

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

At the meeting of the **Audit Committee** held Remotely on Wednesday, 24 March 2021 at 10.15 am.

PRESENT

G Hill (Chair)

COUNCILLORS

S Dickinson
M Purvis
D Towns

L Grimshaw
M Swinburn

CO-OPTED MEMBERS

P Topping

S Watson

ALSO PRESENT

N Oliver, Portfolio Holder for Corporate Services

OFFICERS IN ATTENDANCE

A Bridges
T Candlish
B Haigh
C Henderson
D Lally
L Little
K McDonald
B McKie
A Mitchell
R Mowatt

Head of Communications
Senior Auditor
Corporate Fraud Manager
Senior Auditor
Chief Executive
Senior Democratic Services Officer
Acting Chief Internal Auditor
Group Assurance Manager
Director of Corporate Assurance
Web Communications Assistant

ALSO IN ATTENDANCE

J Dafter, Mazars (External Auditor)
C Waddell, Mazars (External Auditor)

89 CHAIR'S ANNOUNCEMENTS

The Chair advised that this was the last Audit Committee of the current Administration and offered her thanks to all Members of the Committee, past and present; the Internal and External Auditors past and present; Councillor Swinburn, the Deputy Chair; Kay Norris, who had clerked the meeting and had now retired; Alison Mitchell and Kevin McDonald for all their help and support over the last four years.

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90 **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors G Castle and L Rickerby and K Angus.

91 **MINUTES**

In response to a question regarding confidential items discussed at the meeting being included in the open minutes, the Chief Executive advised that previous advice from the Monitoring Officer in relation to this was that whilst the actual discussions which might have disclosed information of a confidential nature would not be included in the open minutes, for transparency purposes information which did not disclose specifics could be included.

RESOLVED that the minutes of the Audit Committee meeting held on 27 January 2021, as circulated, be confirmed as a true record and signed by the Chair.

92 **STATEMENT OF ACCOUNTS 2020-21**

In response to a question from Councillor Grimshaw in relation to the 2019/20 accounts not being received and not being in the public domain, the Interim Executive Director of Finance advised that these had not yet been completed and a verbal update on these would be provided by C Waddell of Mazars. This report set out the timetable for producing and publishing the accounts for the current year 2020/21. It was an unusual position to be in.

Mr Waddell advised that the draft accounts for 2019/20 were published on the Council's website as this was a requirement of the regulations. Due to the pandemic and other factors at the end of November 2020 there were approximately 55% of Local Authority audits which had missed the deadline and at the current time there were still approximately one third outstanding and therefore the situation in Northumberland was not unusual. Specific details in relation to Northumberland would be provided later in the meeting and he clarified that he had not stated that the Pandemic was the only reason for the delay.

The Interim Executive Director of Finance advised that the report set out the timetable for the publication of the draft accounts and then the audited accounts for 2020/21 with the team about to start work on producing the draft accounts within the next few weeks. She advised that confirmation had now been received from MHCLG that the publication deadline for the draft accounts would be 1 August for the next two years accounts i.e. 2020/21 and 2021/22 with the audited accounts to be published by 30 November. The changes were expected and the work programme later on the agenda did reflect these dates. She advised that there would be some minor changes to the accounting policies with the most significant being that Northumberland was no longer the Pension Fund Authority.

The Chair outlined the recommendations as set out in the report and on a show of hands it was unanimously

RESOLVED that:

1. The key dates in the final accounts process for 2021-21 be noted.

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2. The Accounting Policies to be adopted for the 2020-21 Statement of Accounts be approved.

93 COUNTER FRAUD INTERIM REPORT

The Interim Executive Director of Finance provided a brief introduction to the report which provided an update to the Committee on the work undertaken by the Corporate Fraud Team since the previous report in September 2020 and the steps being taken to recover any monies owed to the Council.

In response to a question from the Chair in connection with fraudulent Covid grant claims, Members were advised that the Council was required to undertake both pre and post payment checks which were quite onerous. The Council also cooperated with other local authorities and there was a national database to cross-verify to identify any large scale fraud. There had initially been a drive to pay out Covid business grants quickly with an emphasis on post-payment checks however with the other grants coming online more pre-payment checking was now being undertaken in relation to these grants. The Council continued to report to Government and participate in national data matching exercises.

Councillor Dickinson highlighted pressure Councillors were under from those businesses or individuals who did not fit any of the criteria to apply for a business grant and the need to ensure that if businesses had received grants to which they were not entitled or had submitted fraudulent claims then this be reported openly and questioned the timescale for such a report. He also asked that Audit be advised specifically in relation to discretionary grant funding and how this was applied, where the funding was spent, what proportions and whether or not it should have been given. The Interim Executive Director of Finance advised that appropriate legal action would be taken against any business found to have claimed grants fraudulently and this would be in the public domain in line with prosecutions undertaken in relation to Council Tax and Business Rate fraud. The timing of any report summarising the outcome of post payment checks could not be confirmed as the team were still in the process of administering grants. It was also the intention of Government to produce a national report which would provide some context.

Councillor Hill questioned if any prosecution could be undertaken against directors of companies who had gone into administration following the submission of fraudulent claims. The Interim Executive Director of Finance stated she believed that there would be the ability to pursue Directors if there was evidence that this had been done fraudulently however businesses were liquidated all the time and even more so during the pandemic. Substantial evidence would be required that the business had been liquidated for this reason and therefore would need to be assessed on a case by case basis. The Government had advised that it would not claw back grants from local authorities on the basis of fraudulent payments provided that the relevant guidance had been followed and checks undertaken.

Councillor Purvis thanked the teams for their work in distributing the grants and questioned if any more details could be provided in relation to the other 15 cases of external fraud on page 45 of the pack and if it was possible to name the triathlon cyclist on page 47 of the pack in relation to insurance fraud. The

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Corporate Fraud Manager advised that the 15 cases would generally be in relation to DWP referrals which were passed over without any involvement. In relation to the cyclist Members were advised that investigations would always be carried out into high value claims and that whilst the cyclist in question had been spoken to when it was suspected the offence had been committed unfortunately she had not been cautioned at that time and therefore prosecution action was not able to continue.

Councillor Oliver, Cabinet Member stated that the business grants had initially been for those with fixed property costs, more funding had been provided in the Budget and the eligibility criteria had been extended which would allow more to apply, however it would still not allow all businesses to apply and these grants would be paid out as soon as possible. He advised that the process was a cross departmental effort from the Council and a lot of work had been undertaken over the previous 12 months. Some home based workers would now be eligible to claim but some would still not be able to. He stated that whilst the Government would not claw back fraudulent payments provided that the Council could demonstrate that checks had been undertaken, the Council could still go back to the business to pay back the grants made to them. Councillor Dickinson stated that he hoped that a robust system was in place to prevent abuse and asked that when a report was compiled this would also look at the decision making process and highlighted the original statement that £8m would be paid to Advance Northumberland, the Council's own wholly owned company which was subsequently changed. Councillor Oliver confirmed that proper checks were in place but this would not stop all fraudulent claims.

The Chair thanked the Officers and their teams for their work and outlined the recommendation included in the report and it was unanimously

RESOLVED that the progress in work undertaken by the Corporate Fraud Team since the last report in September 2020 and the steps being taken to recover any monies owed to the Council be noted.

94 **ANNUAL AUDIT COMMITTEE WORK PROGRAMME**

The Acting Chief Internal Auditor provided an introduction to the report which proposed an updated programme of core business for the Audit Committee for 2021/22, in accordance with its Terms of Reference as set out in the Council's Constitution. He advised that in November 2020 Council had agreed that this Committee be designated as the Group Audit Committee and its Terms of Reference updated. These requirements were not included in this work programme and a further update would be provided at a future meeting. The revised dates in respect of 2020/21 and 2021/22 accounts had been built in. It now seemed doubtful that the May meeting of the Committee would happen due to the election and the business would therefore be considered at the July Committee.

In response to a query regarding the possibility of a June meeting to reduce the agenda in July, the Chair advised that with the wider remit of the Committee it may be necessary to meet more frequently, but that would be the subject of a future discussion.

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The Chair read out the recommendations as outlined in the report and following a show of hands it was

RESOLVED that:

1. The proposed 'core business' work programme set out within the report for 2021/22 be agreed;
2. It be noted that it might 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;
3. It be noted that the Committee would receive additional reports on any ad-hoc items of business arising during the year, as these related to its responsibilities under its Terms of Reference, in the usual way; and
4. It be noted that an update would be provided to the July meeting to establish a work programme to allow the Committee to discharge its responsibilities as Group Audit Committee for all entities as set out in the Committee's Terms of Reference.

95 **ANNUAL REVIEW OF AUDIT COMMITTEE EFFECTIVENESS**

The report, introduced by the Acting Chief Internal Auditor, presented a self-assessment of Audit Committee arrangements following the review of Audit Committee arrangements undertaken during 2019/20, undertaken with reference to the good practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). The amendments to the Terms of Reference had now been done and were incorporated within the Constitution.

Discussion took place regarding item 2 on Annex A, where it had stated that Audit Committee always reported directly to Council and that this had been fully met. It was questioned if this should be partly as not all items discussed at Audit Committee this year had been reported to Full Council, as some recent recommendations had been reported to Cabinet and a Scrutiny Committee. The Acting Chief Internal Auditor advised that he was of the understanding that all minutes of the Audit Committee were reported to Full Council. Members requested clarification on whether the Audit Committee was a function of Council as had been stated as some recommendations from the Audit Committee had been reported to Cabinet and had then been changed before being reported to Council.

The Director of Corporate Assurance advised that the Audit Committee was a Committee of Full Council and guidance around Local Authority Audits set out that was the case. She did however advise that some matters were so unwieldly to debate that it was considered that smaller groups of dedicated Members would be more able to look at in depth and give matters the attention they deserved. In the guidance it was recommended that there was an Annual Report from the Audit Committee or its Chair to a suitable forum, which could be Council or Cabinet and the Acting Chief Internal Auditor would be helping to prepare such a report. In relation to recommendations from the Committee, this would depend on the forum the decision was to be made, if Audit Committee wanted to bring matters to the attention of the decision maker when they were making a decision,

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then the Audit Committee needed to be able to make a choice of where it reported. Some issues might be more appropriate to Cabinet and others to Council. Audit Committee was a Committee of Full Council and this process of making recommendations could be explored further by the Committee in the future.

In respect of points 15 and 16 it was questioned whether there was a structured approach to training the Committee as there was a variety of levels of experience and skills. Members were advised that when the review was undertaken this plan was formed however with the Pandemic some meetings did not take place and this would be resurrected moving through the year providing training and briefings dependent on the subjects on the agenda. It was commented that this would be easier to do via Zoom.

The Chair asked that clarification be sought in respect of where the Audit Committee sat in relation to reporting to Full Council and what the role of it was and where it was answerable to. The Acting Chief Internal Auditor advised that work would be undertaken with the Committee in order to make this clearer. The Audit Committee was a committee of Full Council and reported back to Full Council and if this needed to be strengthened then this could be done either through the Constitution or through work on the Annual Report. The Audit Committee was answerable to Full Council however it could make recommendations to other forums.

In relation to training in general, the Chair stated that this could always be improved upon and attendance could be helped with the accessibility of Zoom. Following the election she questioned if it would be possible for Group Leaders to be sent a brief on the functions of the Audit Committee to assist when appointing Councillors to the Committee. The Director of Corporate Assurance stated that Members of the Audit Committee should have an enquiring mind but did not require experience in any particular disciplines however it might be possible to provide the Group Leaders with a list of 6 to 7 good characteristics and she would work with the Chair on this if required. She continued by stating that Members of the Audit Committee must be apolitical and be able to look at issues in an impassionate way and also highlighted that this Committee had demonstrated excellent work over the last few years to which all Members had contributed. The Chair commented that there was a good skills set within the Audit Committee and the addition of the two independent Members with their technical expertise had helped fill any gaps.

The Chair asked for the Committee's agreement to the rewording of point 2 in light of recent events and what had happened with Cabinet and the attempts at Call-In in that the Committee reported to Full Council only and it should be moved to partly completed, this was agreed and would be undertaken by the Acting Chief Internal Auditor. The Chair then read out the recommendations as outlined in the report with the amendment to point 2. Following a show of hands it was

RESOLVED that:

1. The latest self-assessment of the Audit Committee arrangements against the good practice guidance recommended by CIPFA, attached as Annex A and amended above be endorsed;

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2. The actions taken since the previous review of Audit Committee arrangements during 2019/20 to help ensure that all aspects of CIPFA's good practice can be reflected be noted; and
3. That the self-assessment undertaken will form the basis of an annual report from Audit Committee, which will be prepared for presentation to Cabinet, demonstrating how Audit Committee meets its Terms of Reference and providing a summary of the work of the Committee during the year be agreed.

96 **URGENT BUSINESS**

(a) Proposed Additions to the Annual Governance Statement for 2019/20

The proposed additions to the Annual Governance Statement (AGS) for 2019/20 had been circulated the previous day and it was confirmed that this had been received by all Members of the Committee.

Councillor Swinburn advised that it was right that this amendment had been circulated and asked, as this matter had been ongoing for a period of time, if there was any indication of the timescale in which it would be completed and if there would be a need for any further amendments.

The Director of Corporate Assurance reminded the Committee of a confidential document shared by the Deputy Chief Executive in September which set out a framework for managing the items and she had been made the Executive Team Lead for these. She confirmed that all items on that framework were actively being managed as had been described in September onwards, however there were a number of external factors and external people involved and because they were following the agreed processes this sometimes took some time. She assured the Committee that everything was being done under proper process and would be concluded once those processes were completed. If there were any governance issues which arose it would be appropriate for some sort of reporting to be made to Audit Committee in the future and the Acting Chief Internal Auditor and herself would ensure this happened.

The Chair stated that as the Council's Constitution contained something unlawful that had put the Council at some risk; that concerns had already been raised by her and another Member about the Constitution; and that the original working group set up to look at this, which had not included herself or the other Member, had only made cosmetic changes, asked what assurance could be provided that the Constitution would be updated and this would not happen again and that any concerns in the future would be dealt with properly. The Director of Corporate Assurance stated that the Constitution, which had been introduced in approximately 2000/2001, was handled by Officers within the Legal Team as Constitutions were very legislative and based on a number of legal powers and she was unaware of the previous arrangements for updating it. A very experienced Solicitor, Caroline Elwood, had now looked at and overhauled aspects which had needed revision. Ms Elwood had worked in a number of authorities and had advised that, based on her experiences, the situation within Northumberland was not unusual. It was now recognised that there was a requirement for a planned approach which would ensure the Constitution was kept up to date and remained fit for purpose, both in terms of the legal framework

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it reflected but also local circumstances. Arrangements to ensure this happened would be discussed with the Deputy Monitoring Officers.

The Interim Executive Director of Finance stated that in relation to the question of any further updates to the AGS being made as the matters were being worked through, for the purposes of the AGS it was sufficient that it was acknowledged that these things had happened within the period covered by it and did not need to set out any resolution, only that it was being dealt with appropriately. The AGS did however have to be complete as at the point when the accounts were certified and it was possible that some further issues which needed to be reflected in the AGS might be identified during completion of the external audit work. She advised that the Committee was now being asked to approve the AGS as an accurate and complete reflection of issues known at this point in time. There were no other major or significant governance issues at this time which had not been reflected in the AGS. If the Committee required anything else to be included it was important that it was done now. The Chair highlighted that it mentioned this specific issue and what was still outstanding.

Councillor Swinburn proposed acceptance of the amendments which was seconded by Councillor Grimshaw and following a show of hands it was

RESOLVED that the amendments to the Annual General Statement, as circulated, be agreed.

(b) External Audit Update

Mr C Wardle, Mazars, stated that the main focus of the update would be the accounts themselves, as some information was still awaited in respect of VFM, although he could also provide an update on the audit of Advance Northumberland after receiving a brief from the relevant partner on that the previous day.

He advised that it had been decided on balance to issue an Interim Audit Completion Report which had been forwarded to Officers the previous Thursday evening, however the content had not been agreed by Officers yet. A lot of progress had been made with the audit of the Council with a significant number of the different aspects completed, however there were some queries outstanding or some evidence awaited on the samples that had been looked at.

Management override and control – This was a key fraud risk, with journals and the ledger entries looked at carefully to ensure they had not been manipulated to make the finances look in a better or worse position and for any unusual transactions to be identified and the key judgements and estimates in the accounts. This work was not finished but there was nothing to report at this stage which was good.

Revenue recognition – There was some work to do regarding samples, but there was nothing significant to report at this time, this was also important as this was also a key fraud risk.

Pensions – Work had been completed on this and there was nothing significant to report except in relation to schools which had converted to academies over the

last few years and staff in the LGPS who had transferred had not been written out as they should have been in previous years so the impact of this has to be estimated and this was still being discussed with officers.

Property, plant and equipment – This was a key area of the audit with big numbers for both the Council and Advance Northumberland. Work was ongoing, with several issues with the most notable the valuation of energy from waste plant which was being discussed with Officers. He explained that Northumberland was not unusual in this as Mazars had also found this with other local authority audits being undertaken in the last 12 months. Linked to this issue was that it was a PFI with issues around the accounting modelling. Issues around valuation were still being worked on also. In respect of infrastructure assets one of the key tests was that did it exist and did the Council own it and evidence was awaited, this was also not unusual and was still being worked on.

Valuation of Debtors – What had been the impact of the Pandemic, this work was nearly finished with some evidence awaited but nothing significant.

Enhanced Risk – Newcastle Airport and the impact of the number of flights dropping due to the Pandemic. There was nothing identified .

Other – A number of central control deficiencies had been identified and were still being discussed with officers, a proportion were in relation to IT with this group of issues coming up regularly but still needed to be addressed. Recommendations made to date were categorised as either medium with a need to strengthen internal control with recommendations to be actioned in the near future and there were also some low priority recommendations to be actioned in the longer term.

A significant number of disclosure amendments in relation to the single entity and group accounts had been discussed and agreed with officers.

There were one or two unadjusted statements which were not material. Approval of the Audit Committee would be required for the Executive Director of Finance to sign the letter of representation. As had been stated, the key area of focus now was the valuation of some of the property, plant and equipment and the energy from waste PFI.

In relation to VFM, Mazars were busy working through the issues identified over their time as External Auditor and had followed up on issues Ernst Young raised last year and would report on these at a later date. A few areas had been highlighted including governance and the Constitution and there was a requirement to advise if a robust Constitution was in place at 31 March 2020. In light of the discussion today and previous discussions with officers that was likely to result in a qualification of the VFM conclusion as the arrangements were not robust at that time.

Mazars had also been commissioned to audit some grant claims the Council was responsible for to submit to Government departments and this work had been concluded and no significant issues raised with all information submitted to the relevant Government departments by the appropriate deadlines.

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The Advance Northumberland Audit was nearing completion and the key issues identified had nearly all been resolved and it was expected that the Audit would be signed off in the very near future as this needed to be completed before the Council's accounts could also be signed off.

The Director of Corporate Assurance stated that job of the External Auditor was a difficult one and it required a very good working relationship with the Authority to enable them to do this difficult job. She queried if Mazars had received everything they had requested in a timely manner and if not then either herself or the Executive Director of Finance should be contacted in order to help expedite outstanding information. Mr Waddell responded that the delay in relation to the accounts was due to a combination of things including that this was a first year audit and it had been started later than they would have liked with it not commencing until March 2020, then there was the pandemic which had also slowed things down and it was fairly usual as a new auditor to pick different things up. It was a combination of all those factors which had led to some delays in getting the information back but hopefully the accounts would be completed shortly. In relation to VFM, discussions were ongoing to get the evidence required, however there was no sense that they had not been given information they had asked for, it had just been a bit delayed.

Mr Waddell advised that Mazars had drafted an interim audit completion report which dealt with everything identified to date which was with Officers for agreement at the current time. With the Committee's agreement they would like to not have to produce another one with everything that they had already reported on again at a later date and only report on things still outstanding. This would require the interim report to be circulated to Members after this meeting and any issues could be raised at the next meeting or fed back to them through the Chair. The Chair and Committee had no objection to receiving the final interim report and agreed the next one would only concentrate on the issues still outstanding.

97 **DATE OF NEXT MEETING**

As had previously been discussed, the date of the next meeting was scheduled for Wednesday 26 May however as the new Audit Committee would not have been appointed by Council at that time it was expected the next meeting would take place in June or July.

98 **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED

(a) That under Section 100A 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 they involved the likely discussion of exempt information as defined in Part 1 of the Schedule 12A of the 1972 Act, and

(b) That the public interest in maintaining the exemption outweighed the public interest in disclosure for the following reasons:-

Agenda Items	Paragraph 3 of Part 1 of Schedule 12A
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99 **MINUTES 27 JANUARY 2021**

RESOLVED that the confidential minutes of the Audit Committee meeting held on 27 January 2021, as circulated, be confirmed as a true record and signed by the Chair.

Following a request from the Chief Executive it was agreed that item 13 be moved up the agenda and be discussed next.

100 **STRATEGIC AUDIT PLAN**

The Chief Executive presented the report which provided a further update for the Audit Committee from the Shareholder's Representative regarding the important governance matters which had been highlighted in the confidential reports brought to the Audit Committee on 27 January 2021 regarding Advance Northumberland Ltd and Commercial Enterprises, and the action which had since been taken.

Following a detailed discussion, and agreement that correspondence would be shared with Members of the Committee, the Chair read out the recommendations set out in the report and following a show of hands it was

RESOLVED that Audit Committee noted that:

1. Following the meeting of Audit Committee on 27 January 2021, at which confidential reports regarding governance and performance issues in respect of Advance Northumberland Ltd and Commercial Enterprises were considered by the Committee, and actions proposed by the Chief Executive were endorsed by the Committee, the Chief Executive / Head of Paid Service (Shareholder Representative) had made further confidential reports regarding both matters to an extraordinary meeting of the County Council's Cabinet which took place on 23 February 2021;
2. The confidential reports considered by Cabinet on 23 February 2021 comprised:
 - A report of the Head of Paid Service / Chief Executive in consultation with the Leader of the Council, regarding 'Implementation of Required Governance Improvements in respect of the County Council's Wholly Owned Company (Advance Northumberland Ltd)'; and
 - A report of the Head of Paid Service Chief Executive, regarding 'Northumberland Enterprise Holdings Ltd – Update on Progress and Governance and submission of subsidiary business case for Northumberland Integrated Consultancy';

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3. At the extraordinary meeting on 23 February 2021, Cabinet agreed all recommendations made by the Head of Paid Service / Chief Executive (Shareholder's Representative) in both of these two reports, which were discussed further in the main body of the report; and
4. The Chief Executive / Head of Paid Service was therefore currently progressing with the implementation of all required governance and performance improvements, as agreed by Cabinet on 23 February 2021 and following endorsement of these actions by Audit Committee at its meeting on 27 January 2021.

101 **SHAREHOLDER UPDATE – WHOLLY OWNED COMPANY ARRANGEMENTS**

The Acting Chief Internal Auditor presented the confidential report which advised the Audit Committee of the Strategic Audit Plan for 2021/22. The document outlined the planned work of Internal Audit during this period and was attached as Appendix 1. It was highlighted that the plan would be flexible in order to respond to any risks identified through the 12 month period of the plan.

Councillor Swinburn commented that it was unfortunate that the report was confidential, although the reason for this was understood he felt that some of the information within the report on the role and ethos of internal audit which was contained in the introduction would be of interest to a wider audience. The Acting Chief Internal Auditor advised of the reason for the confidential nature of the report, however it would be looked at in the future to see if this could be changed.

RESOLVED that the Audit Committee approved the Strategic Audit Plan 2021/22 attached as Appendix 1, and the Internal Audit coverage set out therein, and noted that prevailing risks and impact on assurance needed would continue to be kept under review by the Acting Chief Internal Auditor.

CHAIR.....

DATE.....

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