

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

At a meeting of the **Audit Committee** held at County Hall, Morpeth on Wednesday 29 March 2017 at 10.25am.

PRESENT

Councillor P.A.M. Dale
(in the Chair)

MEMBERS

Reid, A.W.
Wallace, A.

Watson, J,G.

CO-OPTED MEMBER

Walker, I.

OFFICERS IN ATTENDANCE

Elsdon, A.
Hadfield, K.

Mason, S.
McKie, B.J.
Mitchell, A.
Mulley, C.
Reid, S.

Director of Corporate Resources
Committee Services and Scrutiny
Manager
Chief Executive
Group Assurance Manager
Chief Internal Auditor
Ernst and Young, External Auditor
Ernst and Young, External Auditor

1. APOLOGIES FOR ABSENCE

Apologies were received from Councillors Castle, Hepple and Woodman.

Ch.'s Initials.....

2. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on Wednesday, 25 January 2017, as circulated, be confirmed as a true record and signed by the Chair.

3. REPORT OF THE EXTERNAL AUDITOR

External Audit Plan for the Year Ending 31 March 2017

The Committee were requested to receive this report from Ernst and Young (EY) (copy attached to the signed minutes as Appendix A).

Stephen Reid guided members through the main issues he wished to highlight as follows:-

2. Financial Statement Risks

- **Significant Risks** - these were the same as last year and he highlighted the proposed approach to dealing with these risks.
- **Inherent Risks** - these included the valuation of land and buildings and investment properties (as they they constituted a significant part of the Council's balance sheet), accounting for group pension obligations and loans to third parties. Reference was made to the proposed loan to the Alnwick Garden Trust and it was noted that, whilst that had not been approved, it had attracted some public interest. It was also noted that, in the context of the Council's overall budget, the amount of £8.5m involved was not significant.
- **Changes to code of practice on local authority accounting** - there were relatively few changes but some presentational changes to financial statements.

3. Value for money risks - financial planning

EY would need to consider the the process and plans in place to deliver the required budget reductions.

Mrs Walker queried the £21m savings figure and whether this had been achieved. The Chief Executive explained that the figures involved had been altered slightly because of revisions to the medium term financial plan. Savings for 2017-18 had been identified in the recent budget, and officer work was now ongoing for savings in the next two to three years. Savings had been front and back loaded over the total period to allow an easier year in the 2017 election year. £43m had been achieved thus far, with £36m still to achieve looking forward.

Mrs Walker queried whether the increase in council tax would offset any savings. The Chief Executive advised that this would not be the case. The Government was allowing local government to increase council tax by the same amount, just over a different period and the precept would not actually

pay for the Government decision to impose the living wage but not to fund it. Additional funding had been announced by the Government after the Council had set its budget but this funding was non recurrent. It provided additional support for transition areas until other funding came on stream, but this was simply resource which had been taken from local government budgets and re-badged, and would not improve the Council's finances for 2020.

4.2 Audit Process Review - internal audit

Stephen Reid advised that liaison would continue with the Council's internal auditor, and specialists would be used as indicated in the report. In response to a query from Mrs Walker regarding the use of specialists for the valuation of land and buildings and investment properties, Mr Reid confirmed that specialists would also be used as well at the Council's valuer, as indicated in the report.

4.4 Materiality

Mr Reid advised that the reporting threshold and planning materiality remained the same as last year, but tolerable error levels had been increased.

4.5 Consolidation of financial statements

In response to a query from Mrs Walker regarding the bodies included within the Group and the external audit arrangements, members were advised that Arch was included within the Group, though a number of other bodies were accountable to the County Council. Ms Mulley confirmed that she audited Arch's accounts; she reported to them first through their own Audit Committee, which then fed into the Group opinion. Any material issues would be reported to the County Council's Audit Committee.

The Chief Executive reminded members that Arch was owned and controlled by the County Council and the requirement for them to have the same external auditor facilitated clear dialogue between them. Active Northumberland also had the same external auditor though they were not part of the Group, which provided the Authority with the assurance it needed.

The Chief Executive added that a governance review of Arch was planned for the start of the next Administration which would report to Council. This would provide assurance to all members about the controls between the Authority and Arch.

The Chair encouraged any member who had concerns about the governance of Arch to raise them with Audit Committee first as opposed to raising them publicly.

4.8 Timetable of communication, deliverables and insight

Mr Reid advised that work had already begun on site and a catch up with the team was planned for Monday. This early work would take pressure out of the delivery process.

5 Independence

Mr Reid confirmed he was independent of the County Council.

RESOLVED that the proposed External Audit Plan for the year ending 31 March 2017 be received.

4. REPORT OF THE CHIEF EXECUTIVE

Strategic Audit Plan 2017/18

The report advised the Audit Committee of the Strategic Audit Plan for 2017/18. The document outlined the planned work of Internal Audit during this period which was attached as Appendix 1 to the report (copy attached to the signed minutes as Appendix B).

Ms Mitchell, Chief Internal Auditor, presented the Strategic Audit Plan for 2017-18 highlighting the following points:-

- The Audit Plan was for a one year period
- A review would be undertaken of corporate risks, and the risk management approach would be looked to make it more relevant. Work was ongoing with officers on the performance management system, which captured real time data, and reports would be made to the Audit Committee as work progressed on this.
- It was management's responsibility to establish effective controls and to run the Council well. Internal Audit's role was to support managers in this, and this was detailed in paragraph 4.2.
- The Accounts and Audit (England) Regulations 2015 required Internal Audit to be assessed this year and a cost effective tri-partite arrangement had been agreed with Newcastle, South Tyneside and North Tyneside.
- On resource management, a comparison had been done with other regional authorities on staffing levels. At each end of the scale, Durham had 17.4 and South Tyneside had 5.02, with a mean average in the LA7 Authorities of just over 10. Northumberland had 6.42 and North Tyneside had 6.01. It was important to work as efficiently as possible and the shared service arrangements and automation of tests had brought great improvements to the service. These arrangements had brought many benefits, including in both learning and best practice. The "learn once, use twice" approach would be maximised wherever possible to share good practice.
- The Chair commented on the improved way of working which now existed between Internal Audit and the wider Council, which had demonstrated the help which Internal Audit could provide. The approach was now far more

proactive, making Internal Audit an integral part of the Council instead of overseeing its activities, and staff should be congratulated on that. Ms Mitchell agreed that it was important to be fair and balanced, and to be seen as critical friends.

- Ms Mitchell detailed the key themes in the Strategic Audit Plan, advising that a more detailed Plan would be presented. She commended the Plan to the Committee advising that more detail would be brought forward in the future.

The Chair queried the position with Active Northumberland, referring to the further work which had been required. Ms Mitchell advised that audits of Active Northumberland had been undertaken and were in the process of being finalised.

The Chair listed a number of issues for potential future scrutiny including the Deloitte review of planning and its recommendations, the delivery of education by major sponsors, further work on County Hall and member interests. Ms Mitchell advised that all potential future areas of work would need to be assessed in terms of the wider picture and resources available, but she would look at the issues raised to determine whether audit involvement was appropriate.

Councillor Watson queried whether the new Audit Committee after the election would approve the Strategic Audit Plan. Ms Mitchell responded that the Plan in front of members was for the 2017-18 year. The new Audit Committee would be provided with more detail on it once the strategic risks had been firmed up.

RESOLVED that the Audit Committee approve the Strategic Audit Plan 2017/18, attached to the report as Appendix 1, and the Internal Audit coverage set out therein.

5. URGENT BUSINESS

Annual Governance Statement

Mrs Elsdon, advised that the Annual Governance Statement would not be ready until end April/early May. She proposed to send the draft for comments to members, followed by the final version, and she asked that members respond to confirm whether they were in agreement with the draft or not.

The Chair asked that all Committee members be emailed to advise them in advance that this was happening, and that a response would be required.

RESOLVED that this proposed course of action be agreed.

The Chair expressed her thanks to all officers, the external auditors and the members of the Committee for their hard work and input during the previous four years. She wished all members well in the forthcoming election.

CHAIR.....

DATE.....