

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

At a meeting of the **Audit Committee** held at County Hall, Morpeth on Wednesday, 30 November 2016 at 10.15 a.m.

PRESENT

Councillor Mrs. P. A. M. Dale
(Chairman, in the Chair)

COUNCILLORS

Hepple, A.
Reid, J. S.
Reid, A. W.

Wallace, Mrs. A.
Watson, J. G.
Woodman, J. C.

CO-OPTED MEMBER

Walker, Mrs. I.

OFFICERS IN ATTENDANCE

Mrs. A. Elsdon	Director of Corporate Resources
Mr. A. Stewart	Finance Manager, Corporate Finance
Mrs. A. Mitchell	Chief Internal Auditor
Miss B. J. McKie	Group Assurance Manager
Mr. L. Henry	Legal Services Manager
Ms. C. Mulley	Ernst & Young, External Auditor
Mr. T. Candlish	Senior Auditor
Mr. A. Le Marinel	Anti-Fraud Consultant
Dr. A. Johnson	Director of Education & Skills
Mrs. L. Papaioannou	Democratic Services Officer

ALSO IN ATTENDANCE

Councillors Mrs. E. Armstrong and R. R. Dodd
for agenda items 5 (1) and 5 (2).

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor G. Castle, Co-opted Member Mr. A. N. Haywood-Smith, Steven Mason (Chief Executive) and from External Auditor Mr. S. Reid.

2. MINUTES

RESOLVED that, the minutes of the meeting of the Audit Committee held on Wednesday, 28 September 2016, as circulated, be confirmed as a true record and signed by the Chairman.

3. DISCLOSURE OF MEMBERS' INTERESTS

Councillor Mrs. A. Wallace disclosed an interest in agenda items 5 (1) and 5 (2) as she is a member of the Strategic Planning Committee.

Councillor A. Hepple disclosed an interest as he is the Portfolio Member for Economic Growth including planning issues.

4. REPORTS OF THE EXTERNAL AUDITOR

(a) Annual Audit Letter for the year ended 31 March 2016

Members of the Audit Committee considered EY's Annual Audit Letter on the 2015/16 Audit of the Northumberland County Council Accounts (a copy of which is filed with the signed minutes as Appendix A).

Ms. C. Mulley of EY said there was no new content to draw to the attention of members and that all matters had been discussed previously. It was a matter of procedure that the Audit Letter would be signed.

RESOLVED that the Annual Audit Letter be received.

(b) Local Government Audit Committee Briefing

The Audit Committee received a copy of the briefing paper on topical issues relating to Local Government audits. (A copy of which is filed with the signed minutes as Appendix B).

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Ms. C. Mulley of EY reported that the DREAM approach to Highways Network Asset had been withdrawn by CIPFA in recent days and therefore was no longer an issue for concern in the current financial year.

With reference to the Ofsted Social Care Annual Report 2016. on page 6 of the report, Mrs Irene Walker queried whether Northumberland was included in the “quarter of local services that are deemed inadequate” and, if so, what plans were being made to rectify the issue. It was agreed to seek a response from the Deputy Chief Executive.

Some members referred to the key questions for the Audit Committee to be asking itself, on page 7 of the report, and the Director of Corporate Resources agreed to provide a response to the next meeting, in line with the usual processes for responding to the External Audit Briefing.

It was noted that a new Corporate Resources and Regional Affairs Overview and Scrutiny Committee had been established to consider the actions being taken and risks to the authority since the UK’s decision to leave the European Union.

RESOLVED that the report be received.

5. REPORTS OF THE CHIEF EXECUTIVE

(1) Investigation of Planning Process Complaint - Morpeth Neighbourhood Plan Area

The report summarised the outcomes from an investigation undertaken jointly by the Chief Internal Auditor and Monitoring Officer examining concerns and allegations expressed in three letters of complaint to the Council’s Chief Executive, and related enquiries, regarding planning matters in the Morpeth Neighbourhood Plan area. (A copy of the report is filed with with signed minutes as Appendix C).

Introducing the report, the Chief Internal Auditor said that following these complaints regarding the Morpeth Neighbourhood Plan, the matters which were the subject of the allegations had been thoroughly investigated with reference to all available supporting evidence. In conclusion, the investigation had found that the correct planning process had been followed, with the Planning Officer’s rationale being clearly set out in the appropriate Strategic Planning Committee reports. In particular, an allegation that there may have been political interference in the planning process had been found to be wholly unsubstantiated.

Some members suggested the investigation had been a costly exercise based on only a very few letters of complaint and queried why the report came to the Audit Committee and not the Strategic Planning Committee. It was reported

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that the complaints made to the Chief Executive had alleged a failure of corporate governance, which would therefore be more properly within the remit of the Audit Committee than any other committee of the Council.

One member expressed concern about the tone of the statement on page 2 of the report about the investigation of complaints, and felt it came across as defensive. The Monitoring Officer reported that the strong statement had been made in response to some of the comments made that were unfounded and unjustified, but which could have a serious reputational impact upon the individuals in respect of whom the allegations had been made. Having found no evidence to substantiate the allegations, it was therefore important that this was stated in forthright terms.

Members were assured that the complainants had been notified of the outcome of the investigation.

RESOLVED that the report be noted as being part of the ongoing consideration of governance and control issues within the Council.

(2) Investigation of Planning Process Complaint - Great Whittington

The report summarised the outcomes from an audit of concerns raised regarding a specific planning application (15/04/158/FUL), in the Great Whittington area (a copy of which is filed with the signed minutes as Appendix D).

The Chief Internal Auditor introduced the report into the investigation. The audit focused on concerns raised by members of the public who had expressed concern that the proper planning process had not been followed in a particular locality. The audit investigation had examined all available evidence, and had interviewed the complainant and others related to the matters under investigation, and concluded that the correct planning process had been followed throughout, although it was noted that some improvements could be made to the internal quality assurance processes used within the Planning Department. In addition, a separate Internal Audit review was to be carried out into the complex issue of elected members being landowners and declaring interests if involved in any aspect of the planning decision-making process.

With reference to the Audit Plan, members welcomed the proposed wider review of ethical governance and conflicts of interest being undertaken, in order to provide a level of assurance that this complex issue was being managed effectively.

RESOLVED that the report be noted as being part of the ongoing consideration of governance and control issues within the Council.

Councillors Armstrong and Dodd left the meeting at this point.

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(3) Arrangements for the appointment of the External Auditor (Local Auditor)

The report updated the Audit Committee on the changes to arrangements for the appointment of external auditors, introduced by the Local Audit and Accountability Act 2014, and the requirement to appoint their own 'local auditor' by 31 December 2017. (A copy of the report is filed with the signed minutes as Appendix E).

In introducing the report, the Chief Internal Auditor highlighted the requirement to appoint a 'local auditor' by 31 December 2017. The report set out the practicalities of the arrangements for the appointment, and proposed the establishment of a working group of officers and members to take forward the procurement process.

Some members queried the potential for collaboration with neighbouring local authorities on this issue to save costs. Another member raised an awareness of similar legislation in the NHS and their approach to an independent auditor, and sought clarity of the role of the working group and of the independence of the Auditor Panel in this instance.

It was noted that, should a direct procurement be undertaken, the evaluation process would be undertaken by the Auditor Panel, although the ultimate decision on the appointment of a local auditor would be for the County Council.

Members favoured the procurement and appointment options A and B, and believed that the 'sector led' approach, in option C, was not very beneficial.

RESOLVED that

- (a) the contents of the report be noted;
- (b) a small working group of officers and members be convened to take forward the local auditor procurement process, including convening of an Auditor Panel (appointment panel) as appropriate; and
- (c) further updates be provided to the Audit Committee as work to further refine our evaluation of procurement options available progresses.

(4) Key Outcomes from Internal Audit Assignments (April 2016 - September 2016)

The report summarised the main outcomes from Internal Audit reports which had been finalised in consultation with management and issued during the period April 2016 to September 2016 (a copy of which is filed with the signed minutes as Appendix F).

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Some members expressed concern about the large number of outstanding recommendations in the IT Audit - Information Governance, given that the original audit was undertaken in 2014. The 41 outstanding recommendations were viewed as significant, and members asked for an update to be provided to the next meeting, even if the movement was slight.

The Chief Internal Auditor explained that the original audit work had been undertaken over 18 months ago, and an Action Plan had been implemented. Since then, the issue had been raised with the Chief Information Officer, and it was agreed to take forward the issue at a pace to ensure priority was given to addressing the recommendations and change the assurance opinion from moderate to limited.

The Chair raised concern about the limited assurance opinion in relation to the recommendations of the audit into Active Northumberland - Health and Safety, on page 15 of the report, and requested a concentrated focus on the risks and feedback to be provided to the Committee at a suitable juncture in future.

RESOLVED that the contents of the report be noted, as part of the Audit Committee's ongoing consideration of governance and control issues within the Council.

(5) Interim Outturn Report on progress against the Strategic Audit Plan to 30 September 2016

The report provided members of the Audit Committee with an update on progress against the Strategic Audit Plan for 2016/17 (a copy of which is filed with the signed minutes as Appendix G).

The Chief Internal Auditor stressed the importance of being transparent and accounted for the performance of officers undertaking audit duties and achieving targets against the Audit Plan, given the workload of the shared service.

A member of the Committee suggested it would be useful to have the time spent on particular audits accounted for in terms of numbers of hours and days.

RESOLVED that the report be received and the progress against the Strategic Audit Plan, as set out in the Monitoring Statement for the period April 2016 to September 2016, (attached as Appendix 1 to the report), be noted.

(6) Corporate Resources - Treasury Management Mid-Year Update Report for the period 1 April 2016 to 30 September 2016

The report advised of the Authority's Treasury Management function during the first half of the financial year 2016/17 in compliance with CIPFA's Treasury Management in the Public Services: Code of Practice, (Revised 2011) and the

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Prudential Code for Capital Finance in Local Authorities 2003, revised 2011. The report advised members of Treasury Management activity and performance against prudential indicators during the period 1 April 2016 to 30 September 2016. (A copy of the report is filed with the signed minutes as Appendix H).

The following key items to note were highlighted:

- The Council's Treasury Management Policy and Strategy Statement for 2016-17 were approved at Council on 24 February 2016 and all transactions in the period 1 April to 30 September 2016 were undertaken in line with policies and practices and were within operational limits;
- The approved investment strategy was applied, where possible, to utilise investment balances to repay maturing debt and fund capital expenditure - and investment balances had reduced for this reason and to negate the need to borrow at a higher rate;
- the Weighted Average Rate of return on all investments increased from 1 April to 30 September by 0.3 per cent. This was because short term investments with lower rates of return matured in the period.
- Interest receivable on Treasury Management activity was forecast to underachieve on the budget by £0.3m. The shortfall being due to market conditions and lower rates of interest.
- The rate of return achieved by the Council in the period being above the LIPD industry rate;
- The Council had performed favourably in comparison with other LA's participating in the CAPITA benchmarking club;
- Interest achieved from loans to other bodies has exceeded the budget by approximately £3.5m due to increased activity and return.
- Borrowing had increased by £68.7m in the period;
- During the period the Weighted Average rate payable had reduced from 3.36% to 3.02% as a result of new shorter term borrowing with lower rates taken in the period;
- It was forecast that the budget for the cost of borrowing would be underspent by approximately £1.5m this year due to cheaper interest rates on shorter term borrowing;
- All borrowing within the period was within the parameters of the approved prudential indicators;
- The changes to the Scheme of Delegation, reporting, training and changes to the Policy were as a result of implementing a revised structure within the Corporate Finance team.

In response to members' queries raised about the Scheme of Delegation and Segregation Arrangements, the Director of Corporate Resources provided assurance that the processes had been reviewed by internal audit and the Section 151 Officer was satisfied there was an appropriate level of segregation.

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Members particularly viewed the 2.02% Weighted Average Rate of return on investments as considerable compared with other authorities returns of 0.7%, against a CAPITA benchmark of 0.62%.

In response to a member's query, the Director of Corporate Resources agreed to clarify whether the CIPFA Code of Practice recommended that the Treasury Management Strategy and two interim reports were to be considered by the Audit Committee, as opposed to a Scrutiny Committee.

RESOLVED that

- (a) the report be received and the performance of the Treasury Management function be noted;
- (b) the changes to the Treasury Management Practices be noted; and
- (c) the report be recommended to the Cabinet and the County Council for approval.

6. REPORTS OF THE DEPUTY CHIEF EXECUTIVE

(a) Key Strategic Risk No.5

[Councillor J. S. Reid left the meeting at this point because he believed it was inappropriate for the Audit Committee to look at education issues in this way.]

Members of the Audit Committee received a briefing on the County Council's Key Strategic Risk No.5, its Controls and Assurance Sources (a copy of which is filed with the signed minutes as Appendix L).

It was noted that effective risk management was a priority in the Corporate Plan 2013-17.

The Director of Education and Skills stated that he was appointed in October 2014 and he described how he had mitigated against that risk from 2014 to date. It was noted that the Government was promoting the removal of school improvement from local authorities, believing the way forward to be in the promotion of Teaching Schools. Pages 2-3 of the report set out the potential impact in Northumberland. Reference was also made to the findings in the Director of Education's presentation on educational outcomes at October 2016 alongside this report.

RESOLVED that the work being done to mitigate risk be acknowledged and the prospects for the future be noted.

(b) Presentation - Educational Outcomes at October 2016

The Director of Education and Skills gave a presentation on the educational outcomes in Northumberland schools, as at October 2016. (A copy of the

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updated Powerpoint presentation slides was tabled at the meeting and a copy is filed with the signed minutes).

The highlights of the report included;

- the good results at Key Stage 1, and the position had improved over the last three years in all subjects;
- good results at Key Stage 2, although there was a huge variation between schools;
- the improved results at Key Stage 4, despite the Government having changed the measure this year at GCSE level, and again, showing a huge variation between schools.
- the ability of the LA to intervene in academies was very limited, or zero;
- of particular concern is the most disadvantaged students and those in receipt of free school meals.

Other issues discussed included the LA's responsibility to educate any students

permanently excluded from academie; Ofsted's new measure to define coasting schools; and the cultural difference between white British boys' approach to education compared with boys from other countries of the world who value success. It was noted that, generally speaking, it takes three years for a school to be removed from a poor judgement to that of good, and Prudhoe High School was cited as a good example.

Whilst some members welcomed the monitoring role of Ofsted, concern was expressed about the risk of schools finding themselves in a category of concern and the consequential risks associated with that, incumbent on the children of Northumberland.

During wider discussion of schools judged to be in Special Measures, it seemed irresponsible of the Government to impose an academy sponsor such as Bright Tribe on a Northumberland School, given the managerial and financial concerns reported of Bright Tribe since 2014.

RESOLVED that the presentation be received.

7. REPORTS OF THE CHIEF EXECUTIVE

(1) Corporate Fraud Team - Counter Fraud Interim Report

The report updated members of the Audit Committee on work undertaken by the Corporate Fraud Team together with counter fraud activity within the Council during the period 1 April to 30 September 2016 (a copy of which is filed with the signed minutes as Appendix J).

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Members expressed appreciation of the efforts of the Corporate Fraud Investigation Team for their effectiveness in recovering monies, although it was noted that the total number of sanctions appeared to be declining owing to the changed way of recording the data. It was suggested that press releases would highlight the awareness of the Fraud Team as a preventative measure, in particular about blue badge enforcement activity.

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

(2) Corporate Fraud Team - Update of Fraud Related Policies

The report sought the endorsement of the Audit Committee for the updated policies outlined. (A copy of the report is enclosed with the signed minutes as Appendix K).

It was noted that, in order to comply with a recommendation from CIPFA, a separate Bribery and Corruption Policy had been written, which would form a requirement for mandatory training for all staff as part of the e-learning package.

RESOLVED that the following new and updated policies be endorsed:

- (a) Bribery & Corruption Policy (New)
- (b) Counter Fraud Policy (Updated) and
- (c) Anti-Money Laundering Policy.

8. URGENT BUSINESS

The Chairman agreed to the consideration of one item of urgent business that had been received following the despatch of the agenda papers, and it was relevant to seek the views of the Audit Committee in advance of the report being considered by the Family and Children's Overview and Scrutiny Committee and the Cabinet at their meetings in December 2016.

RESOLVED that the report of urgent business be considered.

9. REPORT OF THE DEPUTY CHIEF EXECUTIVE

Report of the Audit Committee Working Group

The report had been prepared in response to the changes planned for education which will affect the way that schools are run, funded and supported. A much reduced role was envisaged for local authorities, meaning they would no longer be responsible for running schools, school improvement

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or allocating local funding. (A copy of the report is filed with the signed minutes).

In introducing the report, the Chair said that she was aware there was a lot of information in the report, which highlighted the risk of sustainability of around 20 to potentially 40 small schools. Although there was considerable uncertainty about the changes and the timescale for their implementation, the report aimed to inform discussions, particularly in relation to small schools, by considering how schools are being encouraged to become or join academies or federate. Whilst the report was to be considered by the Family and Children's Services Overview Scrutiny Committee and the Cabinet, the Chair felt that the Audit Committee had a role to play in being an independent evidence commissioner.

It was noted that the page of introduction was to be incorporated into the main report of the Audit Working Group.

The Director of Education and Skills stated that the 10 suggestions on page 5 of the report of the Audit Working Group were the main findings. The Director highlighted the fact that the LA should ensure that it has sufficient capacity to fulfill its three statutory functions (i.e. safeguarding, place planning and SEND) and maintain other services as traded services.

During discussion, the following comments were made:

- Approximately 20 small schools were facing financial challenges in the light of the forthcoming new National Funding Formula.
- the schools and governing bodies needed to understand the position about remaining sustainable in a community school in their locality;
- the report highlighted an awareness of the risk of sustainability of at least 20 schools (and potentially up to 40 schools) at risk of becoming financially bankrupt or of Ofsted finding them inadequate, or both;
- The Director of Education ought to be given the lead role to find a solution around schools working together in partnership as part of Multi-Academy Trusts;
- it was noted that the R. C. Diocese had taken a strategic view to academisation in all their schools, however, it was difficult to understand the. C. E. Diocese strategy.
- the members of the Family and Children's Services Overview and Scrutiny Committee were considered best placed to take forward the report;
- the report ought to be shared on the website and circulated to all elected members.
- the Deputy Chief Executive should be requested to highlight the issues in her regular meetings with the County's Members of Parliament.

It was noted that the Director of Education and the Group Assurance Manager had agreed to meet to write the Key Strategic Risk wording to reflect the risk

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of financial challenge facing up to 40 schools, and the risk of being judged inadequate by Ofsted, and to incorporate the educational risk into the Council's Risk Management Plan.

Members extended their appreciation of the Audit Working Group for the detailed work they had undertaken. It was noted that there had been very broad and inclusive representation on the Working Group.

Members welcomed the opportunity to be able to discuss the risks facing a number of Northumberland schools ahead of the Family and Children's Services Scrutiny Committee discussing the issue, enabling a wider understanding of the position.

RESOLVED that the report be received and the contents of the report be noted.

CHAIRMAN _____

DATE _____

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