

**Northumberland County  
Council  
Audit Results Report**

Year ended 31 March 2018

July 2018

**Draft**

Private and Confidential

July 2018

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our conclusions in relation to the audit of Northumberland County Council ("the Council") for 2017/18.

We have substantially completed our audit of the Council for the year ended 31 March 2018. We confirm that we expect to issue an unqualified audit opinion on the financial statements in the form set out in Section 2, before the statutory deadline of 31 July 2018.

We are reporting a proposed modification to our conclusion about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 25 July 2018.

Yours faithfully

Stephen Reid  
Partner  
For and on behalf of Ernst & Young LLP  
Encl

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In April 2015, Public Sector Audit Appointments Ltd (“PSAA”) issued the “Statement of Responsibilities of auditors and audited bodies”. It is available from 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 (updated February 2017)” issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Northumberland County Council in accordance with the Statement of Responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Northumberland County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Northumberland County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary

## Scope update

In our Audit Planning Report presented at the 24 January 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements.

We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall Group materiality assessment to £17.2 million (Audit Planning Report £18.1 million). This results in updated performance materiality, at 75% of overall materiality, of £12.9 million, and an updated threshold for reporting misstatements of £860,000.

## Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise.

- ▶ Receipt of remaining grant income sample information
- ▶ Receipt of remaining information in relation to Housing Benefit expenditure
- ▶ Payroll reconciliation with the general ledger
- ▶ Receipt of outstanding third party confirmations - Barclays and Goldman Sachs
- ▶ Financial instruments disclosures
- ▶ Audit of related parties note
- ▶ Testing of group consolidation adjustments
- ▶ Whole of Government Accounts procedures
- ▶ Final review of financial statements and audit work

## Audit differences

At the time of writing this report there is one potential material audit difference arising from our audit. We have identified a possible reclassification between 'Assets under Construction' and 'Work in Progress' on the group balance sheet in relation to ongoing developments of housing under the Ascent Homes brand. At the time of writing this report, the precise value of the adjustment is not known and therefore we will update the Audit Committee on this adjustment at the meeting on 25 July 2018.

There have been some other minor changes made to the draft financial statements and we summarise these in Section 4 of this report.

# Executive Summary

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in Section 2 of this report. We ask you to review these and any other matters in this report to ensure:

- ▶ there are no other considerations or matters that could have an impact on these issues;
- ▶ you agree with the resolution of the issue; and
- ▶ there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls; however during the course of our audit work we have identified the following opportunities for the enhancement of internal control:

- ▶ Management are able to create and authorise their own journal postings.
- ▶ There was no reconciliation performed between the debtors sub-ledger and the general ledger in year.
- ▶ The fixed asset working papers are complex and require a large amount of manual manipulation by management.

## Value for money

In accordance with our responsibilities as your external auditor, we considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report, we identified a significant risk in relation to taking informed decisions, with a specific focus on:

- ▶ Agreeing a termination package for the former Chief Executive.
- ▶ Restructuring of the senior management team of the Council.
- ▶ Reversing the decision to move Council headquarters from the current site in Morpeth to Ashington.
- ▶ Withdrawal of the Local Plan.
- ▶ Announcing the intention to wind up the Arch Group, a group of wholly owned subsidiary companies, and transfer the assets to a new development company.

We propose to issue a modified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources in relation to the governance arrangements over the Arch Group. We have also set out a number of observations and recommendations arising from our work over the other areas, identified above, in Section 5 of this report.



# Executive Summary

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## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We made some comments on an earlier draft of the Council's Annual Governance Statement and these have been materially addressed within the current version. We have no matters to report arising from this work.

We are required to perform procedures required by the National Audit Office ("NAO") on the Whole of Government Accounts submission. This work is ongoing at the time of writing this report.

We received one objection on the Council's accounts from an elector; however we do not believe that it was a valid objection and we have issued a response to the objector setting out our reasons for this decision.

We have no other matters to report.

## Independence

Please refer to Section 9 for our update on independence.



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## Areas of Audit Focus



## Areas of Audit Focus

### Significant risk

#### Risk of fraud in revenue and expenditure recognition

##### What is the risk?

Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

##### What judgements are we focused on?

The main judgements we focussed on were:

- ▶ Sundry creditors including year end accruals totalling £70.1 million; and
- ▶ Valuation of short-term debtors, including income accruals of £74.9 million

##### What did we do?

- ▶ We reviewed and tested revenue and expenditure recognition policies;
- ▶ We reviewed, discussed with management, and tested (where appropriate) any accounting estimates on revenue or expenditure recognition for evidence of bias;
- ▶ We tested material revenue and expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified; and
- ▶ We reviewed a sample of transactions recorded in the ledger and payments made from the bank account post year-end and confirmed that the associated income and expenditure has been recorded in the correct period.

##### What are our conclusions?

Our testing has not identified any material misstatements relating to revenue and expenditure recognition.

We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.





## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

##### What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

##### What did we do?

- ▶ We identified fraud risks during the planning stage of our audit;
- ▶ We inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- ▶ We considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ We determined an appropriate strategy to address those identified risks of fraud; and
- ▶ We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

##### What are our conclusions?

We did not identify any other transactions during our audit which appeared unusual or outside of the Council's normal course of business.

The most significant judgement that we identified in the Council's accounts, other than those referred to on the following pages of this report, is in relation to the valuation of the investment held in Newcastle Airport. We have included more narrative on this over the page.

As part of our audit work we identified that it was possible for management to create and authorise their own journals in the general ledger; however we used our data analytics tools to confirm that there were no instances of this taking place.

We have no other matters to report in relation to this risk.





## Areas of Audit Focus

# Significant risk



### Further details on procedures/work performed

#### Valuation of investment in Newcastle International Airport Limited

The value of the Council's investment in Newcastle International Airport Limited is £13.4 million which is based on the value of the sale of shares to AMP Capital Investors Limited in 2012. Each year management are required to review the valuation of the investment to determine whether an impairment is required to the valuation of the investment.

We obtained the most recent audited financial statements for Newcastle International Airport Limited and noted that there were net liabilities on the balance sheet and therefore we challenged management on whether an impairment to the value of the investment should have been recognised this year. Management noted that the airport successfully refinanced by agreeing a new portfolio of loans in the year and although the balance sheet is showing net liabilities, the operating position of the company has improved.

We have corroborated management's explanation to the audited financial statements for Newcastle International Airport Limited and are therefore satisfied that the valuation of the investment is not materially misstated in the accounts.



## Areas of Audit Focus

### Other Area of Audit Focus

#### Valuation of land and buildings

##### What is the risk?

The fair value of property, plant and equipment (“PPE”) and investment properties (“IP”) represents a significant balance in the Group’s accounts and is subject to valuation changes, impairment reviews and depreciation charges.

Management of the Council and the Arch Group are required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

##### What did we do?

- ▶ We have considered the work performed by the Group’s valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ We have sample tested key asset information used by the valuation team in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ We have considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code;
- ▶ We have considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ We have reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- ▶ We have considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ We have tested accounting entries to ensure they have been correctly processed in the financial statements.

##### What are our conclusions?

Our work on the valuation of PPE in the Council dwellings highlighted that valuations were within an acceptable range and we have no matters to report on this matter.

We did, however, identify that the PPE working papers were complex and there were some manual errors in the workings, although we were able to satisfy ourselves that these had no material impact on the financial statements.

We have also considered the valuation of PPE and IP in the Arch Group as these are significant balances in the Council’s group accounts and used our EY estates team to support is on our assessment of the valuation. Our EY Estates team identified that the valuation of the Manor Walks Shopping Centre was at the upper end of an acceptable range and we have included more narrative on this over the page.



## Areas of Audit Focus

### Other Area of Audit Focus



#### Further details on procedures/work performed

The valuer engaged by the Arch Group has valued the Manor Walks Shopping Centre at £117.75 million. Our EY Estates team have reviewed the valuation, confirmed that the valuation methodology is appropriate and have re-calculated an acceptable range for the valuation of between £110.65 million and £119.25 million. We note that the value attached to Manor Walks Shopping Centre falls within the acceptable range; however given the current volatility in the retail sector we may have expected it to be at the lower end of the range. We challenged the Arch valuer on the rationale for the valuation being at the top end of the range and they confirmed that they view the valuation as appropriate as, at the present time, the Centre appears relatively unaffected by the decline in the retail market. We are content that this explanation supports the judgement taken; however this is a significant judgement taken by management which we draw to the attention of the Audit Committee. The value of the Centre represents an ongoing risk for the Arch Group and for the Council.

The audit procedures of the Arch audit team have also identified that there is a potentially material reclassification between 'Assets Under Construction' and 'Work in Progress' on the Balance Sheet in relation to properties being developed under the Ascent Homes brand which will impact on the Group financial statements. Management at Arch are working to quantify the adjustment and we will confirm the value at the Audit Committee meeting on 25 July 2018; however we are satisfied that the adjustment does not have an impact on the group income and expenditure position.

We have no other matters that we would be required to draw to your attention in relation to this risk.



## Areas of Audit Focus

### Other Area of Audit Focus

#### Pension liability valuation

##### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

##### What did we do?

- ▶ We obtained assurances over the information supplied to the actuary in relation to the Council as part of our audit work on the Northumberland Pension Fund;
- ▶ We have assessed the work of the Pension Fund actuary (AON) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by PSAA for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

##### What are our conclusions?

Our work in this area has confirmed that the assumptions used in the calculation of the liability for the local government pension scheme are reasonable.



# Areas of Audit Focus

## Other matters

### IFRS 15 - Revenue From Contracts With Customers

- ▶ The applicable accounting framework is CIPFA's annual Code of Practice on Local Authority Accounting in the United Kingdom (which is IFRS based as adapted for Local Authorities). The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018. The 2018/19 Code will determine how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies.
- ▶ It is our view, that IFRS 15 will not have a material impact on this Council's financial statements. The vast majority of the Council's income streams are taxation or grant based. The following income streams which are within the scope of IFRS 15 are immaterial to the Council:
  - ▶ fees and charges for services under statutory requirements;
  - ▶ sale of goods provided by the authority; and
  - ▶ charges for services provided by a local authority.
- ▶ We look forward to working with management to ensure any relevant changes in requirements are considered and dealt with effectively.



## 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBERLAND COUNTY COUNCIL

##### Opinion

We have audited the financial statements and the firefighters' pension fund financial statements of Northumberland County Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Comprehensive Income and Expenditure Statement,
- ▶ Movement in Reserves Statement
- ▶ Balance Sheet,
- ▶ Cash Flow Statement,
- ▶ Notes to the Accounts 1 to 47,
- ▶ Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 10
- ▶ Collection Fund Account and the related notes 1 to 2
- ▶ Group Comprehensive Income and Expenditure Statement,
- ▶ Group Movement in Reserves Statement
- ▶ Group Balance Sheet,
- ▶ Group Cash Flow Statement,
- ▶ Group Accounting Policies,
- ▶ Notes to the Group Accounts 1 to 8,
- ▶ and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 4.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Northumberland County Council and Group as at 31 March 2018 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:  
the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or  
the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the narrative report set out on pages 1 to 22, other than the financial statements and our auditor's report thereon. The Section 151 Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

[Wording to follow]

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, with the exception of the matter(s) reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Northumberland County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- ▶ in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Responsibility of the Section 151 Officer

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 22, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Northumberland County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Northumberland County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Certificate

We certify that we have completed the audit of the accounts of Northumberland County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

#### Use of our report

This report is made solely to the members of Northumberland County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Northumberland County Council and Northumberland County Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Newcastle upon Tyne  
27 July 2018



# 04 Audit Differences





## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of differences

At the time of writing this report there is one potential material audit difference arising from the audit of the Arch Group which may impact on the Council's Group financial statements. There is a potentially material reclassification between 'Assets Under Construction' and 'Work in Progress' on the balance sheet in relation to properties being developed under the Ascent Homes brand. Management at Arch are working to quantify the adjustment and we will confirm the value of the adjustment to the Group Balance Sheet at the Audit Committee meeting on 25 July 2018.

We also identified that one lump sum payment with a value of £150,000 was incorrectly included in the fire fighters pension scheme statement for 2017/18 when the payment was made in April 2018. This has been adjusted in the final accounts.

As noted in section 2 of this report there were some disclosure adjustments identified, including:

- ▶ Reclassification of the investment in Newcastle Airport from a level 2 to a level 3 financial instrument;
- ▶ Restatement of the Expenditure and Funding Analysis so that it ties in to other areas of the accounts; and
- ▶ Inclusion of a post balance sheet events disclosure on the proposed transfer of assets from the Arch Group to Advance Northumberland.

We also identified some items included within the financial instruments disclosures which we do not consider meet the definition of a financial instrument. The amounts are not material and therefore we are satisfied that the financial instruments disclosure is not materially misstated; however management has agreed to review the classifications for 2018/19.

There are no other uncorrected misstatements.



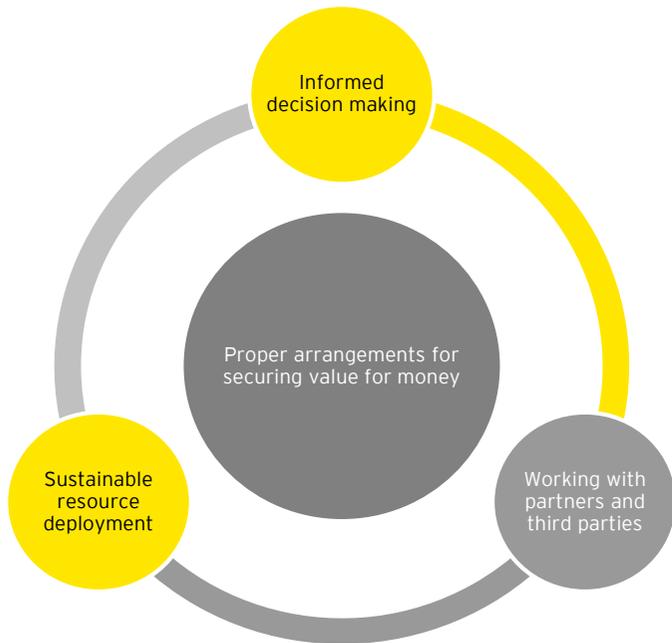
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# Value for Money Risks





# Value for Money



## Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

In considering your proper arrangements, we draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Overall conclusion

We identified a number of significant risk around informed decision making as part of our audit planning work. The tables below present our findings in response to the risks in our Audit Planning Report. We do not anticipate modifying our Value for Money conclusion as a result of these risks; however we have included some observations and recommendations on the tables over the page.

In respect of our 2017/18 value for money conclusions, we have also considered the impact of the modified opinion issued in 2016/17 in relation to governance arrangements at the Arch Group. We note that due to the timing of the governance issues being identified at the Arch Group, the new governance arrangements had not been embedded for the full financial year (1 April 2017 to 31 March 2018) and therefore we propose to conclude that the Council had proper arrangements in place 'except for' in relation to governance and oversight at the Arch Group.

## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

| What is the significant value for money risk?   | What arrangements did the risk affect? | What are our findings?  |
|---|--|---|
| <p>In the period from 1 April 2017 to date the Council has made a number of high profile decisions, including:</p> <ul style="list-style-type: none"> <li>▶ Agreeing a termination package for the former Chief Executive.</li> <li>▶ Restructuring of the senior management team of the Council.</li> <li>▶ Reversing the decision to move Council headquarters from the current site in Morpeth to Ashington.</li> <li>▶ Withdrawal of the Local Plan.</li> <li>▶ Announcing the intention to wind up the Arch Group, a group of wholly owned subsidiary companies, and transfer the assets to a new development company.</li> </ul> <p>The above decisions have a significant impact on the operations of the Council.</p> | <p>Making informed decisions</p>       | <p>We do not propose to modify our value for money conclusion in relation to any of the decisions highlighted in our audit plan; however we have set out some observations and recommendations arising from our work below.</p> <p><b><i>Restructuring of the senior management team and agreeing an exit package for the former Chief Executive</i></b></p> <p>We have reviewed the process undertaken by the Council and have made the following recommendations and observations:</p> <ul style="list-style-type: none"> <li>▶ The Council Pay Policy Statement for the period 1 April 2017 to 31 March 2018 states that Any severance or redundancy package for any employee where the cost exceeds £100,000 (including redundancy, any discretionary elements, strain on fund pension costs and any pay in lieu of notice) the proposal must be approved by full Council. We noted that the at the Council meeting on 24 May 2017 the Director of HR and OD was authorised to take such action, in consultation with the Leader of the Council, as she considered reasonably necessary to implement any decisions agreed by Council on this matter. Therefore, the final payment was not formally approved by Council. The Council’s constitution does not prevent delegation of approval of exit packages; however we would recommend that the wording of the Pay Policy Statement is updated to make it clear that delegated authority can be given for agreement for these decisions should a similar situation arise in the future.</li> <li>▶ The report presented to Council on 6 September 2017, setting out the proposed changes to the structure of the new corporate leadership team, compared the costs of the new structure to the costs of the structure approved in January 2015. We note that there had been changes to the structure of the corporate leadership team since January 2015, including formal Council approval being obtained to revise the structure in October 2015.</li> </ul> |

## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

| What is the significant value for money risk?  | What arrangements did the risk affect? | What are our findings?   |
|--|--|--|
| <p>In the period from 1 April 2017 to date the Council has made a number of high profile decisions, including:</p> <ul style="list-style-type: none"> <li>▶ Agreeing a termination package for the former Chief Executive.</li> <li>▶ Restructuring of the senior management team of the Council.</li> <li>▶ Reversing the decision to move Council headquarters from the current site in Morpeth to Ashington.</li> <li>▶ Withdrawal of the Local Plan.</li> <li>▶ Announcing the intention to wind up the Arch Group, a group of wholly owned subsidiary companies, and transfer the assets to a new development company.</li> </ul> <p>The above decisions have a significant impact on the operations of the Council</p> | <p>Making informed decisions</p>       | <p><b><i>Relocation of County Hall</i></b></p> <p>We have reviewed the process for the decision to remain at County Hall, rather than relocate to the new site at Ashington. We recommend that management progress with fully costing up the refurbishment of County Hall and costs for re-development of the Ashington site so that they can be formally monitored through the usual capital monitoring process and ensure that the project is delivered within budget.</p> <p><b><i>Withdrawal of the Local Plan</i></b></p> <p>We have reviewed the process for the withdrawal of the Local Plan and recommend that management progress with the consultation and approval process for the new Local Plan, as the absence of an approved Local Plan represents an increased risk of challenge to planning decisions and intervention by Central Government.</p> <p><b><i>Intention to wind up Arch Group</i></b></p> <p>We note that the decision to wind up the Arch Group and transfer activities to Advance Northumberland was approved by Cabinet in June 2018 and therefore we are satisfied that this decision does not have an impact on our 2017/18 Value for Money conclusions. We will consider reviewing the governance process on this decision as part of our responsibilities in 2018/19.</p> |



# 06 Other reporting issues



## Other reporting issues

# Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Narrative Statement with the audited financial statements. We are satisfied that the Narrative Statement is consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We are satisfied that the Annual Governance Statement materially complies with the guidance.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

Our work in this area is ongoing and we will update the Audit Committee of our progress at the meeting on 25 July 2018.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

We received one objection to the Council's financial statements from an elector in the area. We do not consider that this was a valid objection and have issued a response to the elector setting out our reasons for this judgement.



07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control. We have identified the following matters that we would like to draw to your attention:

- ▶ We recommend that the working papers for property, plant and equipment are reviewed to streamline the documentation and processes, thereby reducing manual interventions and the associated risk of errors being introduced.
- ▶ As highlighted in previous years, we recommend that procedures are established remove the ability of members of staff preparing and authorising their own journal entries.
- ▶ We recommend that a regular reconciliation is performed between the debtors ledger and the general ledger.



# 08 Data Analytics



# Use of Data Analytics in the Audit

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee related expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We captured the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

### Journal Entry Analysis

We obtain downloads of all the Council's financial ledger transactions posted in the year. We performed completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our Audit Planning Report.

### Payroll Analysis

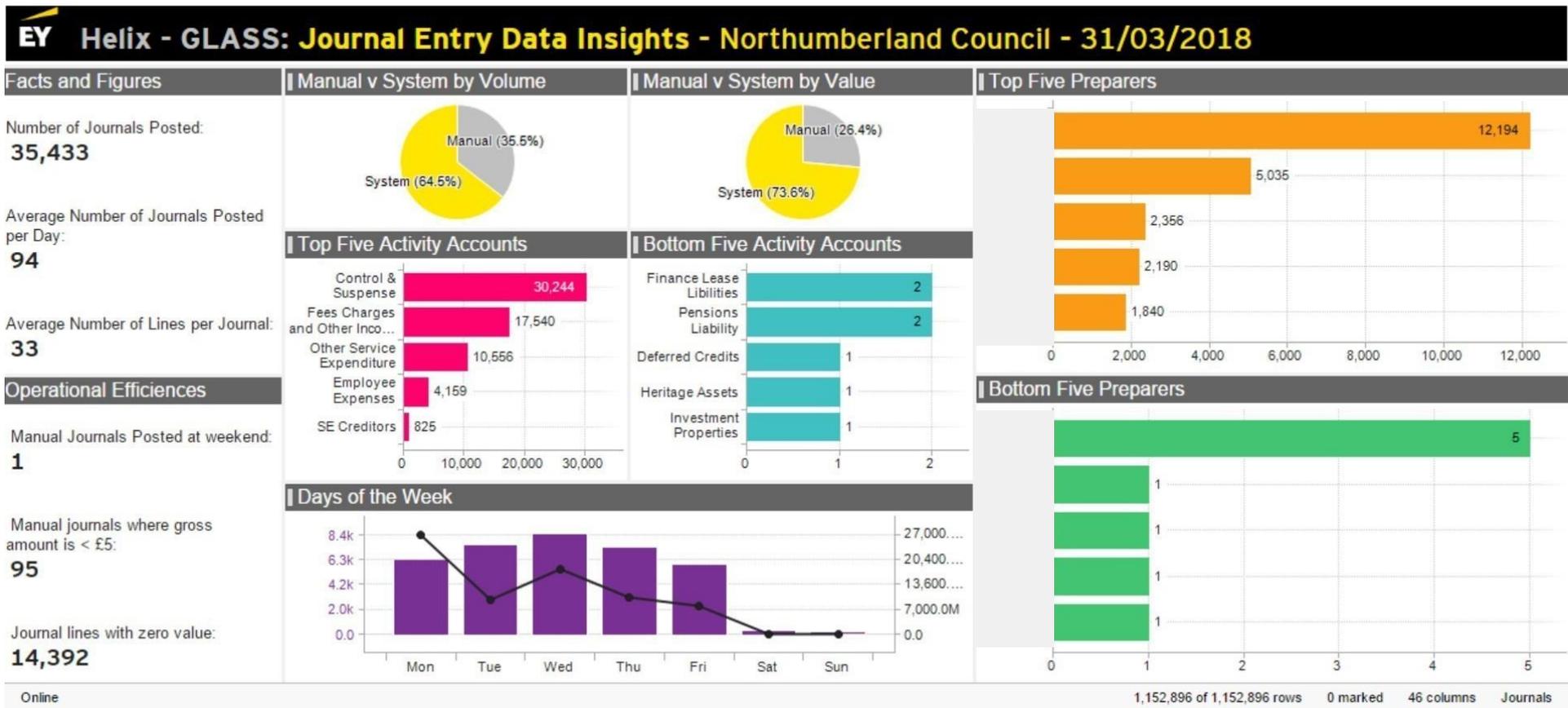
We also used our analysers in our payroll testing. We obtained all payroll transactions posted in the year from the payroll system and performed completeness analysis over the data, including reconciling the total amount to the general ledger trial balance. We then analysed the data against a number of specifically designed procedures. These included analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the Council's journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions. The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





## Journal Entry Testing

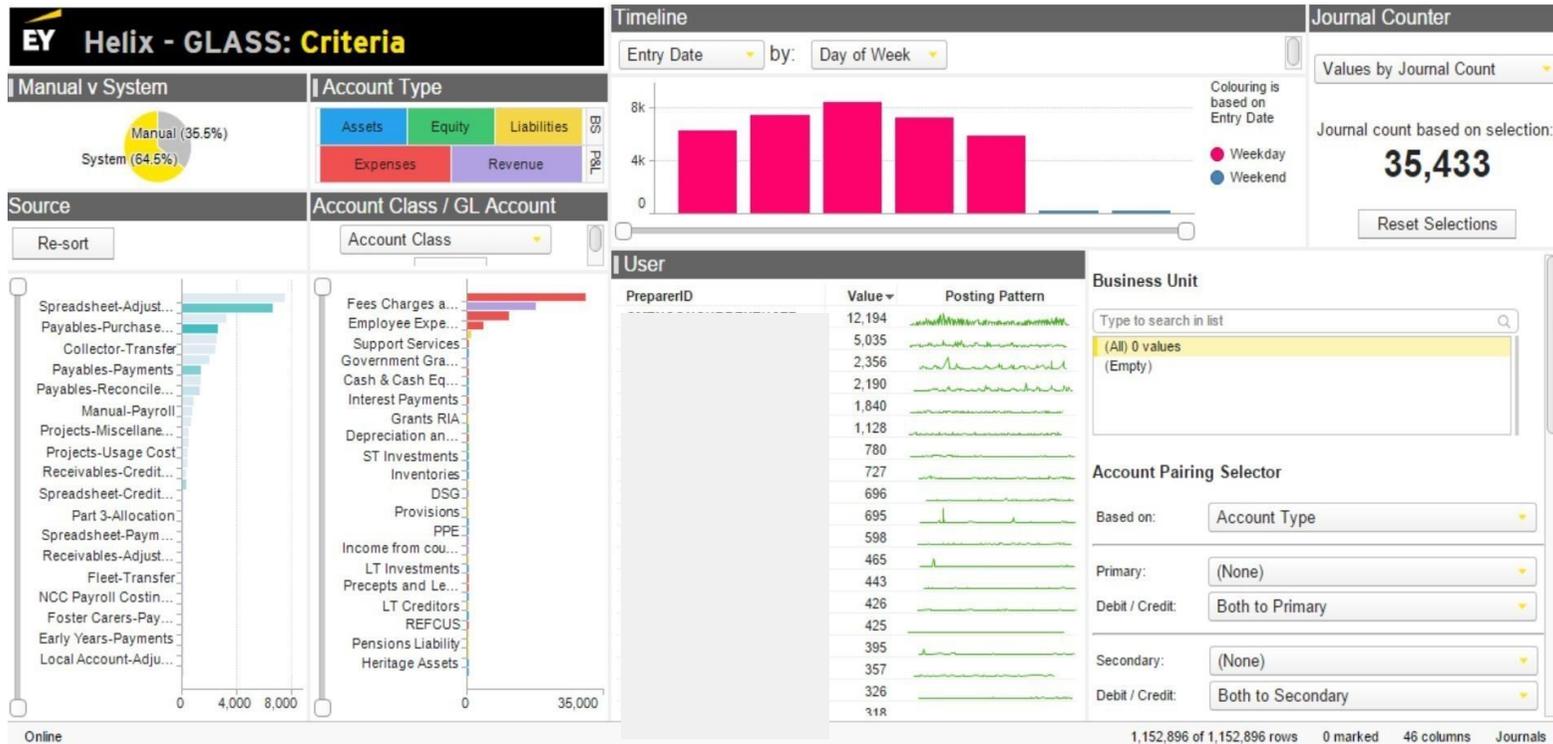
### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

### Journal entry data criteria – Northumberland County Council- 31 March 2018



### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



9

Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented in March 2018.

We complied with the FRC's Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement associate partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit, Governance and Standards Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 23 July 2018.

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

|  | Final fee 2017/18 | Scale fee 2017/18 | Final Fee 2016/17 |
|--|-------------------|-------------------|-------------------|
|  | £                 | £                 | £                 |
| Total Fee - Code work (scale fee)              | 190,596           | 190,596           | 190,956           |
| Total Fee - Code work (variation)              | -*                |                   | 19,000**          |
| Total Fee - Housing Benefit certification work | 9,341             | 9,341             | 9,900             |
| <b>Total Audit fee</b>                         | <b>TBC</b>        | <b>199,937</b>    | <b>219,856</b>    |
| Non-audit work - Other certification work      | -***              | -                 | 15,000            |
| Non-audit work - Tax advice                    | 15,975            | -                 | 40,350            |
| <b>Total other non-audit services</b>          | <b>0</b>          | <b>0</b>          | <b>55,350</b>     |
| <b>Total fees</b>                              | <b>TBC</b>        | <b>199,937</b>    | <b>275,206</b>    |

\* We propose a variation to the scale fee for the additional work performed to reach our Value for Money conclusion in 2017/18 and for responding to the objection on the accounts received from a local elector. We will agree this fee with management and report the position to the Audit Committee in our Annual Audit Letter at the September meeting.

\*\* Scale fee variation of £19,000, agreed with management mainly in relation to the additional Value for Money work undertaken as part of the 2016/17 audit.

\*\*\* At the time of writing this report management has not requested that we undertake any additional certification work



# 10 Appendices

## Appendix A

# Required communications with the Audit, Governance and Standards Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

|                                     |   |  Our Reporting to you   |
|-------------------------------------|---|--|
| Required communications             |  What is reported?   |   When and where |
| Terms of engagement                 | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.  | The Statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.   |
| Our responsibilities                | Reminder of our responsibilities as set out in the engagement letter.   | Audit Planning Report - presented January 2018   |
| Planning and audit approach         | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.   | Audit Planning Report - presented January 2018   |
| Significant findings from the audit | <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul> | Audit Results Report - July 2018   |

# Appendix A

|                         |   | Our Reporting to you   |
|-------------------------|---|--|
| Required communications | What is reported?   | When and where   |
| Going concern           | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>   | No conditions or events were identified, either individually or together to raise any doubt about Northumberland County Council's ability to continue for the 12 months from the date of our report. |
| Misstatements           | <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>   | Audit Results Report - July 2018   |
| Subsequent events       | <ul style="list-style-type: none"> <li>▶ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>  | Audit Committee - July 2018  |
| Fraud                   | <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul> | <p>Audit Committee - July 2018</p> <p>Audit Results Report - July 2018</p>   |

# Appendix A

|                         |  | Our Reporting to you  |
|-------------------------|--|---|
| Required communications | What is reported?  | When and where  |
| Related parties         | <p>Significant matters arising during the audit in connection with the Council's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>   | Audit Results Report - July 2018  |
| Independence            | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <ul style="list-style-type: none"> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Audit, Governance and Standards Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul> | <p>Audit Planning Report - presented March 2018</p> <p>Audit Results Report - July 2018</p> |

# Appendix A

|   |   |  Our Reporting to you   |
|---|---|--|
| <b>Required communications</b>  |  <b>What is reported?</b>  |  <b>When and where</b>  |
| External confirmations  | <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>   | We have received all requested confirmations.  |
| Consideration of laws and regulations                                     | <ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul> | We have asked management and those charged with governance. We have not identified any material instances of non-compliance with laws and regulations. |
| Significant deficiencies in internal controls identified during the audit | <ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>  | Audit Results Report - July 2018   |

# Appendix A

|  |  | Our Reporting to you   |
|--|--|--|
| Required communications  | What is reported?  | When and where   |
| Group Audits   | <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul> | Audit Results Report - July 2018   |
| Written representations we are requesting from management and/or those charged with governance                           | <ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>   | Audit Results Report - July 2018   |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | <ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>   | Audit Results Report - July 2018   |
| Auditors report  | <ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>  | Audit Results Report - July 2018   |
| Fee Reporting  | <ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>   | Audit Planning Report - presented January 2018<br>Audit Results Report - July 2018 |
| Certification work   | <ul style="list-style-type: none"> <li>▶ Summary of certification work</li> </ul>  | Certification Report - later in 2018   |

# Management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

Citygate  
St James' Boulevard  
Newcastle upon Tyne  
NE1 4JD

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Northumberland County Council ("the Group and Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Northumberland County Council as of 31 March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

## Appendix B

# Management representation letter

### Management representation letter

The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and for the Council that are free from material misstatement, whether due to fraud or error.

There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

#### **B. Non-compliance with law and regulations, including fraud**

We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

- ▶ involving financial statements;
- ▶ related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
- ▶ related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- ▶ involving management, or employees who have significant roles in internal controls, or others; or
- ▶ in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

#### **C. Information Provided and Completeness of Information and Transactions**

We have provided you with:

- ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- ▶ Additional information that you have requested from us for the purpose of the audit; and
- ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

# Management representation letter

## Management representation letter

All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.

We have made available to you all minutes of the meetings of the Council, and Cabinet (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date].

We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment properties and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### D. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.

### E. Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

### F. Subsequent Events

Other than the approval of transfer of activities from the Arch Group to Advance Northumberland described in Note [X] to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

# Management representation letter

## Management representation letter

### G. Group audits

There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

### H. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement.

We confirm that the content contained within the other information is consistent with the financial statements.

Yours faithfully,

\_\_\_\_\_  
Barry Scarr, Director of Finance

\_\_\_\_\_  
Councillor Georgina Hill, Chair of the Audit Committee

## EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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