

# Northumberland County Council

Year ended 31 March 2017

Interim update report

11 July 2017

Ernst & Young LLP



Building a better  
working world

Audit Committee  
Northumberland County Council  
County Hall  
Morpeth  
NE61 2EF

10 July 2017

Dear Members of the Audit Committee

### **Interim update report: Year Ended 31 March 2017**

We are pleased to attach our Interim update report which sets out our progress against our work in the Audit Plan presented to the Audit Committee on 29 March 2017.

We welcome the opportunity to discuss the content of this report with you on 26 July 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Stephen Reid  
Partner  
*For and behalf of Ernst & Young LLP*  
Enc

## Contents

<b>1. Executive summary .....</b>	<b>2</b>
<b>2. Procedures performed to date .....</b>	<b>3</b>
<b>3. Update to audit strategy .....</b>	<b>5</b>

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 1. Executive summary

For the year ending 31 March 2018, the Council will be required to publish audited financial statements by 31 July 2018, i.e. two months earlier than in previous years.

As part of planning for this earlier deadline, we have worked with management to identify areas of audit testing that can be completed prior to year end, with a view to closing the audit for the current year by the end of August. This will enable management, and us, to plan effectively for the accelerated timetable for the 2018 year end.

A summary of our work performed during our interim visit is set out in Section 2 of this report and a short update on our audit strategy is included in Section 3 of this report.

## 2. Procedures performed to date

During our interim visit we completed our audit planning work encompassing the following audit procedures:

- ▶ Walkthroughs of the Council's material financial systems to gain an understanding of the financial processes followed;
- ▶ Update of our documentation of key financial controls in operation within the Council and obtained evidence of the controls being implemented, where appropriate;
- ▶ Reviewing meeting minutes of the Audit Committee, Cabinet and full Council to update our understanding of the Council's activities; and
- ▶ Tested opening balances for the Council, reconciling amounts in the general ledger to the prior year audited financial statements.

We also worked with management to identify areas where we could complete interim audit testing to bring forward the audit timetable in preparation for the statutory deadline for the 2017/18 audited financial statements moving to 31 July.

The table below sets out details of the work we completed at the interim audit.

Audit Area	Audit work completed
<b>Grant Income</b>	We have tested a sample of central government grants to notification of allocation and confirmed receipt of cash to bank statements.
<b>Other income</b>	We have completed 8 months of substantive testing of 'other income', to supporting documentation.
<b>Other expenditure</b>	We have completed 8 months of substantive testing of 'other expenditure', agreeing it to supporting documentation.
<b>Internal recharges</b>	We have completed sample testing of internal recharges as at month 8, to supporting documentation.
<b>Collection Fund</b>	We have agreed precepts and demands on the collection fund to supporting documentation.
<b>Long term debtors</b>	<p>We have agreed the following loans given to the Arch Group to notification of drawdowns and approvals:</p> <ul style="list-style-type: none"> <li>▶ Manor Walks shopping centre in Cramlington (£82,810,547)</li> <li>▶ Westmorland Retail Park (£34,129,140)</li> <li>▶ Tyne Valley Retail Park (£7,843,775)</li> </ul>

Audit Area	Audit work completed
<b>VFM conclusion</b>	<p data-bbox="655 293 1337 322">Our VFM conclusion work is well underway and we have:</p> <ul data-bbox="703 353 1422 636" style="list-style-type: none"> <li data-bbox="703 353 1422 421">· Considered the Council's past performance and delivery of saving plans;</li> <li data-bbox="703 434 1422 562">· Reviewed the assumptions included in your Medium Term Financial Plan (MTFP), including your projections for Council Tax, NNDR income and central government funding; and</li> <li data-bbox="703 575 1422 636">· Considered the reasonableness of cost pressures built into the MTFP.</li> </ul> <p data-bbox="655 651 1422 741">As part of our final audit work, we will also consider the impact of any changes to policy made by the new administration on the assumptions in the MTFP.</p>

We have no findings to report arising from this work.

### 3. Update to audit strategy

Our Audit Plan presented to the Audit Committee on 29 March 2017 contained the following risks to our audit opinion on the financial statements and Value for Money opinion:

#### **Significant financial statement risks**

- ▶ Risk of management override of control
- ▶ Risk of fraud in revenue and expenditure recognition

#### **Other financial statement risks**

- ▶ Valuation of land and buildings and investment properties
- ▶ Accounting for pension obligations
- ▶ Loans made to third parties
- ▶ Changes to the Code of Practice on Local Authority Accounting

#### **Significant Value for Money risks**

- ▶ Medium term financial planning

We have revisited our risk assessment following completion of our interim audit visit and confirmed that it remains appropriate.

We have also considered the impact of the change in administration of the Council that took effect in May 2017. As this falls into the 2017/18 audit year, we expect the impact on the 2016/17 audit to be mainly focussed on considering whether there have been any decisions made that have a material impact on the assumptions used in the Medium Term Financial Plan. The governance and impact of any major decisions made by the new administration will be considered as part of our 2017/18 audit.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](http://ey.com)