

## **NORTHUMBERLAND COUNTY COUNCIL**

### **AUDIT COMMITTEE**

At a meeting of the Audit Committee held in the Council Chamber, County Hall, Morpeth on Wednesday, 27 July 2022 at 10.15 a.m.

#### **PRESENT**

S. Watson (Chair, in the Chair)

#### **COUNCILLORS**

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

Oliver, N.  
Wallace, A.

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

Topping, P.

#### **OFFICERS IN ATTENDANCE**

Curry, A.  
Hartwell, A.

Henderson, C.  
Hunter, P.  
McDonald, K.

O'Farrell, R.

Todd, A.  
Willis, J.

Senior Manager - Commissioning  
Senior Manager - Performance and  
Systems Support  
Group Assurance Manager  
Interim Senior Service Director  
Head of Internal Audit and Risk  
Management  
Acting Deputy Chief Executive and  
Interim Executive Director of  
Regeneration  
Democratic Services Officer  
Interim Executive Director of  
Finance and S151 Officer

#### **ALSO IN ATTENDANCE**

Waddell, C.

Mazars (External Audit)

The Chair agreed to reorder the agenda to accommodate several other meeting commitments from officers.

### **15. MEMBERSHIP**

**RESOLVED** that J. Reid be appointed to the Audit Committee for the ensuing Council year.

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## **16. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors D. Towns, L. Grimshaw and J. Reid.

## **17. MINUTES**

**RESOLVED** that the minutes of the meeting of the Audit Committee held on 25 May 2022, as circulated, be confirmed as a true record and signed by the Chair subject to the attendance record being amended to reflect P. Topping as a Co-opted Member.

## **18. DISCLOSURE OF MEMBERS' INTERESTS**

Councillor T. Cessford declared an interest in item 9 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.

## **19. 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 has been filed with the signed minutes).

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

## **20. REPORT OF THE INTERIM DIRECTOR OF FINANCE AND S151 OFFICER**

### **KPMG Forensic Independent Review of Advance Northumberland Group**

The Committee was informed of issues arising from the KPMG forensic independent review of the Advance Northumberland Group. (A copy of the report has been filed with the signed minutes).

J. Willis, Interim Director of Finance and S151 Officer detailed the main points of the report for members which focused on the ongoing evaluation of the framework of governance, risk management and internal controls.

She advised that the final KPMG report issued in March 2021 had previously been circulated on a confidential basis to members of the Audit Committee. It was envisaged that a redacted version of the report was to be made available to the public and the plan was for this to be published soon.

It was reported that significant progress had been made since the KPMG report in March 2021 and there was assurance that government arrangements were broadly fit for purpose. The governance weaknesses identified by KPMG were to be referred to the Advance Northumberland Audit Committee for follow up as part of their annual work programme and the outcomes reported back to this Committee in due course.

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Councillor Dale commented on the informal procedures highlighted including decision making and lack of records kept, and the need to improve standards of governance. In response it was confirmed that actions had been taken by Advance Northumberland to formalise and strengthen processes and procedures. There had also been improvement in the level of detail recorded within Board minutes. A huge amount of work had been achieved but there was still room to improve further.

The Chair welcomed the progress made and the engagement work being carried out between Advance Northumberland and the Council's Internal Audit Team.

**RESOLVED** that Audit Committee 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.

## **21. REPORT OF THE INTERIM DIRECTOR OF FINANCE AND S151 OFFICER**

### **S114 Report by the S151 Officer**

The report updated the Committee on actions being taken in response to the S114 Report issued by the S151 Officer on 23 May 2022 and seek the Committee's approval of the draft terms of reference for an independent investigation into the circumstances that have given rise to unlawful trading activities. (A copy of the report has been filed with the signed minutes).

J. Willis, Interim Director of Finance and S151 Officer detailed the main points of the report for members.

The Chair welcomed the approach for an independent investigation. At the present time there was a lack of clarity as to how the arrangement had been set up, how decisions were taken and any evidence of an audit trail. The Chair felt that a further step should be included within the terms of reference to question where the risk management and due diligence test was before entering into this commercial trading exercise.

Councillor Jackson welcomed the fact that details of the Council's International business were now unfolding. However, he felt that the investigation should look from 2016 not 2017 as he believed this was when the project was first established. In response it was confirmed that although the investigation would look at the circumstances that gave rise to unlawful commercial trading between 2017 and 2021, to fully understand the arrangements that were put in place the intention was that they may need to look prior to 2017.

Councillor Oliver questioned how the management processes and controls were overridden and the need to ensure that this did not happen again. In response it was hoped that point 5 of the terms of reference of the investigation would address this and bring about recommendations going forward.

Councillor Dale reiterated her point about informal decision making as commented on in the last agenda item. She hoped lessons would be learnt from this investigation which would ensure openness, transparency, stop informal decisions being taken and regular and accurately reporting of issues to all members, not just Cabinet.

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The Chair welcomed the approach to be taken. It was suggested that the draft terms of reference be amended to reflect the comments made by Audit Committee. The amended wording of the terms of reference would be circulated to members following the meeting for approval.

**RESOLVED** that:

- (a) The report be received and provide comment on the actions, as set out within the body of this report, that are being taken to address the issues raised in the S114 report.
- (b) Endorse the draft terms of reference for the independent investigation into the circumstances that have given rise to unlawful trading activities and the unlawful payment of an international allowance to the Chief Executive as set out in Appendix 1, subject to slight amendments to the wording being circulated to Members for approval.

## **22. REPORT OF THE EXTERNAL AUDITOR**

### **Update on 2020-21 Audit of the 2020-21 Statement of Accounts**

C. Waddell from Mazars gave a verbal update to the Audit Committee.

Regarding the 2019/20, the opinion on the financial statement had been issued some time ago but not the Value for Money conclusion. This was partly due to some of the issues that had been discussed today around International. The Value for Money conclusion was currently being drafted based on a combination of the Section 114, Section 114 (a) and the Solace report. It was envisaged that there would be an adverse Value for Money conclusion for 2019/20. Work was currently taking place to ensure issues identified from these reports were placed in the correct financial year.

For 2020/21 the accounts were progressing well, and a lot of the testing carried out was now complete. The paperwork on Advance Northumberland had now been signed off. There was some additional top testing to do following some differences identified between the Group accounts and Advance accounts. Work was taking place around some of the disclosures in the 20/21 accounts notably about senior officers' remuneration and issues around some of the exit packages. It was hoped that once this had taken place testing could be concluded. However, the audit would still not be concluded as depending on the issues arising from the 2019/20 these could flow through to 21/22 accounts.

The technical accounting issues arising principally because of information availability relating to infrastructure assets was still a national issue. Until this was resolved, most audit firms were pausing issuing opinions which were outstanding for 2020/21.

The Audit Committee were reminded of the recent Code change where auditors had moved away from a qualified/unqualified value from any conclusion to either a significant weakness existed, or it did not. If deemed a weakness did exist, then there would be the need to issue a recommendation and consider the issues raised from the 2019/20 accounts as part of that consideration.

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The proposal was to bring the 2021/22 audit plan to the September meeting of the Audit Committee with audit testing carried out by December, although this would result in the November deadline being missed.

The Chair commented on the reporting of infrastructure assets and the need for the issue to be resolved quickly. He felt reassured that it was not just a problem for Northumberland.

Councillor Dale questioned if the geographical size of the county would place Northumberland in a disadvantage compared to other local authorities when assessing infrastructure assets. It was confirmed that there was a set procedure in place which would determine the size of the sample taken. The issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure was a complex and serious issue, with a resolution yet to be found.

Members were also advised of correspondence received over the last week from Northumberland County Council and a member of the public. No formal question of objection had been made but External Audit would track to see if the issue was resolved.

**RESOLVED** that the information be noted.

*At this point J. Willis, C. Waddell and R. O'Farrell left the meeting.*

## **23. REPORT OF THE JOINT INTERIM DIRECTORS OF CHILDREN'S SERVICES AND THE DIRECTOR OF ADULT SOCIAL CARE**

### **Review of External Inspection Reports – Adult and Children's Services**

The report presented by A. Hartwell, Senior Manager - Performance and Systems Support and A. Curry, Senior Manager - Commissioning informed members of the activity pertaining to Adults Social Care and Children's Services regarding external inspections and associated actions. The report covered the period from 1st January 2022 to 30th June 2022. (A copy of the report has been filed with the signed minutes).

It was reported 84.9% of all Northumberland-based Adults Social Care providers were rated as Good or Outstanding at the end of June 2022.

Inspections of children's residential homes had continued and there have been two inspections during the period. Both had been judged as Good, with one home moving from previously being judged as Requires Improvement. This had been a very positive improvement.

There was currently a focus Ofsted inspection taking place today looking at permanency planning and achieving permanency. The outcome of the visit would be reported in due course.

Inspections of schools recommenced in the summer term of 2021 and the findings had been positive overall, leading to an increase in the proportion judged Good or Outstanding. Inspections of early years providers continued, and the vast majority were judged to be Good or Outstanding.

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The positive feedback following the pilot of the new special educational needs and disabilities (SEND) inspection framework in March was reported.

The Chair welcomed the positive report and the level of Good or Outstanding inspections. Regarding a question on why ratings had deteriorated in adult social care inspection rates it was reported there was often a number of reasons for the reduction in quality ratings. The COVID pandemic and the current difficulties in recruiting and retaining staff were having an impact on services. Other reasons for the deterioration in rating included administration of medication, care planning and infection control.

Councillor Dale asked if officers worked with providers as part of their monitoring approach. In reply, it was confirmed that Council officers continued to work with providers and other partners to support all settings and share intelligence.

**RESOLVED** that Audit Committee acknowledge the findings and assess the effectiveness of the scrutiny arrangements.

#### **24. ANNUAL REPORT OF THE FIREFIGHTERS' PENSION SCHEME LOCAL PENSION BOARD 2021-2022**

This was the annual report of the Northumberland County Council Firefighters' Pension Scheme (FPS) Local Pension Board ("the Board"), which was constituted in 2015 as part of changes introduced by the Public Service Pensions Act 2013. It was the intent of the Board to use the annual report to inform the Scheme Manager (i.e. NCC's S151 Officer in consultation with the Chief Fire Officer) of NCC's data on FPS membership, statement of accounts, and issues progressed through the Internal Disputes Resolution Procedure (IDRP) and Fire Disputes Panel. (A copy of the report has been filed with the signed minutes).

**RESOLVED** that the report be deferred until the next meeting of the Audit Committee.

#### **25. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT**

##### **Internal Audit Charter**

K. McDonald, Head of Internal Audit and Risk Management informed Audit Committee of an updated Internal Audit Charter in accordance with the requirements of the Public Sector Internal Audit Standards (April 2017) and the related Local Government Application Note. (A copy of the report has been filed with the signed minutes).

Members were advised that the Internal Audit Charter was most recently approved by Audit Committee in July 2020. The Internal Audit Charter had been reviewed to ensure that the exact requirements of the PSIAS continue to be met and the proposed Internal Audit Charter had been attached to the report as Appendix A.

Councillor Cessford questioned if the Charter had been effective in light of the recent external review of governance led by Solace and the Section 114 report. He picked out points 2.3, 5.1, 5.9 and 9.2 of the Charter and questioned why these had not

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worked the way that was planned. K. McDonald felt that the Charter had worked well from an Internal Audit perspective. For example, there had been no restricted access and there were no matters of concern from him. There was three lines of defence and Internal Audit was only one of them. An annual Internal Audit Plan was produced with agreement by Audit Committee which sought to give assurance to management and members that certain processes operate in an efficient and effective manner and ensure the integrity of transactions. However, it was noted that Internal Audit could not possibly look at all areas and therefore had to target resources to specific places.

Councillor Cessford sought assurance that if an issue was raised it would be investigated and he felt in the past action had not been immediately.

The Chair commented that there were mechanisms in place to pass any issues to the Head of Internal Audit and Risk Management and since he had been Chair the Committee had brought concerns to him which had subsequently been included in the Internal Audit Plan.

It was confirmed that anyone could raise concerns or areas of interest to Internal Audit. Internal Audit were duty bound to receive any request and consider them within the wider assessment of risk across the organisation and then form a judgement as to whether there was a sufficient risk there to divert audit resource. They would need to be alert to potential bias or malice. Also, it could be that the issue was in the process of being looked into or investigated and Internal Audit would not want to duplicate work. But it was stressed that Internal Audit were independent, had unrestricted access and remained impartial.

Councillor Dale stated that she did support the Charter and would use it to hold Internal Audit to account. She hoped that lessons would be learnt from recent governance problems in order to allow the business of the Council to begin to move forward.

Councillor Oliver commented on previous years where he believed there was not the same level of independence and an inherited culture where Internal Audit was included in Executive team meetings. He questioned what plans were in place to ensure Internal Audit remained independent and not part of the Executive Team. The Head of Internal Audit and Risk Management stated that he could not comment on anything that had happened previously. But reassured Members that he would always act independently, honestly and any issues could be raised with him. He confirmed that he did attend meetings and had unrestricted access but was not part of the Executive Team. He was able to report unbiased opinions and would continue to challenge in order to evaluate and improve the effectiveness of risk management, control and governance processes. The importance of demonstrating Internal Audit's independence through the Internal Audit Charter was stressed

Councillor Dale commented that she believed that Internal Audit and External Audit were working but if anyone felt otherwise there was other avenues that could be taken.

**RESOLVED** that Audit Committee agree to the updated Internal Audit Charter which is attached as Appendix A to this report, and which is a requirement of the Public Sector Internal Audit Standards.

## 26. DATE OF NEXT MEETING

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**RESOLVED** that the next meeting is scheduled for Wednesday, 28 September 2022 at 10.15 am.

## **27. 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

15 & 16                      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.

## **28. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT**

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

The purpose of this report is to update Group Audit Committee on progress with the Internal Audit plan of work for Advance Northumberland Group of Companies. A report to be presented to Advance Northumberland Audit Committee on 26 July 2022, summarising Internal Audit coverage, is 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.

## **29. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT**

### **Risk Management Update**

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The purpose of this report is 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. (A copy of which 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 Audit Committee note the contents of the report.

**CHAIR**.....

**DATE**.....

Ch.'s Initials.....