



# Northumberland

## County Council

AUDIT COMMITTEE

27 July 2022

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### **KPMG Forensic Independent Review of Advance Northumberland Group Report of Jan Willis, Interim Executive Director of Finance (S151 Officer)**

#### **Purpose of report**

To inform the Committee of issues arising from the KPMG forensic independent review of the Advance Northumberland Group.

#### **Recommendations**

Audit Committee are asked to note the contents of the KPMG report and consider this as part of its ongoing evaluation of the framework of governance, risk management and control within Northumberland County Council's accounting group boundary.

#### **Link to Corporate Plan**

This report is relevant to ensuring the best value priority in the Council's Corporate Plan 2021-2024.

#### **Key issues**

In discharging its best value duty, the Council must demonstrate that effective and appropriate governance arrangements are in place for its wholly owned companies to support probity and effective stewardship of public funds.

The KPMG report provides evidence to support the Committee's assessment of the adequacy of standards of governance at Advance Northumberland Ltd and its subsidiary companies.

#### **Background**

On 29 June 2017, Internal Audit was asked by the Interim Chief Executive of Northumberland County Council and the Interim Chief Executive of Arch Group of Companies to undertake an audit of five distinct aspects of Arch's operations, namely Consultants and Contractors; Employees; Property and Portfolio; Hospitality and Gifts; and Award of Major Contracts.

Internal Audit fieldwork within the Arch company began on 3 July 2017 under the supervision of the Chief Internal Auditor. During the course of this work several specific

concerns were passed to Internal Audit regarding Arch's activities and were included within the scope of the audit.

The final audit report issued in October 2017 (Internal Audit Final Report – Review of Arch Arrangements) expressed serious concerns about the governance of the company and identified a number of areas in which procedures needed to be strengthened to ensure effective and appropriate stewardship of public funds and protect the interests of both the company and NCC as shareholder.

During 2018, the Arch group of companies was dissolved and Advance Northumberland Ltd established as a wholly owned successor company. At the time of Advance being established, the operating activities, the systems and many of the staff were transferred from Arch into the new company, Advance.

In November 2020 KPMG were commissioned to undertake an independent review of governance arrangements at the Advance Northumberland group of companies and whether these were appropriate for an organisation of this size and nature. The agreed terms of reference for the review included 11 specific lines of enquiry, including one property transaction dating to 2016, prior to the establishment of Advance Northumberland Ltd, which had previously been referred to Northumbria Police for investigation. It should be noted that the engagement was carried out remotely during the period November 2020 to February 2021 due to covid restrictions which limited access to personnel and documentation.

The final KPMG report issued in March 2021 has previously been circulated on a confidential basis to members of the Audit Committee.

KPMG's overall conclusion is that whilst they did not find evidence of detailed, documented processes and procedures for each of the areas examined, the individuals involved in the various activities did appear to follow a reasonably well-defined process. Where required, these informal processes included the preparation of business plans or monthly reports and other records, such as key performance indicators, which were discussed in formalised meetings attended by a range of individuals from within Advance Northumberland and, in some cases, representatives of Northumberland County Council.

KPMG also observed that there had been an improvement in the level of detail recorded within the Board minutes documented by the Advance management team, when compared with that captured whilst the business was operating under Arch's management, including more detailed performance updates and specific performance indicators in accordance with the Operating Agreement. However, in some areas, they had found it difficult to evaluate whether the appropriate level of governance had been applied due to the lack of detail recorded in relation to discussion of specific issues.

The report does not identify any significant areas of concern with regard to the completeness of property asset records. However, property titles in Land Registry records did not always map to descriptions in the Advance accounts and KPMG had to rely on explanations provided by the CFO. This is an area where KPMG recommend that further improvement is made to enhance traceability and ensure there is a clear audit trail back to Land Registry records. The lack of a disclosure note in relation to one related party property transaction in the Arch accounts for the year ending March 2017 is also noted,

however this transaction occurred prior to the establishment of Advance Northumberland Ltd.

In respect of HR practices, action taken by Advance Northumberland to formalise and strengthen processes and procedures is acknowledged, whilst noting that with regard to the employment of consultants, internal promotions and pay rises, adequate documentation to support decisions or actions taken was not available in all cases. Recommendations are made to strengthen processes for checking tax and NIC treatment, travel and subsistence claims and benefits in kind paid via the purchase ledger to ensure that they are correct and properly reported.

The report does not identify any inaccuracies in the recording of legal costs relating to conveyancing and concludes that arrangements for payment of stamp duty land tax have been correctly applied.

Regarding the purchase and disposal of property KPMG conclude that there is a process which is consistently followed but this is largely informal. They recommend that action is taken to ensure that procedures and key decisions are properly documented and evidence of approvals at each stage retained in all cases to enable good governance to be demonstrated.

The Committee are invited to consider and comment on the contents of the report and to note that governance weaknesses identified by KPMG will be referred to the Advance Audit Committee for follow up as part of their annual work programme and the outcomes reported back to this Committee in due course.

### **Implications**

<b>Policy</b>	Corporate governance arrangements are key to all that the Council and its wholly owned companies does. Delivering the Council's policy priorities must take place within a framework of effective governance arrangements.
<b>Finance and value for money</b>	In discharging its best value duty, the Council must demonstrate that effective and appropriate governance arrangements are in place for its wholly owned companies to support probity and effective stewardship of public funds.
<b>Legal</b>	None
<b>Procurement</b>	None
<b>Human Resources</b>	None
<b>Property</b>	None
<b>Equalities</b>	Not applicable

(Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	
<b>Risk Assessment</b>	None
<b>Crime &amp; Disorder</b>	None
<b>Customer Consideration</b>	None
<b>Carbon reduction</b>	None
<b>Health and Wellbeing</b>	None
<b>Wards</b>	All

**Background papers:**

**Report sign off.**

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

	Full Name of Officer
Monitoring Officer/Legal	Suki Binjal
Executive Director of Finance & S151 Officer	Jan Willis
Relevant Executive Director	Jan Willis
Chief Executive	Rick O'Farrell
Portfolio Holder(s)	N/A

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