

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

At a meeting of the Audit Committee held in the meeting space, Block One, Floor Two, County Hall Morpeth on Wednesday, 24 November 2021 at 10.15 a.m.

PRESENT

S. Watson (Chair)

COUNCILLORS

Cessford, T.
Jackson, P.
Oliver, N.
Scott, A.

Taylor, C.
Towns, D.
Wallace, A.

CO-OPTED MEMBERS

Topping, P. (part)

OFFICERS IN ATTENDANCE

Binjal, S
Hunter, P.
Lally, D.
McDonald, K.
Stewart, A.
Todd, A.
Willis, J.

Monitoring Officer and Interim
Director of Governance
Senior Service Director
Chief Executive
Acting Chief Internal Auditor
Finance Manager
Democratic Services Officer
Interim Executive Director of
Finance and S151 Officer

ALSO IN ATTENDANCE

Waddell, C.

Mazars

ALSO PRESENT

R. Wearmouth, Portfolio Holder for Corporate Services
1 member of the press

24. MEMBERSHIP

RESOLVED that the change in membership from Councillor Dickinson to Councillor Murphy be noted.

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25. APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor M. Murphy.

26. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on 7 October 2021, as circulated, be confirmed as a true record and signed by the Chair.

27. REPORTS OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER

27.1 Arrangements for the Appointment of the Local Auditor (External Auditor)

Mr Waddell advised that he would leave the room while this item was discussed.

This report sought Council approval to opt-in to the Public Sector Audit Appointments (PSAA) Limited arrangements from 1 April 2023 for the five financial years commencing 2023-24 to 2027-28. (A copy of the report has been attached to the signed minutes).

Mrs Willis detailed the main points of the report for members and advised that although the arrangements would expire sometime in the future the process for the appointment of a local auditor beyond 2022-23 needed to commence imminently. The Council had two choices, regarding the appointment process:

- a. Directly appoint its own Local Auditor; or,
- b. Use a sector led body, the Local Government Association (LGA) to make the appointment.

Members were informed that it was the Interim Executive Director of Finance and Section 151 officer's view that the Council should opt into the national scheme for the appointment of local auditors. This approach would ensure independence in the appointment and also deliver better value for money to the Council. The County Council at its meeting in January 2022 would consider the report and agree the appointment arrangements.

The Chair commented that this appointment was a crucial role for the Council and asked if members had any comments or questions on the report.

Councillor Oliver stated that he felt that having an independent body making the appointment was a good approach which would show there was no due influence from any member or officer of the Council. He fully supported the proposals for all the reasons stated within the report.

Councillor Towns reiterated the comments made by Councillor Oliver. He commented that he felt uneasy around the associated risks if the Council chose its own external auditor, so welcomed the proposals. The value for money aspects of the proposed arrangements were also welcomed. He stated that decisions were made back in 2017 for the right reasons and keeping with a transparent approach to appointing the external auditors could only continue to be a positive move.

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Members were advised that many other local authorities were using the Public Sector Audit Appointments Limited as an approved appointing body.

The Chief Executive clarified the background stating that in 2017 the Council, in collaboration with Newcastle and North Tyneside councils, appointed its own Local Auditor. Following the resignation of the Local Auditor in 2019 the Council then opted to seek the appointment of a replacement Local Auditor through the PSAA which resulted in Mazars being appointed.

Councillor Oliver moved to support the report's recommendations, which was seconded by Councillor Jackson. With a show of hands, it was unanimously agreed to support the proposals to be considered by Council.

RESOVLED that the report be recommended to Council.

27.2 Treasury Management Mid-Year Review Report for Period 1 April to 30 September 2021

The report provided a mid-year review of the activities of the Treasury Management function for the period 1 April to 30 September 2021, and performance against the Treasury Management Strategy Statement (TMSS) 2021-22 - as approved by the County Council on 24 February 2021. The report provided a review of borrowing and investment performance for the period set in the context of the general economic conditions prevailing so far during the year. It also reviewed specific Treasury Management prudential indicators defined by the (CIPFA) Treasury Management Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code), and approved by Council in the TMSS (copy attached to the signed minutes).

The report was introduced by Mrs Willis.

Councillor Oliver summarised comments he had made at a recent meeting of County Council regarding the spread of maturing debt, which he felt should be noted by this Committee. He had raised the point that in the next 40-50 year period around £1/4 billion would become mature. He stated that if interest rates were to be high at that point of time, then this could place a large financial burden on the Council. He reported that assurance had been given at the Council meeting that the structure of borrowing would ensure a reasonable spread of maturing debt. This would guarantee that significant amounts of debt would not mature at a time when interest rates for refinancing the debt may be high.

RESOVLED that:-

(a) the report be received, and the Committee note the performance of the Treasury Management function from 1 April to 30 September 2021

(b) the report be recommended to Council.

P. Topping joined the meeting at this stage.

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28. REPORT OF THE ACTING CHIEF INTERNAL AUDITOR

Key Outcomes from Internal Audit Repots (Issued July 2021 November 2021)

The purpose of this report was to advise Audit Committee of key outcomes from Internal Audit reports issued between July 2021 and November 2021 (Appendix 1). (A copy of the report has been attached to the signed minutes).

Mr McDonald presented the report and drew to members' attention the table detailing the main outcomes following the pieces of work carried out within the time period specified.

Mr Topping queried whether subject matter specialists had been called upon to assist when assessing assurance audits as some of the schemes were quite varied. Mr McDonald replied by confirming that up to this point they had not needed to seek any additional support although they would consider if appropriate at the time. The certification against the grants was normally quite straight forward in terms of using the grant conditions to see if all stipulations had been met, rather than the outcomes of particular funding.

The Chair noted that within Section 5 of the report no 'critical' or 'high' priority recommendations had been made following the five audit assignments. Regarding how a recommendation was made, Mr McDonald confirmed that the opinion classifications used in the Internal Audit reporting were a subjective process. The opinions given gave an overall assurance judgment which included the potential risk impact. Members were provided with a brief summary of how Internal Audit carried out audit reports and the many procedural steps in place in formulating key issues and priority of recommendations. It was noted that if there were any recommendations assessed as critical then it was hoped immediate action would be taken to ensure the organisation was not exposed to unacceptable risk. If any were deemed in the high classification that it was envisaged that action would be taken within a couple of months, medium six months and low would be any time after that.

Councillor Towns commented that the report stated that 3 out of 4 of the audits with an assurance opinion attached had all been deemed as 'Limited Assurance'. He felt that this was still an area of concern and should not be celebrated as the opinion framework defined limited assurance as weakness in the design of, or regular non-compliance with, key controls put the achievement of the organisation's objectives at risk in some or all the areas reviewed. He queried what was being done to improve these systems.

In response, Mr McDonald agreed that a limited assurance opinion highlighted there were risks and therefore was a concern. Internal Audit worked closely with management when carrying out audits and provided an open and honest dialogue on issues identified. As part of measures put in place by the Chief Executive, Mr McDonald stated that he regularly attended the Executive Management Team meetings. At those meetings, up and coming pieces of work, those finalised and those with opinion classifications would be regularly discussed, and all kept up to date on progress made. The arrangement was working well and enabled Executive Directors to monitor and manage action taken to implement recommendations set within audits.

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The Chair questioned whether any monitoring was carried out to ensure agreed targets dates set within an audit report were adhered to. Mr McDonald confirmed that all recommendations were followed up. Occasionally, there were some good business reasons why things could not be carried out within agreed targets. When this happened, discussions would take place to understand the reasoning for this and a revised target may be agreed. If deemed targets had not been reached and no valid reason given as to why, then the issue would be escalated to the relevant Executive Director and further. If it was felt things still were not being addressed or risks borne that need not to be then it would be brought to the attention of the Audit Committee.

The Chair asked whether the Covid19 pandemic had affected the implementation of any recommendations within audits. Mr McDonald stated that initially a slowing of progress made had been seen within some service areas particularly during the lockdown arrangements when people were working from home. However, service areas were now getting back to normal. Mr McDonald stressed that once recommendations had been fulfilled evidence checks were made to ensure they had been implemented completely.

RESOVLED that the key findings from good practice identified in, and management action taken in response to the Internal Audit reports issued and the summary of other work undertaken by Internal Audit in this period, summarised in Appendix 1, be noted.

29. REPORT OF THE EXTERNAL AUDITOR

Audit Progress Update

Mazars provided the Audit Committee with an update on progress made in delivering their responsibilities as the Council's external auditors and also included, at Section 2, for information, a summary of recent national reports and publications (copy attached to the signed minutes).

Mr Waddell presented the report and drew members' attention to the main points.

Apologies were given for the oversight of not including information relating to the 19/20 Audit within this progress report. Members were advised that there were still two outstanding items to complete for this audit which were the Local Government Accounts and the Value for Money aspect. It was noted that now the order of accounts was complete the Whole of Government Accounts would be finalised. Regarding value for money the Section 151 Officer had recently provided additional information to Mazars. The additional information included legal opinion, which was currently being looked at, and a decision would be made as to any further procedures needing to be undertaken in order to complete the work. As previously discussed, the expectation was that the outcome would be a qualified value for money opinion but there was still some debate to be had, particularly around the International point.

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In terms of 2020/2021, the draft accounts from the Council had been received and audit work had commenced. The team were focusing on the areas of highest risk which from an external auditor's point of view were around the manipulation of accounts and valuation of property plant equipment and pensions.

The focus on pensions was due to the estimation uncertainty and movement of asset values in the final quarter of the last year. There was also the complexity of Northumberland merging into the Tyne and Wear Pension Fund.

Mr Waddell reported that assurance had just been received from the Pension Fund Auditor and stated there were no specific issues for Northumberland other than there was a £261 million adjustment to the pension fund accounts due to the movement in the final quarter of the year. This resulted in an adjustment being needed to Northumberland's accounts. It was reported that because of Northumberland's size it would be substantial.

Regarding the timetable, it was still hoped that the fieldwork would be available for the January meeting of the Audit Committee.

Mr Waddell highlighted some of the national publications detailed within the report, including cyber and information security and the percentage of authorities publishing their 2020-21 audited accounts by the prescribed date.

The Chair asked if there were any questions or comments following the report.

Councillor Jackson commented on his frustration in the delay in signing off the value for money opinion from the previous year. He asked when the audit would finally be completed. Mr Waddell advised that it was hoped to be completed in the very near future; however, there were outstanding queries with officers and certain areas where legal advice would need to be sought before the audits could be closed. There would also be the process to go through in terms of natural justice where issues highlighted, and any recommendations made, would need to be agreed with both members and officers subject to the nature of those findings and conclusions.

The Chair stated that the Audit Committee had been aware of the issues which had delayed the completion of the 2019/20 Final Statement of Accounts but hoped that the situation could reach a conclusion soon.

Councillor Wearmouth offered his assistance to the Audit Committee in arranging a presentation on cyber and information security as this issue fell within his portfolio. The presentation could cover the NAO's good practice guide for audit committees on cyber security arrangements and inform all on how the Council protects its data, devices, networks and software. The Chair thanked Councillor Wearmouth for the invitation.

In response to a query from Councillor Oliver, Mr Waddell explained why estimated figures were used within the final quarter of a financial year for pensions. He advised that cash flow forecasts were used to enable accounts to

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be drafted and published, which often happened in December. Throughout the rest of the year the administering authority would continue to get updated valuation reports from the fund managers and from the global custodians to the period to the end of March. Therefore, this could result in the cash forecasts being significantly different depending on the asset return. In January to March of this year there was still volatility in terms of the market. This resulted in the returns and investments changing quite substantially and higher than predicted. A letter had been received from EY advising that the draft accounts were to be £261 million different to those predicted. Therefore, subject to the share of assets, the pension fund net liability will have decreased. Work would need to take place on whether an updated letter from Actuaries would be needed.

Mrs Willis reported that the Council did not have the Actuaries updated reported at the time the draft accounts were published so an adjustment would be required. Council's initial understanding was that it would be a re-valuation adjustment affecting the balance sheet but would not affect the Council's revenue position.

Mr Waddell advised that the External Auditors believed that the adjustment needed would hit the re-measurement of the defined benefit liability but there would be no impact in terms of actual useable reserves. Mr Waddell confirmed that this news had just been received and the specific detail and correct procedures needed would be discussed with Council officers in greater detail once everyone had had a chance to read and comprehend the information.

The Chair thanked Mr Waddell for the progress update.

RESOVLED that the updated be received.

30. DATE OF NEXT MEETING

RESOLVED that the next meeting be scheduled for Wednesday, 26 January 2022 at 10.15 a.m.

31. 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 item 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

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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.

32. REPORTS OF THE ACTING CHIEF INTERNAL AUDITOR

32.1 Group Audit Committee: Advance Northumberland Internal Audit Plan Update

(A copy of the report has been attached to the signed minutes, and coloured pink).

Mr McDonald presented the report which advised Group Audit Committee on the 2021-2022 Internal Audit Plan covering Advance Northumberland Group of Companies (Advance) for the period covering October 2021 to March 2022. The Internal Audit Plan for 2021/22 originally consisted of two elements:

- Coverage from April to September 2021; and
- Potential / indicative coverage from October 2021 to March 2022.

RESOVLED that the recommendation, as detailed in the report, be agreed.

32.2 Risk Management Update

Audit Committee was provided with an update from Mr McDonald on progress with the development, implementation and embedding of risk management within the County Council; and the latest position of the corporate risks as agreed by Executive Team and considered by Cabinet portfolio holders in October 2021. (A copy of the report has been attached to the signed minutes, and coloured pink).

Members discussed the latest position of the corporate risks and the potential repercussions of those risks to the Council, elected members and officers.

RESOVLED that the report, be noted.

32.3 Strategic Audit Plan 2021/22 – Interim Monitoring Statement

Mr McDonald presented the Audit Committee with an interim (half yearly) monitoring statement in respect of the Strategic Audit Plan for 2021/22 (copy attached to the signed minutes and coloured pink).

RESOVLED that the recommendation, as detailed in the report, be agreed.

CHAIR.....
DATE.....

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