Meeting of the Audit Committee held in the meeting space, Block One, Floor Two, County Hall Morpeth on Wednesday, 25 May 2022 at 10.15 a.m.

PRESENT

S. Watson (Chair, in the Chair)

COUNCILLORS

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

Oliver, N.
Topping, P.
Wallace, A.

OFFICERS IN ATTENDANCE

Binjal, S.	Monitoring Officer and Interim Director of Governance
Candlish, T.	Group Assurance Manager
Elsdon, A.	Service Director for Finance
Hunter, P.	Senior Service Director
McDonald, K.	Acting Head of Internal Audit and Risk Management
O'Farrell, R.	Acting Deputy Chief Executive and Interim Executive Director of Regeneration
Taylor, M.	Executive Director Wellbeing - Adult Services
Todd, A.	Democratic Services Officer
Willis, J.	Interim Executive Director of Finance and S151 Officer

ALSO IN ATTENDANCE

Waddell, C.	Mazars (External Audit)
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1. MEMBERSHIP AND TERMS OF REFERENCE

The Committee was asked to note the membership and terms of reference as appointed by Council, and the re-election of the Chair and Vice Chair as appointed by Council on 4 May 2022.

8 members (4:2:1 Ind Gp, 1 Min Gp)

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Quorum – 3 (must be at be at least 2 opposition members)

Chair: S. Watson

Vice Chair: D. Towns

Conservative	Labour	Independent Group	Liberal Democrats	Green Party	Ind Non-Grouped
T. Cessford	L. Grimshaw	A. Dale	1 vacancy yet to be confirmed		
P. Jackson	A. Wallace				
N. Oliver					
D. Towns					

Also:

2 Independent Members (non-voting) – P. Topping and S. Watson

Statement of purpose

- (1) Our audit committee is a key component of Northumberland County Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- (2) The purpose of our audit committee is to provide independent assurance to those charged with governance of the adequacy of the risk management framework and the internal control environment. It provides independent review of Northumberland County Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Terms of Reference:

Governance, risk and control

- (1) To review the Council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider annual governance reports and assurances.
- (2) To review and approve the Annual Governance Statement and consider whether it properly reflects 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.
- (3) To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- (4) To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
- (5) To monitor the effective development and operation of risk management in the Council.
- (6) To monitor progress in addressing risk-related issues reported to the Committee.
- (7) To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- (8) To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.

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- (9) To monitor the counter-fraud strategy, actions and resources.
- (10) To review the governance and assurance arrangements for significant partnerships and arrangements.

Internal audit

- (1) To approve the internal audit charter.
- (2) To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- (3) To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- (4) To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- (5) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- (6) To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.
- (7) To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
 - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
 - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
- (7) To consider the head of internal audit's annual report:
 - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the Committee in reviewing the Annual Governance Statement.
- (9) To consider summaries of specific internal audit reports as requested.
- (10) To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- (11) To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

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- (12) To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.
- (13) To provide free and unfettered access to the Audit Committee Chair for the Head of Internal Audit, including the opportunity for a private meeting with the Committee.

External audit

- (1) To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by the PSAA or the authority's auditor panel as appropriate.
- (2) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- (3) To consider specific reports as agreed with the external auditor.
- (4) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (5) To commission work from internal and external audit.
- (6) To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

- (1) To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- (2) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

- (1) To report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
- (2) To report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.
- (3) To publish an annual report on the work of the Committee.

The Audit Committee was also designated as the Group Audit Committee for all entities within Northumberland County Council's Accounting Group Boundary. The detailed terms of reference for this function were contained within Part 3 of the Council's Constitution.

RESOLVED that the membership and terms of reference of the Audit Committee for the ensuing year be noted.

2. APOLOGIES FOR ABSENCE

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An apology for absence was received from Councillor D. Towns.

3. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on 23 March 2022, as circulated, be confirmed as a true record and signed by the Chair.

4. 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 the report has been filed with the signed minutes).

Councillor Oliver asked if the KPMG report could be published. He reported that the Portfolio Holder for Corporate Services was of the opinion that it should be made available. It was noted that the report had previously been shared with members of the Audit Committee. Councillor Jackson supported this request.

In response the S151 Officer advised that the intention was for the KPMG report to be considered at Audit Committee. The Council's Information Governance Team were looking into whether the full report or a redacted copy of the report would be made available depending on whether it was deemed there was any commercially sensitive data detailed. Once this had been determined then agreement would also need to be sought from Advance Northumberland Board to the publication. Councillor Dale supported this approach.

The Chair agreed that once the appropriate discussions had taken place the KPMG report would be brought to the Audit Committee and hoped that this could happen as soon as possible.

In response to the query regarding Corporation Tax detailed within the action log, the S151 confirmed that the error identified in the NCC Group Account regarding the Farrans claim would probably result in a corporation tax implication however as the account for 2020/21 had not been finalised then the exact amount could not be calculated yet.

RESOLVED that the monitoring report/action log be noted.

5. DISCLOSURE OF MEMBERS' INTERESTS

Councillor T. Cessford declared an interest in any matters relating to COVID Business Grants as he had applied for various Council funding in the past.. He advised he would not take part in any debate relating to this.

Councillor L. Grimshaw declared an interest as she previously sat on the Board for Advance Northumberland and the Board of International. She would not take part in any discussion regarding these two matters.

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

21-22 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control Annual Opinion Report

The purpose of this report was to provide the annual opinion from K. McDonald, Chief Internal Auditor on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, taking into account the expectations of the Council's Leadership Team, Audit Committee and other key stakeholders. (A copy of the report has been filed with the signed minutes).

Mr McDonald highlighted the main points of the report for members.

Councillor Cessford stated that he had previously asked about client views and was disappointed not to see more background detail contained within Appendix B on the feedback forms. In response it was confirmed that there had been 15 client feedback forms received for 2021/22. A feedback form was always issued on the conclusion of every assignment, but unfortunately responses were not always received. The Team was looking at ways to improve responses from clients including the format of the form and the questions asked to hopefully receive more views following completion of work in the future.

Regarding the number of Internal Audit recommendations agreed with management during the 2021/22 compared to those in previous years. The Chair requested an explanation as to why there seemed to be less audit work being carried out. During 2021/22 110 recommendations had been made compared to 245 in 2016/17. In response it was confirmed that there had been larger corporate and strategic pieces of work carried out in recent years which may be the reason for the lower numbers detailed within the report. The COVID pandemic also could have impacted. However, Mr McDonald suggested he look into this and bring back a fuller response for members.

It was noted that the Internal Audit's work performed during 2021/22 found that the County Council's internal systems of control and risk management were satisfactory overall. No 'critical priority' recommendations were made by Internal Audit during the year, and no 'no assurance' audit opinions had been issued or were pending.

However, the County Council had commissioned an independent external governance review which was currently underway. The outcomes from the review were to be presented at an extraordinary meeting of Full Council on 8 June 2022. It was also noted that the S151 Officer had issued a report under Section 114 and 114a of the Local Government Finance Act 1988 on Monday. The S114 and 114a report had been published and scheduled to be considered by Cabinet and then Council on 8 June 2022.

Councillor Oliver comment on the independent review and the S114 report issued and asked if discussions had started to ensure these issues could be prevented in the future.

The Chief Internal Auditor stated there he was unable to draw conclusions on the findings of the independent review or that of the S114/114a report until both reports had been received and considered. Once this had happened work could take place

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to examine if there was to be an impact on the wider framework of governance, risk management and control.

The Chair commented that there were processes that needed to be followed with regard to the S114 report but reassured members that the Audit Committee would consider it at their meeting in July.

Councillor Dale drew members' attention to the number of Limited Assurance opinions issued in relation to governance reviews undertaken during the last year which she felt were always a concern for the Council. Regarding the review of the Authority's arrangements for Delivery of Major Capital Projects Councillor Dale queried how many building projects within the last 4 -5 years were looked at as part of the review and raised a concern that the findings stated that there was no corporate project management framework to ensure a corporate and consistent approach for these schemes.

Councillor Dale also commented on the follow-up review of the Authority's Information Governance arrangements retained the limited assurance opinion. The review found that whilst there had been improvements to assist with GDPR compliance, the majority of the recommendations from the original review had not been fully implemented. Councillor Dale asked if an explanation could be provided as to why recommendations from the review had not been fully carried out.

In response to Councillor Dale's questions, it was confirmed that to meet the organisation's objectives there needed to be a consistent approach across all areas reviewed to gain full assurance. Improvements had been seen and it was hoped that many of the recommendations within the reviews reported would be fully implemented soon such as the Information Governance arrangements review. With regard to the number of major capital projects it was confirmed that a sample was taken, but clarification would be provided on this to Councillor Dale.

Councillor Dale reported that it would be of benefit to members if they could be kept informed of the progress made regarding the GDPR compliance work detailed as part of the Information Governance arrangements review.

Councillor Grimshaw commented on the Schools' Financial Value Standard and queried if the recent increases in heating and food prices would impact on schools.

It was reported that the Schools' Financial Value Standard helped provide all grant-maintained schools with assurance that they were meeting the basic standards necessary to achieve a good level of financial health and resource management. However, as part of the program of work for Internal Audit a thematic review across all schools had just been finalised. The review would look for the management of schools' local bank account scheme with the findings being shared to all schools. It was suggested that budgetary controls could be considered when the next theme of work was undertaken.

P. Topping reiterated the comments made about major capital projects particularly the risk if there was a dispute with a contractor following limited assurances identified by Internal Audit. In reply it was confirmed that the department were actively working with Internal Audit to fully implement the recommendations made.

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RESOLVED that:-

- a) the Chief Internal Auditor's 2021/22 opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, attached as Appendix 1 be considered and noted; and
- b) this opinion is considered by the organisation when finalising the Annual Governance Statement for this period; and by the Audit Committee, as a source of assurance at the time it considers the Annual Governance Statement.

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

Key Outcomes from Internal Audit Reports

The purpose of the report was to advise Audit Committee of key outcomes from Internal Audit reports issued. The outcomes statement, summarising the outcomes from Internal Audit reports issued during the period November 2021 – May 2022 was attached to the report as Appendix 1. (A copy of the report has been filed with the signed minutes).

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

The Chair welcomed this report which provided information 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.

Councillor Oliver commented on the Revenues and Benefits, Council Tax and Business Rates electronic software and asked if there were any plans to update the IT systems to help departments become more efficient and less reliant on paper.

The Chair commented on the limited assurance on IT network controls which was commented on in the last report and the link to a more general concern on repeated system/network security issues.

J. Willis, Interim Executive Director of Finance and S151 Officer advised all on the plans to replace some of the IT software systems. Initially officers looked at replacing the whole system but due to the complexity and length of time to migrate all data to a new system this was deemed not to be appropriate. The preferred option would be to upgrade to a new browser software which would bring additional functionality as well as addressing some of the operational faults within the current system.

It was reported that the Council was also looking into whether an investment could be made to upgrade all IT systems across departments to integrate and streamline services. This could be achieved by a new customer relation management system. However, the Council only had a limited IT resource with recruitment of skilled IT specialists posing a significant challenge.

Councillor Oliver asked about the updating of information from the valuation office and whether the increase in demand following the COVID 19 pandemic had affected this being completed. It was confirmed this was the case as the business rates team had been heavily deployed in supporting the payment of the initial grants at the beginning of the pandemic.

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In response to a question asked by Councillor Dale, it was confirmed that Internal Audit did and continued to help, support and provide advice to schools regarding their budgets and financial procedures.

RESOLVED 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 and other work undertaken by Internal Audit in this period, summarised in Appendix 1 to the report.

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

Annual Review of Audit Committee Effectiveness

K. McDonald advised all that the Chartered Institute of Public Finance and Accountancy (CIPFA) intended to issue new guidance regarding recommended good practice. It was envisaged that the review of Audit Committee effectiveness be deferred until the new guidance was received.

RESOLVED that the position be noted.

9. REPORT OF THE EXTERNAL AUDITOR

External Audit Progress Report

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

The report provided Audit Committee with:

- an update on progress in delivering the 2020/21 audit and assurance work; and
- a summary of recent relevant reports and publications for information.

C. Waddell from Mazars drew members' attention to the key points of the report, including:

The final engagement for 2020/21 was completed in April 2022, in respect of the housing benefits subsidy return to DWP. Some additional testing was required in respect of errors identified.

Regarding the 2020/21 audit, the work on the financial statements was substantially complete. It was envisaged that the 2020/21 Audit Completion Report be brought to the Audit Committee upon completion of outstanding matters. The matters outstanding were detailed within the report and included:

- group accounts – consideration of assurance from the component auditor, once available, upon completion of the Advance external audit;
- consideration of the outcome from the independent corporate governance review.

There had been significant matters discussed with management in relation to the audit of the financial statements included Group financial statements, Farrans, property, plant and equipment and Pensions. Two identified as areas of

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consideration of lawfulness were the disclosure of senior officers' remuneration and exit packages.

It was reported that following the issuing of the Section 114/114a report additional work would be needed to take place regarding the following:

- Disclosure of senior officers' remuneration. For the 19/20 accounts External Audit had issued their opinion on the accounts but not the Value for Money arrangements. The Value for Money conclusion would now need to consider the Section 114/114a report. There could also be the need to include wording within this and the 2019/20 accounts may need to reflect the issuing of the report. An internal process was taking place to ensure the correct procedure was followed in terms of disclosures within the accounts.
- Regarding the wider Value for Money arrangements, it was confirmed the External Auditor was awaiting the outcome following the 8 June Council meeting where it was understood the Solace Independent Review's findings of the Council's Corporate Governance arrangements would be presented. Anything arising from the review would need to be discussed with appropriate officers and potentially the independent review team. However, it was too early to conclusively say what, if any, action would be needed before the outcome of the review.
- Exit packages. Discussions with the Section 151 Officer were taking place about some of the issues that may or may not exist in relation to this business following a review of exit packages over the last two years.

It was proposed to bring the audit completion report to the July meeting along with the plan for 2021/22.

In response to a question posed by Councillor Dale, it was confirmed that any maintained school which converted to a Trust would be shown as a disposal within the Council accounts and would not have an impact on Council Tax.

RESOLVED that the progress report be noted.

10. DATE OF NEXT MEETING

RESOLVED that the next meeting is scheduled for Wednesday, 27 July 2022 at 10.15 am.

11. 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:-

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Agenda Item

13, 14, 15 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.

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

Strategic Audit Plan 2021 22 - Final Monitoring Statement

The purpose of this report was to provide Audit Committee with a final monitoring statement in respect of the Strategic Audit Plan for 2021/22. (A copy of the report has been attached to the signed minutes and coloured pink).

Mr McDonald, Head of Internal Audit and Risk Management drew members' attention to the key points of the report.

RESOLVED that the Audit Committee notes and considers the information set out in the Strategic Audit Plan Final Monitoring Statement, attached as Appendix 1 of the report.

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

Risk Management Update

The purpose of this report was to provide Audit Committee with an update on progress with the development, implementation and embedding of risk management within the County Council; and to inform Audit Committee of the latest position of the corporate risks following review by Executive Team and Cabinet portfolio holders in April 2022. (A copy of the report has been attached to the signed minutes and coloured pink).

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

RESOLVED that the Audit Committee note the contents of the report and agrees that an update will be provided to the next meeting of Audit Committee.

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

Group Audit Committee - Advance Northumberland Internal Audit Update

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The purpose of this report was to update Group Audit Committee on the Chief Internal Auditor's Annual Opinion for 2021/22 on the Framework of Governance, Risk and Control for Advance Northumberland Group of Companies together with the agreed Strategic Audit Plan 2022/23. (A copy of the report has been attached to the signed minutes and coloured pink).

Mr McDonald, Head of Internal Audit and Risk Management drew members' attention to the key points of the report.

RESOLVED that Group Audit Committee:

- a. notes the Chief Internal Auditor's Annual Opinion on the framework of governance, risk management and control for Advance Northumberland Group of Companies, provided at Appendix 1 to the report;
- b. notes the Strategic Audit Plan for 2022/23, provided at Appendix 2 to the report; and,
- c. considers these reports as part of its ongoing evaluation of the framework of governance, risk management and control within Northumberland County Council's accounting group boundary.

CHAIR.....

DATE.....

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