NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE

At a meeting of the Audit Committee held at County Hall, Morpeth on Monday, 30 September 2013 at 9.45 a.m.

PRESENT

Councillor A. Dale
(Chair, in the Chair)

COUNCILLORS

B. Gallacher          A. Wallace
J Reid               J.G. Watson
V. Tyler             J. Woodman

CO-OPTED MEMBERS

Mr. A.N. Haywood-SmithMrs. I. Walker

OFFICERS IN ATTENDANCE

C. Craig External Auditor
S. Mason Corporate Director of Finance
B. McKie Group Assurance Manager
A. Mitchell Chief Internal Auditor
P. Thomson External Auditor
N. Turnbull Democratic Services Officer
D. Wright External Auditor

21. Apologies for Absence

Apologies for absence were received from Councillor G. Castle.

22. Minutes

RESOLVED that the minutes of the meeting of the Audit Committee held on 24 July 2013, as circulated, be confirmed as a true record and signed by the Chair.
REPORTS OF THE EXTERNAL AUDITOR

23. ISA 260 Northumberland County Council 2012/2013 Report and Accounts

The Committee considered Deloitte’s final report on the 2012/13 Audit. (Report enclosed with the signed minutes as Appendix A.)

Mr. Thomson of Deloitte commented that the audit process had been smooth this year with a good set of financial statements and working papers. They had also held regular meetings with management who had agreed where adjustments to the accounts should be made or where non material items should remained unadjusted.

At the time the report had been written, there had been on-going work regarding group consolidation and recognition of grant income and two adjustments needed to be made which were not included in the report, namely:

- £1.65 million credit / debit the balance sheet between Arch and NCC.
- £3.9 million on the Capital account between usable and unusable reserves.

Ms. Wright of Deloitte outlined the significant audit risks and additional control measures which the External Auditor thought appropriate to advise the organisation of, which included:

**Proposed Loan to Northumbria Healthcare Trust** – obtaining written confirmation from the Council’s legal counsel, via Bond Dickinson, to confirm the legality of the transaction. This had now been received.

**Grant Income Recognition** – An error of £1.25 million was noted due to income from one grant being double counted. A second error related to a grant of £3.2 million being recognised entirely as a revenue grant whereas £1.49 million should have been shown as capital.

**Valuation of Equal Pay Provision** – the provision was overstated due to errors within the schedule from duplication of claims for individuals and cases wrongly categorised. These errors were not considered to be material. There was also an increased risk of additional claims, for a period of up to 6 years from employment ending, due to a recent national case, although none had yet been received in Northumberland. It was recommended that cheques should not be raised prior to receipt of signed documentation and this was to be addressed.

**Valuation of Fixed Assets** – the approach and methodology adopted appeared appropriate, however, it was recommended that further detail could be included within the valuation certificates.

**Third Party Monies** – management had agreed to maintain a schedule which would be monitored by a specific member of staff. It was confirmed that the detail was included within Note 58 to the accounts, which set out a comprehensive list of those third party moneys included in the accounts. Such third party moneys amounted to approximately £4 million.
Authorisation of Electronic Journals – due to the high volume of transactions it was not possible to review authorisations prior to posting the journals. Although this had been recommended, management’s view was accepted.

Approval of Related Party Transactions – procedures to be implemented to identify related parties during the year.

Unix Patching – a formal plan to be developed for the patches to the Unix servers.

Leavers Process – a project was in place which would identify leavers in a timely manner for revocation of access.

Disaster Recovery – a full disaster recovery test was to be developed to ensure resilience for key systems in the event of the loss of the data centre.

In answer to questions, it was confirmed that:

- A continuous auditing system would be implemented in the near future which would enhance control and minimise the risk of breaches of data protection due to employees retaining access to IT systems following their departure from their employment. It was noted that this issue had been raised by the External Auditor several years previously and they agreed to follow this up as part of this year’s audit work.

- The rationale behind the loan to Northumbria Healthcare Trust was to assist a partner organisation save an estimated £3 million per annum, thereby protecting jobs in Northumberland. The loan would be used to refinance the Hexham Hospital PFI and possibly contribute to the costs for the Cramlington and Berwick Hospitals. It was acknowledged that the process had been lengthier than envisaged due to the time required to obtain approval from the Department of Health and the Treasury. A meeting was to be held on 4 October 2013 which would progress the matter further. There was an arrangement fee of £0.5 million and the loans would be repaid on the PWLB rate plus 0.25%. Additional loans of 10 and 15 years had been secured by the Council when attractive rates had been available, as part of the Council’s Treasury Management Strategy.

The risk that the Trust would default on the loan had been considered. Intervention was carried out by Monitor if Healthcare Trusts were perceived to be struggling financially. There would be a charge over assets for a significant proportion of the loan. Northumbria Healthcare Trust was ranked as one of the top 11 Trusts and was accredited to assist Trusts which were struggling financially or operationally. The management team was strong and had been in place over a number of years and were seen as a much lower risk than a number of other Trusts, particularly those Trusts which had experienced significant and sustained changes in leadership over a short period.

The documentation had been reviewed by the External Auditor, given it was a significant transaction, and they had been asked to provide a letter which stated that they were not minded to challenge the decision. However, it was suggested that the Council should review three year plans for submission to Monitor and regularly update if the risk increased.
The External Auditor confirmed that they routinely followed up on actions following the audit and would report any major findings of matters outstanding to the Audit Committee.

Ms. C. Craig of Deloitte confirmed that the Value for Money work had been carried out in accordance with risk factors determined by the Audit Commission and was based on criteria to ensure proper arrangements for:

- Securing financial resilience.
- Challenging how economy, efficiency and effectiveness were secured.

A number of key audit risks had been identified as part of the overall audit strategy and a number of additional issues, including:

- The management of section 106 agreements;
- The disposal of land at the Wellesley site;
- Business impact level of confidentiality of data in relation to the E-Business Project and ERP solution;
- The termination settlement of a Director level post.

Ms. Craig outlined the key audit risks and highlighted the following areas:

**Financial sustainability** – There were a number of areas where there was slippage, in the budget reduction schemes, for example Adult Care, however, these were being managed within the overall budget.

**Audit Committee Effectiveness** – as a result of the local government elections in May 2013 there had been significant changes to membership of the Audit Committee. It was recommended that the training on the differences in the roles of the Audit and Scrutiny Committees be repeated and that a training plan be drawn up by the Chief Internal Auditor. The Chairman commented on the importance of regular attendance at meetings.

**Asset management arrangements** – progress had been slower than anticipated with regard to the rationalisation of the estate following local government reorganisation in 2009, due to a number of factors. It was essential that progress be made due to the financial strain on the authority of retaining a large number of properties in poor condition. It was noted that responsibility for asset management had changed several times over recent years and had recently been transferred to the Corporate Director of Local Services, whom the External Auditor would be meeting with in the next few weeks. Concern was expressed by members regarding the perceived delay in progress and the importance of decisions being made promptly which met the needs of the various services. It was confirmed that this was an area of high priority of senior officers and the Policy Board who needed to determine the structure of the Council and the accommodation required as a result of that structure.
**Project management arrangements** – there was inconsistent use of the project management system, ExecView across Groups, and use of ExecView was scheduled to be discontinued in December 2013. Prince methodology was applied in some areas. Due to the inconsistent approach it was difficult to obtain assurance that there were adequate arrangements for project management in all parts of the organisation and, therefore, a sufficiently clear structure needed to be applied across the organisation.

Members discussed the issues raised when the following points were noted:

- Care needed to be taken when responding to Freedom of Information requests to prevent incomplete information (which, in turn, could be interpreted in a way that was misleading) being issued.
- Concern was expressed regarding the imminent demise of the project management system as it was considered that there was insufficient time to source an alternative. The Corporate Director of Finance confirmed that SMT was considering the issue and would extend use of ExecView if alternative arrangements were not finalised and in place before the system was due to be ended. Arrangements differed between the Groups and there was not yet agreement that project management arrangements should be managed in the same way across the Council, particularly in Adult Care due to the shared arrangements with the NHS.
- It was more difficult for local authorities to dispose of assets as quickly as commercial entities. Several properties had recently been marketed but had not resulted in credible bids.
- It was discussed as to whether it would be prudent for asset management to be escalated and included in the strategic risk register. The Corporate Director of Finance agreed to raise this with the Deputy Leader of the Council, who is the Council’s elected member risk champion.

In answer to a question, Mr. Thomson stated that the external auditor had not distinguished any trend or pattern of prejudice where officers were required to use judgement, and that the external auditor was satisfied that the accounts had been compiled fairly. He confirmed that an unmodified audit opinion would be issued in respect of the truth and fairness of the financial statements and the value for money conclusion, subject to receipt of the letter of representation.

The Chairman was pleased to note that there had been no matters categorised as red, indicating a material unresolved matter, against the significant audit risks. She also expressed her gratitude to the officers in Business Support for the successful audit.

**RESOLVED** that

1. the contents of the report be noted.

2. the Letter of Representation be signed by the Corporate Director of Finance following the meeting.
24. **ISA 260 Northumberland County Council Pension Fund 2012/2013 Report and Accounts**

A copy of Deloitte’s final report on the 2012/13 Local Government Pension Scheme Audit was considered. (Report enclosed with the signed minutes as Appendix B.)

Mr. Paul Thomson of Deloitte confirmed that the report had been considered by the Pension Fund Panel on 20 September 2013. The audit had been uncomplicated and he confirmed that the matters identified as outstanding on page 5 when the report had been finalised had now been received with the exception of the signed management representation letter.

The Audit Committee was informed that the only issue of note was the uncorrected misstatement in relation to the Morgan Stanley valuation, due to the timing of the receipt of the valuation. He added that some additional compensating testing had been carried out on the Global Infrastructure Partners investments as they had not produced an AAF17 report, but had supplied documentation from their Internal Auditors. It had been confirmed that the AAF17 report would be made available for the 2013/14 statement of accounts.

RESOLVED that the contents of the report be noted.

**REPORTS OF THE CORPORATE DIRECTOR OF FINANCE**

25. **Annual Accounts**

A report was submitted which contained an overview of the changes that had been made to the Council’s Statement of Accounts between the draft version, considered at the meeting of the Audit Committee on 24 July 2013, and the final version. (Report enclosed with the signed minutes as Appendix C.) The Northumberland County Council Pension Fund Statement of Accounts for 2012/13 were presented as Appendix D.

The Corporate Director of Finance confirmed that the updated statement of accounts would be posted to the Council’s website later in the day subject to their being signed off. He commented on the wonderful job which had been carried out by officers in Business Support which had achieved a very good outcome.

RESOLVED that

1. the changes to the draft document be noted.
2. the 2012/13 Statement of Accounts for Northumberland County Council and Northumberland County Council Pension Fund, be approved.

26. **External Audit Review of Audit Committee Effectiveness (2011/12)**

The Audit Committee was informed of a review conducted by the External Auditor (Deloitte) in 2012 concerning the effectiveness of the Audit Committee. (Report enclosed with the signed minutes as Appendix E.)

It was noted that the review was undertaken in the summer of 2012 and the former members of the Audit Committee had completed a self-assessment questionnaire. Following the elections in May 2013, the External Auditor had suggested that the new committee be made aware of the review in order that they could consider the
outcomes of that review and reflect on how this could shape the approach of the new Committee.

The Chief Internal Auditor stated that following the presentation of the review to the Audit Committee on 28 November 2012, several areas had quickly been actioned, including a work programme, approval of a policy on taking non-audit services from the auditor and training on the differences between the responsibility of the Audit Committee and the Scrutiny Committees.

The Chairman commented on the need for consistency in membership and attendance by members at meetings of the Audit Committee in order that matters were considered consistently and the effectiveness of the Committee was not impeded. It was agreed that a programme of training would be drawn up for consideration by members of the Audit Committee.

In answer to a question, the Chief Internal Auditor confirmed that a review of Audit Committee effectiveness was normally undertaken with the Audit Committee on an annual basis. She was of the opinion that this demonstrated best practice as it was useful to analyse what had happened previously and what the committee wanted to achieve in the future.

RESOLVED that the contents of the External Audit review of 2011/12 on the effectiveness of the Audit Committee, and the outcomes under the key themes, be noted.

27. Benefit Fraud Update

The purpose of this report was to provide an update on the work of the Fraud Section for the financial year 2012-2013 and developments for the current financial year. (Report enclosed with the signed minutes as Appendix F.)

The Corporate Director of Finance reported that confirmation had been received that the Department of Work and Pensions was working towards a recommendation for the introduction of a Single Fraud Investigation Service as a single organisation within the DWP. It was, therefore, likely that during 2014/15 some of the Investigation Team would be transferred to DWP.

The Council had been considering its position for a number of months and the other areas of work where little or no fraud detection work had historically been undertaken. This included areas such as housing tenancies, social care direct payments, procurement etc.

A report would be submitted to a future meeting of the Audit Committee to consider whether there was a business case to establish a separate fraud team which would be paid for from savings and recovered fraud payments.

RESOLVED that the contents of the report be noted.

CHAIR

DATE