

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

At a meeting of the Audit Committee held in the Council Chamber, County Hall, Morpeth on Wednesday, 29 March 2023 at 10.15 a.m.

PRESENT

S. Watson
(Chair, in the Chair and Co-opted Member)

COUNCILLORS

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

Oliver, N.
Reid, J.
Wallace, A.

CO-OPTED MEMBERS

Topping, P.

OFFICERS IN ATTENDANCE

Candlish, T.
Curry, A.
Denyer, L.
Hartwell, A.

Henderson, C.
Hodgson, A.
Kingham, A.

McDonald, K.

Todd, A.
Willis, J.

Group Assurance Manager
Senior Manager - Commissioning
Senior Manager – Legal Services
Senior Manager - Performance and
Systems Support
Group Assurance Manager
Corporate Fraud Manager
Executive Director - Children,
Young People and Education
Head of Internal Audit and Risk
Management
Democratic Services Officer
Interim Executive Director of
Finance and S151 Officer

ALSO IN ATTENDANCE

Waddell, C.
Earl, R.

Mazars (External Audit)
Advance Northumberland Chief
Operating Officer (observing)

1 member of the press was present.

72. APOLOGIES FOR ABSENCE

Ch.'s Initials.....

Apologies for absence were received from Councillors T. Cessford and D. Towns.

73. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on 25 January 2023, as circulated, be confirmed as a true record and signed by the Chair.

74. DISCLOSURE OF MEMBERS' INTERESTS

Councillor L. Grimshaw declared an interest in agenda item 8 (Statement of Accounts – Group Boundary Review) as she was still listed as a director of the dissolved Northumberland Enterprise Holdings Limited company.

Councillor Reid declared an interest in agenda item 8 (Statement of Accounts – Group Boundary Review) and agenda item 14 (Group Audit Committee) as Chair of Advance Northumberland.

75. 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).

Members were informed that the International Review report was going through the relevant legal processes. Extracts of the report had now been shared with those individuals named for comment before being finalised. It was noted that this was a complex process, but it was hoped that by the middle of April officers would be in a better position to confirm when the report would be available.

Regarding action 5, Councillor Jackson felt that more was needed to be added to the action to ensure members did not lose sight of all the issues identified within the initial report including employment and dismissal practices around senior directors as well as exit packages. He commented that as an Audit Committee there was a responsibility to ensure that the Council was operating legally, and good governance was being observed. He briefly spoke about a past exit package which he thought should also be examined. The Chair responded by confirming there were two pieces of work currently taking place; the further work taking place on individual cases and the substantial review of recruitment and retention processes governing changes to terms and conditions and how employees leave the organisation. It was advised that the review of recruitment and retention was programmed to be presented to Audit Committee once complete and could be expanded to include more detailed information than a normal summary report, if required.

J. Willis stressed the need to differentiate the work of Internal Audit on providing assurances around the adequacies of controls and the S151 and Monitoring Officers work to consider the lawfulness of individual transactions. It was noted that any further transactions that had come to light would be added to their file. However, she reported that at some point there needed to be a resolution to this issue. The Council

Ch.'s Initials.....

needed to move forward and focus more on the strength of the controls and arrangements in place to safeguard the organisation here and now.

Councillor Oliver agreed that there needed to be a line drawn but stated the best way to do that was to reach a conclusion about what had happened to ensure controls going forward were robust. He asked about timescales as these issues had been identified as significant matters within the 2020/21 audit report on the agenda. He questioned whether External Audit had all the information required from the Council to reach a decision on these significant matters.

C. Waddell, External Auditor advised that first and foremost External Audit needed to ensure that the numbers in the accounts were those that should be there and that there had been no disclosures made that anything was missing. It was noted that there had been some amendments that External Audit were working through with officers. The second aspect was to ensure that the numbers within the accounts and the amount being paid out were correct. It was confirmed that generally External Audit were comfortable with the 2020/21 and 2021/22 accounts. Regarding the International allowance, External Audit concluded following internal advice, that as long as the Council amended the disclosure within the accounts then there would be no issue in terms of qualification. A form of words for the disclosure had been agreed. A similar process would probably be needed once a decision was made on the lawfulness or otherwise of exit packages.

J. Willis reported that work was taking place to ensure the King's Counsel (KC) had all the information needed before reaching an opinion on the exit packages issue. As this would be a separate opinion on each individual transaction it was difficult to give a definitive timeframe. She advised Members that there were two separate issues for her to consider. One was to determine if any of the transactions made to individuals were unlawful and secondly if they were unlawful would that then trigger a S114 or 114a report. Ultimately this was a matter of judgement for the S151 Officer taking into account a whole range of things including the KC advice. The Monitoring Officer would also need to take into consideration the advice of KC in relation to her Section 5 reporting. Members were assured that this was being worked though as quickly as possible with the intention that it would be concluded before the new Monitoring Officer was in post in early June.

The Chair thanked all for their updates and asked that Audit Committee be kept informed of progress made on these issues within Action No. 5. He commented that an additional meeting of the Audit Committee could be convened if necessary.

Regarding Action No. 2 Councillor Oliver suggested that the Chair of Audit Committee be invited to the next meeting of the Scrutiny Chairs Group. The Chair stated that he would be happy to liaise with Scrutiny on this issue.

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

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

Audit Committee Work Programme 2023/24

Ch.'s Initials.....

K. McDonald introduced the report which proposed a programme of core business for the Audit Committee for 2023/24, in accordance with its Terms of Reference as set out in the Council's Constitution (a copy of which had been filed with the signed minutes).

Members were advised that work was underway with the Chair of the Audit Committee to undertake a review of Audit Committee arrangements, in consultation with member and officer stakeholders, taking into account the most recent 'Position Statement on Audit Committees in Local Authorities and Police' and accompanying good practice guidance for local authorities issued by CIPFA in October 2022. The outcome of the review, and any proposals to update the Committee's work programme in response to the review's findings, would be reported to a future meeting of Audit Committee.

Councillor Oliver asked if the terms of reference of Audit Committee could change following the current review being carried out on the Council's Constitution. It was confirmed that depending on the review of the Constitution and/or changes to the CIPFA guidance amendments may be needed.

RESOLVED that Audit Committee agrees:

- (a) the proposed 'core business' work programme set out within the report, for 2023/24;
- (b) that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues, and to respond to emerging trends during the year;
- (c) that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference, in the usual way; and
- (d) that work is underway to undertake a review of Audit Committee arrangements, in consultation with stakeholders, taking into account the most recent good practice guidance for local authorities issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in October 2022, with the outcome reported to a future meeting of Audit Committee and this work programme updated as appropriate.

77. JOINT REPORT OF THE CABINET MEMBERS FOR CHILDREN AND YOUNG PEOPLE AND ADULTS WELLBEING

Review of External Inspection Reports – Adult Social Care and Children's Services

Members were informed 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 July 2022 to 31st December 2022. (A copy of the report has been filed with the signed minutes).

A. Hartwell, Senior Manager, Performance and Systems Support and A. Curry, Senior Manager, Commissioning presented the overall positive report. They informed members that 84.8% of all Northumberland-based Adults Social Care providers had been rated as Good or Outstanding at the end of December 2022. Inspections of children's residential homes had continued and there had been three

Ch.'s Initials.....

inspections during the period. All five units were judged to be Good or better. Inspections of schools recommended in the summer term of 2021 and the findings had been positive overall, leading to an increase in the proportion judged Good or Outstanding in both the primary and secondary sectors. Inspections of early years providers continued, and the vast majority are judged to be Good or Outstanding, similar to the national average.

Councillor Dale highlighted the Adult Social Care CQC inspection statuses and the worry that some of the ratings had deteriorated from July to December 2022. It was confirmed where this had happened the local authority would work with the management of the settings to implement the actions required. Where a service had been rated inadequate, the volume and complexity of issues would require more intensive and prolonged officer input. This could also require the Council to restrict new placements into a service for safety reasons to ensure the service could direct resources to rectifying problems.

Councillor Grimshaw welcomed the report and the positive inspection results. She asked about contingency plans if care homes lost power, staff retention problems and who paid for training costs. It was confirmed that in Storm Arwen there had been an issue with some care homes not having access to generators when powerlines had been damaged. Many lessons had been learnt since the storm and care homes and similar providers were now encouraged to purchase generators, mobile heaters and have an approved emergency contingency plan in place. Retention and recruitment of staff remained the biggest issue being faced by the sector. The Council continued to support with local and national initiatives to resolve this although it remained a problem throughout the country. Regarding training this was sometimes paid for by the home or by the staff depending on the individual setting.

Councillor Grimshaw reported that some care homes had been offered generators, but they could not accept them as they were not PAT tested. The PAT testing was something that had not been brought to officers' attention before but would be investigated. It was stated that the Council was always looking at ways to improve services and the care provided in establishments.

P. Topping asked how the information and findings following a CQC inspection was fed into a risk assessment or register held by the Council. In response it was advised that individual risks would not be incorporated but issues such as staffing would be included into the corporate risk register. Regarding lessons learnt from Storm Arwen these were reported to the relevant overview and scrutiny committee and had been used to inform services and contracts going forward.

RESOLVED that Audit Committee assess the effectiveness of the actions the Council takes in response to external inspections, and confirm an assurance that the Council is taking appropriate action in respect of any issues.

78. REPORT OF THE CABINET MEMBER FOR CORPORATE SERVICES

Corporate Fraud Interim Report

Ch.'s Initials.....

A. Hodgson, Corporate Fraud Manager presented a report which updated Audit Committee on Corporate Fraud activity undertaken during the period 1 April – 30 September 2022. (A copy of the report has been filed with the signed minutes).

Members were advised on the Single Person Discount (SPD) Project which was a proactive 2-year project launched with the aim of risk assessing and reviewing all households within Northumberland where SPD was applied to Council Tax liability. Following review, home visits were undertaken to households identified as potentially high risk. Early indications were that the project would meet predicted financial targets, and updates would be provided in future reports to Audit Committee.

Councillor Dale commented on the Right to Buy Scheme and the issues associated with this including the reduction in housing stock.

Members discussed the preventable activity. It was noted the Corporate Fraud Team had worked with several external and internal departments to help assess their fraud risk and implement measures to deter fraudsters and prevent fraud and error entering the system. However, it was widely acknowledged that prevention was a far more cost-effective measure to reduce fraud and error than detection, however it was far more difficult to measure.

Councillor Wallace welcomed the preventable measures particularly that of the work of Planning and the Section 106 Officers regarding the more robust application process for discounted marked value sales in the private sector. He commented that he would like to see the Corporate Fraud Team get involved in viability.

K. McDonald, Head of Internal Audit and Risk Management reported that discussions had been taking place around developing a risk assessment for the whole organisation to look at where some targeted work on preventative measures would be best served. Once this work was complete then a report would be drafted for Audit Committee's attention.

Councillor Oliver commented on the discounted market value work and felt that this scheme did not benefit many as often the homes were in an expensive area. He reported that he would rather see a Section 106 planning condition be created that required houses to be built to rent rather than to sell at a discount. He felt this would also help with the diminishing housing stock partially due to the right to buy scheme and the potential abuse of the discounted marked values.

Councillor Grimshaw noted that Council Tax and tenancy fraud were by far the largest areas of investigation for the Corporate Fraud Team. Council Tax alone took up 55% of the referrals. It was asked if Members could be provided with training on the overall work of the Team.

The Chair reported that he had been in discussions about increasing training opportunities for Audit Committee. He reported that he would like Members to widen their knowledge and understanding of issues discussed at meetings which could only further assist Audit Committee to fulfil its role and responsibilities. He agreed a session with the Corporate Fraud Team would be beneficial to all. K. McDonald concurred with the Chair and suggested that the preventative plan work as well as awareness training could be added to this workstream. He reported that discussions

Ch.'s Initials.....

about how to further raise awareness of counter fraud with all employees, elected members and Audit Committee members was being looked at.

P. Topping stated that he understood the reasons why the Corporate Fraud Team now sat more closely within Internal Audit but questioned if there were any disadvantages from moving away from the Revenue and Benefits Service. It was reported that this was a relatively new arrangement but so far there had been no issues and was working well. It was envisaged this change in structure would create the opportunity for a more corporate look at potential risks across the whole organisation, prioritising work on a risk basis. By carrying out this exercise it would enable officers to see if the priority remained with revenue and benefits or wider issues and would be reported to Audit Committee once complete.

RESOLVED that Audit Committee notes and considers the update on work undertaken by the Corporate Fraud Team, as part of Audit Committee's role in maintaining governance oversight of counter-fraud activity as part of the overall framework of governance, risk management and control.

79. REPORT OF THE CABINET MEMBER FOR CORPORATE SERVICES

Statement of Accounts - Group Boundary Review

The purpose of this report was to provide members of the Audit Committee with details of the boundary review which had been undertaken to determine those organisations which should have their financial statements consolidated into the Council's Statement of Accounts for the financial year ended 31 March 2023. Particular consideration was given to the position of Active Northumberland. (A copy of the report has been filed with the signed minutes).

Councillor Reid declared an interest in this item, withdrew from the meeting and did not return.

Councillor L. Grimshaw declared an interest in this item and took no part in the discussion.

J. Willis, Interim Executive Director of Finance and S151 Officer outlined the key points of the report. It was noted there had been no material change to the relationships between the Council and the companies considered in the report in 2022/23 and the recommendations in relation to consolidation were the same as in 2021/22, noting that the new jointly-owned Energy Central Campus Limited would need to be assessed for inclusion in the Council's Statement of Accounts once operational.

Councillor Wallace sought clarification about the location of the new Energy Central Campus as the name was similar to that of an established enterprise in Sleekburn. He reported that this could cause confusion with members of the public. It was confirmed that the Energy Central Campus was to be situated in Blyth near the Commissioners Quay.

Ch.'s Initials.....

In response to a question raised by Councillor Dale it was confirmed that Active Northumberland did not own their buildings and instead these were classed as Council assets.

P. Topping asked about Active Northumberland. It was advised that Active Northumberland was a registered charity and as such was subject to those relevant accounting procedures. However, the Council was responsible for the value for money arrangements.

RESOLVED that Audit Committee:

- (a) Note the contents of the report;
- (b) Note that the financial statements of Advance Northumberland Limited will continue to be consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2023;
- (c) Note that Northumberland Enterprise Holdings Limited's financial statements will be consolidated into the Council's Statement of Accounts;
- (d) Note the creation of Energy Central Campus Limited, and that the Council's share is likely to need to be included in the Council's Statement of Accounts once it becomes material, and that the findings of ongoing work in this area will be reported back to Audit Committee in May; and
- (e) Agree that Active Northumberland's financial statements should not be consolidated into the Council's Statement of Accounts for the financial year ended 31 March 2023.

The Committee agreed to a short adjournment.

80. REPORT OF THE CABINET MEMBER FOR CORPORATE SERVICES

Statement of Accounts 2020-21

The purpose of the Statement of Accounts 2020-21 report was to seek approval of the Council's Statement of Accounts for the financial year ended 31 March 2021.

Members were advised that the Statement of Accounts 2020-21 item had been withdrawn from the agenda.

RESOLVED that the information be noted.

81. REPORT OF THE EXTERNAL AUDITOR

Audit Completion Report 2020-21 and Progress Report

Members received the external auditor's reports (a copy of which has been filed with the signed minutes).

C. Waddell, External Auditor drew members' attention to the main points of each report.

Ch.'s Initials.....

Regarding the Audit Completion Report it was confirmed that most of the work was now complete for the year ended 31 March 2021. One key piece of work still to be resolved was infrastructure. National guidance on this matter had been received and work was ongoing. As the 2020/21 audit was still open officers needed to adjust the numbers through 2020/21 and 2021/22 accordingly. There was also some work to be done to review the Advance Northumberland audit file that had been halted and exit packages.

External Audit were liaising with officers around the wording within the accounts regarding value for money.

It was reported that External Audit would be issuing a significant weakness in relation to governance and would be making recommendations. It was important to get the recommendation correct to ensure the Council was moving forward while still maintaining the oversight and scrutiny in relation to last year's Section 114 notices and the Solace report. It was noted that a separate report was to be prepared on this.

There were no significant changes to the audit approach but there had been a revised assessment of materiality. It was reported that Members would continue to receive updates on any materiality changes upon completion of work and receipt of the final revised financial statement.

The Audit Completion report outlined the following significant findings: -

- Management override and controls. There were no significant issues arising from External Audits work that was required to be reported.
- Pensions. There was material variance between estimated assets used by the Actuary and the actual assets at the year-end based on the draft Pension Fund accounts.
- Valuation of property, plant and equipment including investment properties. There had been a few issues identified mainly around the valuation of property and the differing techniques used to value those assets and the report highlighted the conclusions reached.
- Valuation of current and non- current debt.
- COVID-19 grant recognition. There were no significant issues arising from External Audits work that was required to be reported.
- Valuation of Airport shares. There were no significant issues arising from External Audits work that was required to be reported.
- The Council's accounting policies and disclosures were concluded. It was reported that they complied with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances. It was recommended the Council review policies and disclosures and delete non-material policies and disclosures, as part of streamlining the financial statements.
- Significant matters discussed with management. Including the valuation of PFI waste facility for which the Council engaged its own expert due to the specialist nature of the asset.
- Wider responsibilities. It was reported that External Audit had not exercised any of these powers as part of the 2020/21 audit. The 2014 Act also gave rights to local electors and other parties, such as the right to ask questions of the auditor

Ch.'s Initials.....

and the right to make an objection to an item of account. No such objections had been raised.

The report detailed the internal control findings and recommendations, summary of misstatements and value for money. Assurance was given that all aspects would be followed up as part of the completion of the 2021/22 audit and again in 2022/23. On the summary of misstatements, it was advised that most of the adjustments would not be part of usable resources, therefore not impacting on Council Tax.

Councillor Jackson asked when the value for money comments would be drafted. In response it was confirmed that External Audit were currently working through this, and it was envisaged that this would be ready for the next meeting of the Audit Committee. Currently it was thought that External Audit would be able to issue one weakness and one recommendation that covered both 2020/21 and 2021/22 and then 2022/23 would follow up progress made. However, the 2019/20 account would be slightly more difficult as issues around governance arrangements and the Council's arrangements in relation to Advance needed to be worked through. It was felt that this could result in an adverse value for money conclusion being reached for 2019/20.

P. Topping spoke about the management response to the issues regarding exit packages and the level of assurance sought on the changes that had been put in place to ensure such matters did not happen in the future. He questioned why Audit Committee had not received a response on this issue yet, but External Audit had. In reply it was confirmed that External Audit were looking at the issues from a slightly different viewpoint. Evidence that had been made available and gathered throughout the audit showed that there were exit packages in the accounts that had not gone through the correct procedures. This was not being disputed by the Council but going forward measures would need to be put in place to ensure these issues did not occur again. This was different to examining why and how the exit packages issues had happened which would be picked up separately through the Section 151 Officer investigation and the Head of Internal Audit and Risk Management report.

Councillor Dale commented on the significant findings on the valuation of property, plant and equipment including investment properties. In response it was reported that detailed guidance had been released from CIPFA. The Council had applied for the statutory override. It was noted that this was a national problem and most authorities had opted for the override option. Discussions continued to take place regarding a permanent solution.

Councillor Jackson asked about the post balance sheet for Advance Northumberland and whether any legal claim settlement would affect the accounts being discussed today. C. Waddell briefed members on IAS 37 which outlined the accounting for provisions, together with contingent assets and contingent liabilities. He advised that any settlement would sit within the Group account. As there was still an ongoing legal claim the Chair asked that Members refrain from discussing further.

Councillor Dale sought clarification about needing to consider revising the annual governance statement (AGS) at the point of sign off to cover the period up to and including when the auditor's opinion was signed. It was advised that given the elapsed time since the AGS was produced, some amendments were anticipated.

Ch.'s Initials.....

It was reported that Advance Northumberland's Audit Committee had signed off their accounts which would allow the review of their file to be completed by External Audit.

Regarding the Audit Completion Report, C. Waddell gave an update on progress in delivering the 2021/22 audit and assurance work. He also gave a summary of recent relevant reports and publications for information.

RESOLVED that the Audit Completion Report for year ended 31 March 2021 and External Audit Progress Report be noted.

82. DATE OF NEXT MEETING

RESOLVED that the next meeting is scheduled for Wednesday, 31 May 2023 at 10.15 a.m.

R. Earl, Advance Northumberland Chief Operating Officer withdrew from the meeting at this point.

83. 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

14, 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.

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

Group Audit Committee

Ch.'s Initials.....

Members received a verbal update from the Head of Internal Audit and Risk Management on the current position relating to entities within the County Council's Accounting Group Boundary.

RESOLVED that the information be noted.

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

Corporate Risk Management

Members received a verbal update from the Head of Internal Audit and Risk Management on the current position of the County Council's corporate risk review process.

RESOLVED that the information be noted.

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

Strategic Audit Plan 2023/24

The purpose of this report was to advise Audit Committee of the Strategic Audit Plan for 2023/24. The document outlined the planned work of Internal Audit during this period and was attached as Appendix 1. A copy of the report has been filed with the signed minutes, coloured pink and marked "Not for Publication").

RESOLVED that Audit Committee approves the Strategic Audit Plan 2023/24, attached as Appendix 1, and the Internal Audit coverage set out therein, and notes that prevailing risks and impact on assurance needed will continue to be kept under review by the Head of Internal Audit and Risk Management.

CHAIR.....

DATE.....

Ch.'s Initials.....