

Northumberland County Council Audit Results Report

Year ended 31 March 2019

July 2019

Private and Confidential

July 2019

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises the status of our audit of Northumberland County Council ("the Council") for 2018/19.

We have substantially completed our standard audit work on the financial statements of the Council for the year ended 31 March 2019.

In discharging our responsibilities, it is not uncommon for us to receive correspondence which we deal with in accordance with Auditor Guidance Note 07 and other supporting guidance issued by the National Audit Office. On 25 June 2019 we notified management that we had received correspondence which we considered obliged to investigate under EY's whistleblowing procedures, as the allegations relate to senior management and others that have significant roles in internal control. Additionally, there may be more than an inconsequential impact both on the financial statements and/or our value for money opinions.

At the time of writing this report, we are awaiting permission from management to commence our work in this area and therefore we will be unable to issue our opinions by the accounts publishing date of 31 July 2019.

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.

Yours faithfully



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

Contents

- 01 Executive Summary
- 02 Areas of Audit Focus
- 03 Audit Report
- 04 Audit Differences
- 05 Value for Money



- 06 Other reporting issues
- 07 Assessment of Control Environment
- 08 Data Analytics
- 09 Independence
- 10 Appendices

As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Contract and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website. The Terms and Conditions of our appointment contained within the Engagement Contract 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 Results Report is prepared in the context of the Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. 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.

The background of the slide shows a close-up, slightly blurred image of a person's hands interacting with a white tablet computer. The tablet screen displays some text and icons, including the number '25'. The hands are positioned as if the person is typing or swiping on the device.

01 Executive Summary



Executive Summary

Scope update

In our Audit Planning Report presented at the 27 March 2019 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 £17.8 million (Audit Planning Report £16 million). This results in updated performance materiality, at 75% of overall materiality, of £13.4 million, and an updated threshold for reporting misstatements of £890,000.

Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Planning Report. At the time of writing this report, the following areas of work are still outstanding:

- ▶ Receipt of final third party confirmations for cash, borrowings and investments;
- ▶ Confirmation from EY Real Estates that the treatment of depreciation in the calculations undertaken by the Council's external valuer is appropriate;
- ▶ Receipt of formal reporting on the Advance Northumberland Limited audit from the component audit team;
- ▶ Whole of Government Accounts; and
- ▶ Final engagement senior manager and partner review of the audit file.

In discharging our responsibilities, it is not uncommon for us to receive correspondence which we deal with in accordance with Auditor Guidance Note 07 and other supporting guidance issued by the National Audit Office. On 17 March 2019 we received correspondence some whistleblowing allegations, following which we reviewed and considered the correspondence containing the allegations, responded to the whistle-blower, held a meeting with the whistle-blower, reviewed a large amount of paperwork and documents provided by the whistle-blower and undertook extensive internal consultations, including in respect of the development of the work plan to address the allegations. On 25 June 2019 we notified management that we had received correspondence which we considered obliged us to investigate under EY's whistleblowing procedures, as the allegations relate to senior management and others that have significant roles in internal control. Additionally, there may be more than an inconsequential impact both on the financial statements and/or our value for money opinions.

On 22 July 2019, we received confirmation from management that they were content for us to undertake our work in relation to the whistleblowing allegations and were pulling together the relevant documentation that we had requested. As we have yet to commence our work in this area and we will be unable to issue our opinions by the publishing deadline of 31 July 2019.

Executive Summary

Audit differences

At the time of writing this report, we do not have any unadjusted differences.

We note that the financial statements have been amended take account of the potential impact of the McCloud / Sergeant judgements regarding unlawful age discrimination for members of the Local Government Pension Scheme and also to reflect amendments to the valuation of the investment in Newcastle International Airport Limited. Further detail on this matter is included in Section 2 of this report.

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 any issues; 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:

- ▶ The fixed asset working papers are complex and require a large amount of manual manipulation by management. We recognise that management have undertaken a significant amount of work during the course of 2018/19 to simplify the working papers; however due to the sizeable nature of the asset base held by the Council there still remains a higher level of risk of error whilst a spreadsheet based approach remains in place. We recommend that management consider whether they are able to accept the level of risk inherent in the current approach or whether they may want to look to introduce a more system-based approach to managing the asset base.
- ▶ The Council upgraded the general ledger to the Oracle Cloud in November 2018 and we noted that since the new system had been implemented, monthly key control account reconciliations were not being performed as management were unable to access the reports that they needed. We recommend that this is prioritised so that the full schedule of reconciliations is in place for 2019/20.



Executive Summary

Value for Money

In accordance with our responsibilities as external auditor, we consider the Council's 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:

- ▶ the transfer of trade and activities from the Arch Group to Advance Northumberland; and
- ▶ follow up of the modified conclusion in place for the prior year in relation to the governance and controls in place at the Advance Group.

The whistleblowing allegations received may have an impact on our work in this area and therefore, until we are able to conclude on our work programme to address the whistleblowing allegations, we are unable to finalise our conclusions in relation to our identified value for money risks.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council; however we are unable to conclude our work in this area until we have completed our work programme in relation to the whistleblowing allegations.

We are required to perform procedures required by the National Audit Office ("NAO") on the Whole of Government Accounts submission. These procedures are required to be performed on the final version of the financial statements and therefore we are unable to complete this work until we have concluded on our work programme in relation to the whistleblowing allegations.

We have no other matters to raise at the time of writing this report.

Independence

Please refer to Section 9 for our update on independence.

02

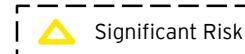
Areas of Audit Focus



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.

The Council has achieved a surplus outturn position for the last number of years and was forecasting a small underspend against budget for 2018/19. As the financial position of the Council is expected to become more challenging in future years, we assessed our risk as relating to the understatement of revenue and overstatement of expenditure.

What judgements are we focused on?

The main judgements we focussed on were:

- ▶ consideration of whether deferrals of income are appropriate;
- ▶ whether expenditure estimates that require a level of judgement such as provisions and accruals are fairly stated; and
- ▶ Checking that income and expenditure recognised around the year-end is recorded in the correct period.

What did we do?

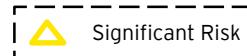
- ▶ We reviewed and tested revenue and expenditure recognition policies;
- ▶ We reviewed, discussed with management, and tested accounting estimates for deferral of revenue or expenditure recognition for evidence of bias; and
- ▶ We reviewed a sample of transactions recorded in the ledger and payments 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?

We have not identified any indicators of fraud in revenue or expenditure recognition during the course of our audit work.

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?

At the time of our audit planning, we did not identify any specific risks of material misstatement due to fraud or error, other than those already addressed through our consideration of the risk of fraud in revenue and expenditure recognition.

Therefore, 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 which management would most easily be able to manipulate accounting records.

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.

We have not identified any evidence of management bias in our review of estimates.

We did not identify any exceptions as part of our testing of manual journals.

As the whistleblowing allegations received relate to senior management and others that have significant roles in internal control, we are required to take into account any findings from our work and re-consider our risk assessment in respect of this audit risk. Where we identify a heightened risk we may need to undertake additional work.

At this stage we have no other matters to report in relation to this risk.

Areas of Audit Focus

Significant risk

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 financial statements and is subject to valuation changes, impairment reviews and depreciation charges.

Management of the Council and the Advance Northumberland 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 2018/19 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.
- ▶ 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 on Council dwellings found that valuations were within an acceptable range and we have no matters to report on this matter.

Our work on the valuation of other land and buildings identified that the Council's valuation experts had excluded allowances for site works, fees and contingencies in some of their calculations resulting in an understatement to the valuation of £7 million. Management has confirmed that they intend to update the financial statements for this item prior to final approval.

We have discussed the status of the valuations work at Advance Northumberland with the component audit team and note that it is substantially complete other than consideration of a piece of land at East Sleekburn valued at £13.4 million. The component team are liaising with the valuation experts used by Advance Northumberland to understand the rationale for this valuation.

We will update the Audit Committee with the progress of this work at the meeting on 24 July 2019.

Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What was the risk/area of focus?	What were our conclusions?
<p>Pension Liability Valuation</p> <p>The Council's local government pension scheme liability is a material estimate on the Council's balance sheet. At 31 March 2018 the total value of the liability was £708 million.</p> <p>Calculation of the liability involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.</p> <p>A small movement in the assumptions can have a material impact on the value of the liability and auditing standards require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>The Local Government Pension Scheme (England and Wales) (LGPS) introduced a new career average earnings benefit structure with effect from 1 April 2014 ('the 2014 scheme'). For members who were 10 years or less from Normal Retirement Age on 1 April 2012 (i.e. aged 55 or above), an underpin was provided based on the existing final salary scheme ('the 2008 scheme'). In December 2018, the Court of Appeal found that similar transitional provisions in the pension schemes for firefighters (Sargeant Judgement) and the judiciary (McCloud Judgement) resulted in unlawful age discrimination and given their similarity are also deemed to be applicable to the LGPS.</p> <p>The Government was seeking to appeal against this decision, however on 27 June 2019 they were denied the right to appeal. Due to the original judgements being in place before 31 March 2019, all scheduled and admitted bodies of the LGPS were asked to consider the impact of the McCloud judgement on their pension valuations as at 31 March 2019.</p> <p>Since 27 June 2019, the Council has requested that the actuary, Aon Hewitt, re-run their year end pension valuation, taking into account the McCloud judgement. This revised report also takes into account updated asset values for the Council at 31 March (asset values are usually based on an estimated position) and Guaranteed Minimum Pension requirements.</p>
<p>Changes to group structure</p> <p>The trade and activities of the Arch Group were transferred to Advance Northumberland, a new wholly owned subsidiary company of the Council in November 2018. The accounting for the transfer in the Group's subsidiary entities is complex, which will be significant for the Council's group financial statements.</p>	<p>The Advance Northumberland component audit team have reviewed the accounting for the change in Group structure and concurred with the judgement of management of Advance Northumberland that 'merger accounting' was the most appropriate basis for the transaction. This means that Advance Northumberland financial statements recognise the trade and activity as if it was in place for the full year.</p> <p>We have yet to receive the final reporting from our component audit team; however our understanding is that there are some adjustments required to the reserves in the Advance Northumberland statutory financial statements to reflect the appropriate accounting treatment; however these should be eliminated at Group level.</p> <p>We will update the Audit Committee with the findings of this work at the meeting on 24 July 2019.</p>

Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements.

What was the risk/area of focus?	What were our conclusions?
<p>IFRS 9 financial instruments</p> <p>This new accounting standard is applicable for local authority financial statements from the 2018/19 financial year and changes:</p> <ul style="list-style-type: none">▶ How financial assets are classified and measured;▶ How the impairment of financial assets are calculated; and▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority accounting provides guidance on the application of IFRS 9 which required to be applied</p>	<p>We reviewed and challenged the approach taken by management in relation to key judgements, such as expected credit loss allowances for balances with the subsidiary companies and other bodies and concurred with their conclusion.</p> <p>We note that a valuation of the shares in Newcastle International Airport Limited (NIAL) was commissioned as a result of the introduction of IFRS 9. We engaged our EY infrastructure valuations team to review the valuation and, as a consequence, an adjustment was made to the valuation of the Council's shares so that a £0.1 million surplus on valuation was recognised in the financial statements rather than the £6.3 million deficit on valuation reflected in the draft financial statements.</p> <p>We also identified some minor improvements to disclosures through our completion of the CIPFA disclosure checklist that we have highlighted to management for updating in the final version of the financial statements.</p>
<p>IFRS 15 Revenue from contracts with customers</p> <p>This new accounting standard is applicable for local authority financial statements from the 2018/19 financial year.</p> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>The 2018/19 CIPFA Code of Practice on Local Authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of revenue and how they should be recognised.</p>	<p>We obtained the IFRS 15 impact assessment prepared by management and concurred with their view that the new standard was unlikely to have a material impact on the financial statements.</p> <p>We completed the CIPFA disclosure checklist and did not have any material matters to report.</p>



Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements.

What was the risk/area of focus?	What were our conclusions?
<p>General Ledger Upgrade</p> <p>The Council upgraded the Oracle General Ledger system to the Oracle Cloud in December 2018. We were therefore required to perform a transfer of data audit to ensure that the financial statements are based on a complete set of transactions for the year.</p>	<p>We liaised with our IT audit colleagues to develop a work programme and reviewed and tested the reconciliations performed for the transfer of data from the old to the new systems.</p> <p>We did not identify any findings that suggest the financial statements are based on an incomplete set of data.</p>



03 Audit Report





Audit Report

Draft audit report

Our opinion on the financial statements

The form and content of our draft audit report will be confirmed upon conclusion of our work.



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

Pension Valuation at 31 March 2019: Due to the Government's appeal against the McCloud Judgement being refused on 27 June 2019, all LGPS scheduled and admitted bodies have been asked to consider the impact of the judgement on their pension valuations as at 31 March 2019. The Council has obtained an updated pension valuation, which has materially changed the valuation included in the Council's financial statements.

Valuation of land and buildings: Our work on the valuation of other land and buildings identified that the Council's valuation experts had excluded allowances for site works, fees and contingencies in some of their calculations resulting in an understatement to the valuation of £7 million. Management has confirmed their intention to update the financial statements to make this correction..

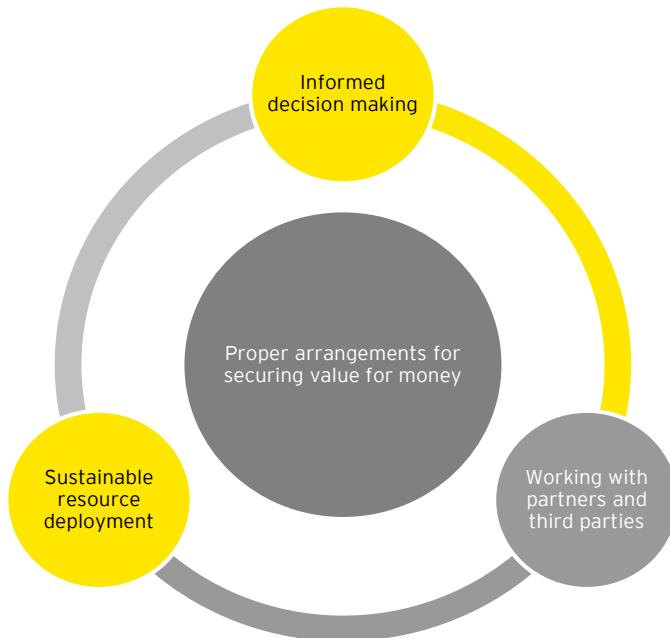
Valuation of shares in Newcastle International Airport Limited: We engaged our EY infrastructure valuations team to review the valuation and, as a consequence, an adjustment was made to the valuation of the Council's shares so that a £0.1 million surplus on valuation was recognised in the financial statements rather than the £6.3 million deficit on valuation reflected in the draft financial statements.



05

Value for Money Risks





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 2018/19 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

In our Audit Planning Report, we identified a significant risk in relation to taking informed decisions, with a specific focus on:

- ▶ The transfer of trade and activities from the Arch Group to Advance Northumberland; and
- ▶ Follow up of the modified conclusion in place for the prior year in relation to the governance and controls in place at the Advance Group.

The whistleblowing allegations received may have an impact on our work in this area and therefore, until we are able to conclude on our work programme to address the whistleblowing allegations, we are unable to finalise our conclusions in relation to our identified value for money risks. We will update the Audit Committee with any relevant findings in this area upon conclusion of our work.



06 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 have reviewed the Annual Governance Statement; however we will revisit our conclusions following completion of our work programme in relation to the whistleblowing allegations in case any amendments are required.

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.

We are unable to complete our work in this area until we have a final set of financial statements.

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 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 will confirm to the Audit Committee whether we have had any requirement to use our other powers and duties upon conclusion of our work into the whistleblowing allegations.



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 draw to your attention:

- ▶ The fixed asset working papers are complex and require a large amount of manual manipulation by management. We recognise that management has undertaken a significant amount of work during 2018/19 to simplify the working papers; however due to the sizeable nature of the asset base held by the Council there still remains a higher level of risk of error whilst a spreadsheet based approach remains in place. We recommend that management consider whether they are able to accept the level of risk inherent in the current approach or whether they may want to look to introduce a more system-based approach to managing the asset base.
- ▶ The Council upgraded the general ledger to the Oracle Cloud in November 2018 and we noted that since the new system had been implemented, monthly key control account reconciliations were not being performed as management were unable to access the reports that they needed. We recommend that this is prioritised so that the full schedule of reconciliations is in place for 2019/20.



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 2019.

We complied with the FRC's Ethical Standards and the requirements of the terms and conditions in our engagement contract. 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 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 24 July 2019.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees.

	Agreed fee 2018/19	Final fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee - Code work (scale fee)	119,800	197,612	190,956
Total Fee - Code work (variation)	TBC*	6,656***	19,000***
Total Fee - Code work (whistleblowing allegations)	TBC**	-	-
Total Fee - Housing Benefit certification work	6,550	9,341	9,900
Total Audit fee	149,100	206,953	219,856
Non-audit work - Other certification work	4.925	15,000	15,000
Non-audit work - Tax advice	0	15,975	40,350
Total other non-audit services	4,925	30,975	55,350
Total fees	154,025	237,928	275,206

* In our audit plan presented in March 2019 we highlighted that there were a number of one-off transactions in 2018/19 including the transfer of trade and activities from Arch to Advance Northumberland, the upgrade of the General Ledger, the implementation of new accounting standards and follow up of our modified value for money conclusion from 2017/18. Additionally, since the Audit Plan was issued additional risks arose in respect of pensions and the valuation of the shares in Newcastle Airport. We will agree a variation to the base audit fee for this work with management and report back to the Audit Committee in due course.

** Following receipt of the whistleblowing allegations, we have shared with management that at this time we estimate it will take around 15 days of additional partner and senior manager time to complete the additional work required. We have committed to keeping management advised of the additional time incurred, as there is the potential for this to change.

*** The fee variations for prior years were agreed with the previous s151 officer; however we have not yet received approval from Public Sector Audit Appointments Limited to issue invoices as required by our terms of appointment for those years.



10 Appendices



 Appendix A

Summary of communications

Date	Nature	Summary
17 October 2018 5 December 2018 6 February 2019 11 April 2019	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Section 151 Officer in post at the time and the Chief Internal Auditor to discuss accounting developments and other matters arising during the course of the year.
27 March 2019	Report	The Audit Planning Report, including confirmation of independence, was presented to the Audit Committee.
11 July 2019	Meeting	Audit status meeting with the Interim Section 151 Officer to discuss the preliminary findings of the audit.
24 July 2019	Report	The draft Audit Results Report setting out the current status of work, including confirmation of independence, will be presented to the Audit Committee.
In addition to the above specific meetings and other written communications, the audit team has met with management multiple times throughout the course of the audit to discuss audit findings. Additionally, there has been regular attendance at meetings of the Audit Committee.		



Appendix B

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:

Required communications	What is reported?	Our Reporting to you
		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.	Engagement Contract signed December 2017.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report - presented March 2019
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 March 2019
Significant findings from the audit	<ul style="list-style-type: none">▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures▶ Significant difficulties, if any, encountered during the audit▶ Significant matters, if any, arising from the audit that were discussed with management▶ Written representations that we are seeking▶ Expected modifications to the audit report▶ Other matters if any, significant to the oversight of the financial reporting process	Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit



Appendix B

		 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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	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"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit



Appendix B

		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"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	<p>Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit</p>	
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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <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"> ▶ 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 ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The Audit, Governance and Standards Committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Planning Report - presented March 2019</p> <p>Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit</p>	



Appendix B

		 Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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 ▶ 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 	Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit



Appendix B

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ 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 ▶ 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 ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ 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. 	Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report - presented March 2019 Draft Audit Results Report - July 2019 Updated Audit Results Report upon completion of the audit
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Certification Report - later in 2019

 Appendix C

Management representation letter

Management Rep Letter

The form and content of our draft audit report will be confirmed upon conclusion of our work in relation to the whistleblowing allegations received.

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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