

Public Document Pack



Northumberland County Council

Your ref:

Our ref:

Enquiries to: Andrea Todd

Email: andrea.todd@northumberland.gov.uk

Tel direct: 01670 622606

Date: 15 March 2022

Dear Sir or Madam,

Your attendance is requested at a meeting of the **AUDIT COMMITTEE** to be held on **WEDNESDAY, 23 MARCH 2022** at **9.30 a.m. for a 10:15 a.m. start in the meeting space, Block1, Floor 2, County Hall, Morpeth, NE61 2EF.**

Please note:

- The period between 9.30 a.m. and 10.00 a.m. is restricted to only the Members of the Audit Committee and Internal and External Audit to allow discussion without the presence of senior officers.

Yours faithfully

Daljit Lally
Chief Executive

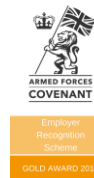
To members of the Audit Committee.

Any member of the press or public may view the proceedings of this meeting live on our YouTube channel at <https://www.youtube.com/NorthumberlandTV>.

***Members are reminded of the Risk Assessment circulated for attending meetings at County Hall and the advice contained therein including:
Members are requested to self-test twice a week at home, in line with government guidelines; social distancing should be maintained; masks should be worn when moving around but can be removed when seated; hand sanitiser is to be used regularly.***



Daljit Lally, Chief Executive
County Hall, Morpeth, Northumberland, NE61 2EF
T: 0345 600 6400
www.northumberland.gov.uk



AGENDA

PART I

It is expected that the matters included in this part of the agenda will be dealt with in public.

1. APOLOGIES FOR ABSENCE

2. MINUTES

(Pages 1
- 8)

Minutes of the meeting of the Audit Committee held on 9 January 2022, as circulated, to be confirmed as a true record and signed by the Chair.

3. DISCLOSURE OF MEMBERS' INTERESTS

Unless already entered in the Council's Register of Members' interests, members are required to disclose any personal interest (which includes any disclosable pecuniary interest) they may have in any of the items included on the agenda for the meeting in accordance with the Code of Conduct adopted by the Council on 4 July 2012, and are reminded that if they have any personal interests of a prejudicial nature (as defined under paragraph 17 of the Code Conduct) they must not participate in any discussion or vote on the matter and must leave the room.

NB Any member needing clarification must contact Legal Services by email at monitoringofficer@northumberland.gov.uk Please refer to the guidance on disclosures at the rear of this agenda letter.

4. REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER

(Pages 9
- 38)

Northumberland County Council - Statement of Accounts 2021-22

The purpose of this report is to provide the Audit Committee with:

(a) an overview of the timetable for publishing the 2021-22 Statement of Accounts; and,

(b) an update on the Accounting Policies to be applied in the preparation of the 2021-22 Statement of Accounts.

5. REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER

(Pages
39 - 48)

Statement of Accounts - Group Boundary Review

The purpose of this report is to provide members of the Audit Committee with details of the boundary review which has been undertaken to determine those organisations which should have their financial statements consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2022.

Particular consideration is given to the position of Active Northumberland.

6. **REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER** (Pages 49 - 54)

Changes to the Code of Practice for Local Authority Accounting in the UK for 2021-22

The purpose of this report is to provide the Audit Committee with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code) which will apply to the 2021-22 Statement of Accounts.

7. **REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER** (Pages 55 - 62)

Corporate Fraud Team – Counter Fraud Interim Report

The purpose of this report is to update the Audit Committee on work undertaken by the Corporate Fraud Team within the Council covering the period 1 April 2021 - 30 September 2021.

8. **REPORT OF THE EXTERNAL AUDITOR** (Pages 63 - 86)

External Audit Progress Report

To receive a progress report.

9. **REPORT OF THE ACTING HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT** (Pages 87 - 94)

Audit Committee Work Programme 2022/23

The purpose of this report is to propose an updated programme of core business for the Audit Committee for 2022/23, in accordance with its Terms of Reference as set out in the Council's Constitution.

10. **URGENT BUSINESS**

To consider such other business as, in the opinion of the Chair, should, by reason of special circumstances, be considered as a matter of urgency.

11. **DATE OF NEXT MEETING**

The next meeting is scheduled for Wednesday, 25 May 2022 at 10.15 am.

PART II

It is expected that matters included in this part of the Agenda will be dealt with in private. Reports referred to are enclosed for members and officers only, coloured pink and marked "Not for Publication".

12. EXCLUSION OF PRESS AND PUBLIC

The Audit Committee is invited to consider passing the following resolution:

(a) That under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following items on the Agenda as it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act, and

(b) That the public interest in maintaining the exemption outweighs the public interest in disclosure for the following reasons:-

Agenda Items	Paragraph of Part I of Schedule 12A
13 & 14	<p>Paragraph 3 of Part 1 of Schedule 12A Information relating to the financial or business affairs of any particular person (including the authority holding the information).</p> <p>Disclosure could adversely affect the business reputation or confidence in the person/organisation, and could adversely affect commercial revenue.</p>
15	<p>Paragraphs 3 and 4 of Part 1 of Schedule 12A Information relating to the financial or business affairs of any particular person (including the authority holding that information), and information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the Authority.</p> <p>Disclosure would adversely affect commercial confidentiality requirements and hence the Authority's ability to conduct its affairs.</p>

13. REPORT OF THE ACTING HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

The purpose of this report is to advise Audit Committee of the Strategic Audit Plan for 2022/23.

14. REPORT OF THE ACTING HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

Group Audit Committee: Advance Northumberland Internal Audit Update

The purpose of this report is to update Group Audit Committee on Internal Audit work completed within the Advance Northumberland Group of Companies.

15. REPORT OF THE ACTING HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

Conclusion of Shared Service Arrangement (Internal Audit and Risk Management)

This report updates Audit Committee on the upcoming changes to service delivery arrangements for Internal Audit and Risk Management within Northumberland County Council.

IF YOU HAVE AN INTEREST AT THIS MEETING, PLEASE:

- Declare it and give details of its nature before the matter is discussion or as soon as it becomes apparent to you.
- Complete this sheet and pass it to the Democratic Services Officer.

Name (please print):
Meeting:
Date:
Item to which your interest relates:
Nature of Registerable Personal Interest i.e either disclosable pecuniary interest (as defined by Annex 2 to Code of Conduct or other interest (as defined by Annex 3 to Code of Conduct) (please give details):
Nature of Non-registerable Personal Interest (please give details):
Are you intending to withdraw from the meeting?

1. Registerable Personal Interests – You may have a Registerable Personal Interest if the issue being discussed in the meeting:

a) relates to any Disclosable Pecuniary Interest (as defined by Annex 1 to the Code of Conduct); or

b) any other interest (as defined by Annex 2 to the Code of Conduct)

The following interests are Disclosable Pecuniary Interests if they are an interest of either you or your spouse or civil partner:

(1) Employment, Office, Companies, Profession or vocation; (2) Sponsorship; (3) Contracts with the Council; (4) Land in the County; (5) Licences in the County; (6) Corporate Tenancies with the Council; or (7) Securities - interests in Companies trading with the Council.

The following are other Registerable Personal Interests:

(1) any body of which you are a member (or in a position of general control or management) to which you are appointed or nominated by the Council; (2) any body which (i) exercises functions of a public nature or (ii) has charitable purposes or (iii) one of whose principal purpose includes the influence of public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management); or (3) any person from whom you have received within the previous three years a gift or hospitality with an estimated value of more than £50 which is attributable to your position as an elected or co-opted member of the Council.

2. Non-registerable personal interests - You may have a non-registerable personal interest when you attend a meeting of the Council or Cabinet, or one of their committees or sub-committees, and you are, or ought reasonably to be, aware that a decision in relation to an item of business which is to be transacted might reasonably be regarded as affecting your well being or financial position, or the well being or financial position of a person described below to a greater extent than most inhabitants of the area affected by the decision.

The persons referred to above are: (a) a member of your family; (b) any person with whom you have a close association; or (c) in relation to persons described in (a) and (b), their employer, any firm in which they are a partner, or company of which they are a director or shareholder.

3. Non-participation in Council Business

When you attend a meeting of the Council or Cabinet, or one of their committees or sub-committees, and you are aware that the criteria set out below are satisfied in relation to any matter to be considered, or being considered at that meeting, you must : (a) Declare that fact to the meeting; (b) Not participate (or further participate) in any discussion of the matter at the meeting; (c) Not participate in any vote (or further vote) taken on the matter at the meeting; and (d) Leave the room whilst the matter is being discussed.

The criteria for the purposes of the above paragraph are that: (a) You have a registerable or non-registerable personal interest in the matter which is such that a member of the public knowing the relevant facts would reasonably think it so significant that it is likely to prejudice your judgement of the public interest; **and either** (b) the matter will affect the financial position of yourself or one of the persons or bodies referred to above or in any of your register entries; **or** (c) the matter concerns a request for any permission, licence, consent or registration sought by yourself or any of the persons referred to above or in any of your register entries.

This guidance is not a complete statement of the rules on declaration of interests which are contained in the Members' Code of Conduct. If in any doubt, please consult the Monitoring Officer or relevant Democratic Services Officer before the meeting.

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NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

At a meeting of the Audit Committee held in the meeting space, Block One, Floor Two, County Hall Morpeth on Wednesday, 26 January 2022 at 10.15 a.m.

PRESENT

S. Watson (Chair)

COUNCILLORS

Cessford, T.
Dale, A.
Jackson, P.

Oliver, N.
Towns, D.
Wallace, A.

CO-OPTED MEMBERS

Topping, P.

OFFICERS IN ATTENDANCE

Bennett, L.M.
Binjal, S

Hartwell, A.

Hunter, P.
Lally, D.
McDonald, K.
Stewart, A.
Willis, J.

Senior Democratic Services Officer
Monitoring Officer and Interim
Director of Governance
Senior Manager Performance and
Systems Support
Senior Service Director
Chief Executive
Acting Chief Internal Auditor
Finance Manager
Interim Executive Director of
Finance and S151 Officer

ALSO IN ATTENDANCE

Waddell, C.

Mazars

33. APOLOGIES FOR ABSENCE

An apology for absence was received from Councillors L. Grimshaw and A. Scott.

34. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on 24 November 2021, as circulated, be confirmed as a true record and signed by the Chair.

35. REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER

Treasury Management Strategy Statement for the Financial Year 2022-23

Members received the report which set out the Treasury Management Strategy, Treasury Management Policy Statement, the Annual Investment Strategy for the Financial Year 2022-23, Prudential Indicators 2022-23 and the Minimum Revenue Provision Policy 2022-23. Jan Willis, Interim Director of Finance and Section 151 Officer, presented the report.

Members were informed that there was currently a low interest environment and considerable uncertainty as to the economic outlook and inflation was at historic levels. It was forecast that interest rates would remain relatively low but begin rising over the next 12 months. It was possible that the Bank of England may look to increase interest rates more quickly if inflation ran ahead of current forecasts.

The County Council had significant cash balances and was under borrowing for the forthcoming year by using its cash balances rather than undertaking external borrowing. This was beneficial at the moment as there was currently very little return on investments, however, there was a risk associated with this policy, if medium to long term interest rates should increase more sharply. This area would be closely monitored.

The following comments were made in response to queries from Members:-

- The MRP was calculated on the basis on expected useful life of an asset. Various classes of asset had different lifespans, such as the difference between vehicles and a school and this was taken account of when calculating the MRP. With regard to borrowing, this was aggregated and loans spread in accordance with the strategy to ensure an appropriate maturity profile for that borrowing.
- There was a jump in the ratio of capital financing costs as a proportion of the net revenue stream because reserves were being used to make a voluntary minimum revenue provision of £25 million in 2022-23 and then a further £7.8 million in 2024-25. The front loading of MRP was to ensure that costs associated with financing the additional capital investment did not become a drag on the revenue account and hence increase the savings requirement in future years. The ratio would fall back in 2025-26.
- The Council's Medium Term Financial Plan took account of the risks associated with demand for services and, therefore, future expenditure. The affordability of the capital programme was a significant consideration when setting the budget and in normal circumstances the Council would not be able to afford to significantly increase the capital programme, however, there was significant flexibility at the moment, due to the high level of reserves and cash balances.
- With regard to lender option/borrower options (LOBO) and the mitigation of risks should interest rates rise, it was explained that the Council could cope as it was currently in an under borrowed situation. The Council would have the option to either accept increased interest rates or repay the loan. In this situation, it was likely that the LOBO loans would be replaced by PWLB borrowing at lower interest rates.

RESOLVED that the County Council be recommended to approve

- (1) the Treasury Management Strategy Statement which included the Treasury Management Policy Statement, the Annual Investment Strategy and Borrowing Strategy for the Financial Year 2022-23.
- (2) the Prudential Indicators (Appendix 4) for four years 2022-23 to 2025-26 to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- (3) the Minimum Revenue Provision Policy (Appendix 5) 2022-23.

The Chair commented that several meetings ago the Audit Committee had requested a copy of a report from KPMG which was due to be reviewed. Mrs Willis explained that it was not possible to release that report as it was evidence in an ongoing police investigation. She was also unable to give any indication of timescales for when it may be available for circulation to the Committee.

36. REPORT OF THE ACTING CHIEF INTERNAL AUDITOR

Preparation of the Strategic Audit Plan – 2022/23

Members received a report outlining the approach to preparing the 2022-23 Strategic Audit Plan for consideration and endorsement. The report ensured that the Committee, as a key stakeholder of Internal Audit's work, was engaged at an early stage in the planning process.

Kevin McDonald, Acting Chief Internal Auditor, outlined the process for the production of the Strategic Audit Plan. The process was the same as in previous years and the report was for the Audit Committee's information and Members were invited to make any suggestions for areas that they would like to be covered. It was explained that suggestions may not necessarily be included but must be considered for inclusion and reasons given if they were not included. As part of the engagement process, it was planned to hold a briefing session for Committee Members and dates were being identified. He would be able to highlight the indicative plan at the briefing and why some items were included, and others were not.

The following comments were made in response to queries from Members:-

- The shared internal audit risk management service with North Tyneside would be ending on 31 March 2022.
- Members wishing to make suggestions for inclusion in the Strategic Audit Plan should e-mail them to the Acting Chief Internal Auditor with all Committee Members cc'd in.

RESOLVED that

- (1) the approach to prepare the 2022-23 Strategic Audit Plan be endorsed.

- (2) Members highlight any areas for consideration by the Acting Chief Internal Auditor for inclusion in the 2022-23 Strategic Audit Plan.

37. REPORT OF THE EXECUTIVE DIRECTOR OF ADULTS SOCIAL CARE AND CHILDREN'S SERVICES

Review of External Inspection Reports – Adults and Children's Services

Members were informed of activity pertaining to Adults Social Care and Children's Services regarding external inspections and associated actions for the period 1 July 2021 – 31 December 2021.

Alan Hartwell, Senior Manager Performance and Systems Support, highlighted the following points:-

The Care Quality Commission (CQC) carried out inspections for Adults Social Care and Ofsted for Children's Services. In terms of coverage, the report reviewed inspection activity across Adults Social Care, children's residential homes, schools, early years and the multi-agency Joint Targeted Area inspection (JTAI).

The picture was very positive across Adult Social Care with an improvement of nearly 4% in the proportion of services and settings which were judged as good or outstanding. Services and settings were detailed within the report. With regard to Children's Services, it was also very positive with an increase in the number of schools judged to be good or outstanding within the primary and secondary sector. Inspections of Early Years services were still ongoing and a very high number of these were judged to be good to outstanding. The report also referred to the support arrangements provided to Early Years providers during the course of the pandemic in terms of morale and supportive arrangements and also practical and technical help. The Joint Target Area Inspection and the action plan which arose from it had been subject to quarterly monitoring via the multi-agency children's safeguarding arrangements. The actions within the Action Plan were fully signed off by the last meeting of the Northumberland Safeguarding Children Committee in January 2022.

A report would be submitted the Family and Children's Services Overview and Scrutiny Committee in February 2022 covering the inspection framework in general, providing the current position and what the next inspections were likely to be. A focused visit for Children's Social Care was expected within the next year and could cover children who were looked after, permanency, referral receipt arrangements, or child protection arrangements. The inspection of the Youth Justice Service was now overdue. Since the reports had been submitted to the Committee, the report on Barndale House had now been received and it had been judged as good. It was also reported that Ofsted had just arrived at Phoenix House, Children's Residential Home, and it was currently being inspected.

The following comments were made in response to queries from Members:-

- Mr. Hartwell agreed to provide details for Members about the timescales relating to the new build children's homes at Pegswood and Hadston.
- Covid had had some effect on inspections and the schedule. Sometimes Ofsted and the QCC may amend the schedule to re inspect services/settings

which may have been judged to require improvement more quickly. It was acknowledged that some services/settings had been affected by the pandemic. In terms of the number of inspections, there had been a long period with very few inspections but since summer 2021 they were now beginning to gather pace.

- Mr. Hartwell agreed to provide more information showing Adults Social Care inspection results over a period of one or two years to enable it to be easier to see any patterns.
- These inspections covered a number of areas including leadership, management, safeguarding, health and safety issues and the actual fabric of a building. Mr. Hartwell confirmed that the fabric of the building had been referred to in inspection reports.
- The Chief Executive pointed out that there was a differential about the services that the Council provided directly and that it had very little adult social care which was residential. All of the providers were independent/not for profit/ or private and these were the registered individuals for any inspection. The County Council was the commissioner of the care.
- With regard to academies, the Council could offer the same level of service which would be offered to a Northumberland County Council maintained school, for example, a School Improvement SLA. There was also an Education Strategy Board which included academies as members and regular Headteacher briefings. When inspections were taking place the County Council did offer its support.
- It was reported that the inspection at Kyloe House which had stated that satisfactory progress was being made, had been an interim inspection. It had noted the progress being made towards the implementation of its previous required actions. The next inspection would be a graded inspection.

RESOLVED the findings of the External Inspection Reports – Adults and Children’s Services be acknowledged.

38. REPORT OF THE EXTERNAL AUDITOR

Annual Auditors Report 2020-21

Members received a verbal update from Cameron Waddell from Mazars, the External Auditors.

Mr. Waddell explained that work on the Annual Audit Report was ongoing, and it was intended to report to the next meeting. In general, no significant issues had been identified with the exception of the valuation of schools. It was uncertain whether it was a lack of evidence to support the valuations or whether the valuations themselves were incorrect or both. Evidence was needed to support the valuations and if this could not be supplied then a request would have to be made to obtain this evidence. If the evidence did not support the valuations, then there would be an error and, therefore, other action would have to be taken. It would be necessary to understand the basis on which the existing valuations had been made. Mr. Waddell stressed that this issue would have no impact on the Council’s revenue position or underlying level of reserves the Council had. If a major error had occurred, then this would be reported to a future Audit Committee meeting.

In terms of 19/20 VFM, the auditors were still looking at International and they still did not have all of the information requested. The implications of a previous constitutional issue which had been discussed at a previous meeting were still being considered. It was not yet possible to indicate when this work may be finished. The situation was the same for 20/21 VFM. Mr. Waddell confirmed that the Whole of Government Accounts return had been signed off and submitted in mid-December 2021.

The following comments were made in response to queries from Members:-

- Mr. Waddell was unable to comment on any issue which was the subject of a current police investigation, however, the outcome of any such investigation would be taken account of in the audit.
- It was confirmed that the auditors had received a large part of the International information which had been requested but that there were a number of follow up queries to deal with from the information provided.

RESOLVED that the report of the External Auditor be received.

39. DATE OF NEXT MEETING

The next meeting be scheduled for Wednesday, 23 March 2022 at 10.15 a.m.

40. EXCLUSION OF PRESS AND PUBLIC

RESOLVED:

- (a) That under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following item on the Agenda as it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act, and
- (b) That the public interest in maintaining the exemption outweighs the public interest in disclosure for the following reasons:-

Agenda Item

11 Paragraph 3 of Part 1 of Schedule 12A

Information relating to the financial or business affairs of any particular person (including the authority holding the information).

Disclosure could adversely affect the business reputation or confidence in the person/organisation and could adversely affect commercial revenue.

41. REPORTS OF THE ACTING CHIEF INTERNAL AUDITOR

Group Audit Committee

Members received a verbal update from the Acting Chief Internal Auditor.

RESOLVED that the report be received.

CHAIR.....

DATE.....

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Northumberland County Council

AUDIT COMMITTEE

23 March 2022

Northumberland County Council - Statement of Accounts 2021-22

Report of Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth – Deputy Leader and Portfolio Holder for Corporate Services

1. Purpose of the Report

1.1. The purpose of this report is to provide the Audit Committee with:

- a. an overview of the timetable for publishing the 2021-22 Statement of Accounts; and,
- b. an update on the Accounting Policies to be applied in the preparation of the 2021-22 Statement of Accounts.

2. Recommendations

2.1. It is recommended that the Members of the Audit Committee:

- a. note the key dates in the final accounts process for 2021-22.
- b. approve the Accounting Policies to be used for the preparation of the 2021-22 Statement of Accounts.
- c. authorise the Interim Executive Director of Finance to review the accounting policies as necessary and report any changes to the Audit Committee.

3. Key Issues

3.1. Year End Timetable

It is the responsibility of the Interim Executive Director of Finance to sign and certify the unaudited Statement of Accounts 2021-22 by no later than 31 July 2022.

It is the responsibility of the Audit Committee to approve the final, or audited, set of accounts on or before 30 November 2022 (date subject to consultation and legislation).

3.2. Accounting Policies

The Accounting Policies applied in the preparation of the 2020-21 Statement of Accounts remain appropriate for the preparation of the 2021-22 Statement of Accounts. The CIPFA Code changes for 2021-22 are considered minor and there are no accounting policies which require amendment as a result of any changes in the Code.

CIPFA/LASAAC issued an exceptional consultation on 3 February 2022 on time limited changes to the 2021-22 and 2022-23 Codes, to help alleviate delays to the publication of audited financial statements. This includes an adaptation to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years.

At this stage, it appears unlikely that CIPFA's emergency proposals will have a significant impact on the preparation of the 2021-22 accounts and until the outcome of the consultation is known, we will continue to prepare for the accounts on the basis of the 2021-22 Code as it currently stands. We will review policies at that stage and propose amendments, if relevant.

The full list of accounting policies the Council proposes to disclose in its 2021-22 Statement of Accounts are detailed in Appendix A.

4. BACKGROUND

4.1. Year End Timetable

- a. The Accounts and Audit (Amendment) Regulations 2021 extend the statutory deadlines for the 2020-21 and 2021-22 Statement of Accounts as follows:
 - the responsible financial officer, by no later than 31 July (previously the 31 May), signs and certifies that the Statement of Accounts presents a true and fair view of the financial position of the County Council for the year to 31 March previous, subject to the views of the External Auditor, and
 - on or before 30 September (previously 31 July), approval needs to be given to the Statement of Accounts by resolution of a Committee, which for Northumberland County Council is the Audit Committee. This approval will take into account the views of the External Auditor.
- b. In December 2021, proposed measures were announced by Government to support the timely completion of local government audits and the ongoing stability of the local audit market. The proposals include extending the published/audited deadline to 30 November 2022 for the 2021-22 accounts, then reverting to 30 September for six years beginning with the 2022-23 accounts. The draft accounts deadline is proposed to remain at 31 May,

although for 2021-22 this is overridden by the Amendment Regulations outlined above, i.e. 31 July 2022.

4.2. Accounting Policies

- a. In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code), which is based upon approved accounting standards.
- b. The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
- c. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2021. It supersedes the 2020-21 Code.
- d. In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21 (2) of the Local Government Act 2003.
- e. The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances.
- f. CIPFA/LASAAC issued an exceptional consultation on 3 February 2022 on time limited changes to the 2021-22 and 2022-23 Code, including an adaptation to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years.
- g. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
- h. Accounting policies are defined in the Code as "the specific principles bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements".

- i. The proposed accounting policies are in line with those used in the preparation of the 2020-21 accounts.
- j. The CIPFA code changes for 2021-22 are minor, and there are no accounting policies which require amendment as a result of these changes.
- k. Members of the Audit Committee are requested to approve the Accounting Policies as shown within Appendix A.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None.
Finance and value for money:	The report considers the accounting policies for the County Council's Statement of Accounts 2021-22.
Human Resources:	None.
Legal:	It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
Procurement:	None.
Property:	None.
Equalities:	None.
Risk Assessment:	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime & Disorder:	None.
Customer Considerations:	None.
Carbon Reduction:	None.
Consultation:	Portfolio Holder for Corporate Services.
Health & Wellbeing:	The Council's budget is founded on the principle of promoting inclusivity.
Wards:	All.

Background Papers:

Northumberland County Council Draft Statement of Accounts 2020-21

Report sign off

Authors must ensure that officers and members have agreed the content of the report:

	Full Name
Interim Monitoring Officer/Legal	Suki Binjal
Service Director Finance & Interim S151 Officer	Alison Elsdon
Executive Director	Jan Willis
Chief Executive	Daljit Lally
Portfolio Holder(s)	Richard Wearmouth

Alan Mason Finance Manager

Telephone: 01670 622167 Alan.Mason@northumberland.gov.uk

Accounting Policy		New policy	Amended policy	No change	In line with Code
1.	General Principles			✓	✓
2.	Accruals of Income and Expenditure			✓	✓
3.	Exceptional Items			✓	✓
4.	Cash and Cash Equivalents			✓	✓
5.	Prior period Adjustments, Changes in Accounting Policies and Estimates and Errors			✓	✓
6.	Charges to Revenue for Non-Current Assets			✓	✓
7.	Pension Fund Accounts			✓	✓
8.	Employee Benefits			✓	✓
9.	Events after the Reporting Period			✓	✓
10.	Financial Instruments			✓	✓
11.	Foreign Currency Translation			✓	✓
12.	Government Grants and Contributions			✓	✓
13.	Heritage Assets			✓	✓
14.	Intangible Assets			✓	✓
15.	Interests in Companies and Other Entities			✓	✓
16.	Inventories			✓	✓
17.	Investment Properties			✓	✓
18.	Leases			✓	✓
19.	Non-current Assets Held for Sale			✓	✓
20.	Overheads and Support Services			✓*	✓
21.	Property, Plant and Equipment			✓	✓
22.	Recognition			✓	✓

Accounting Policy		New policy	Amended policy	No change	In line with Code
23.	Measurement			✓*	✓
24.	Impairment			✓	✓
25.	Disposals			✓	✓
26.	Depreciation			✓	✓
27.	Private Finance Initiative (PFI) and Similar Contracts			✓	✓
28.	Provisions, Contingent Liabilities and Contingent Assets			✓	✓
29.	Reserves			✓	✓
30.	Revenue Expenditure Funded from Capital Under Statute (REFCUS)			✓	✓
31.	Value Added Tax (VAT)			✓	✓
32.	Tax Income – Council Tax and National Non Domestic Rates			✓	✓
33.	Accounting for Schools			✓	✓
34.	Fair Value			✓	✓

* Minor change in wording

Accounting Policies to be adopted for the Statement of Accounts 2020-21**1. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2021-22 financial year and its position at the year end of 31 March 2022. The authority is required to prepare an annual Statement of Accounts in line with the Accounts and Audit Regulations 2015. The Regulations require that they are prepared in accordance with proper accounting practices.

These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021-22, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is, principally, historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made;
- Interest receivable on investments and payable on borrowings are accounted for respectively on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and,
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The only exception to the adoption of accruals relates to accounting for income and expenditure by those schools that do not use the full functionality

of the Council's finance systems and therefore account on a cash basis. This exception does not have a material impact on the accounts.

Accruals are recognised where the value exceeds £0.010 million.

3. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the financial statements, depending on how significant the items are to aid an understanding of the Council's financial performance.

4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue to contribute towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction. This is shown within the Capital Adjustment Account and the Movement in Reserves Statement for the difference between the two.

7. Pension Fund Accounts

Northumberland County Council Pension Fund merged into Tyne and Wear Pension Fund on 1 April 2020. The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020 (UK Statutory Instrument 2020 No 502) came into force on 3 June 2020 giving this merger retrospective effect. All assets and liabilities of Northumberland County Council Pension Fund became the assets and liabilities of Tyne and Wear Pension Fund on 1 April 2020, and therefore Northumberland County Council Pension Fund's final day as a reporting entity was 31 March 2020.

The Merger Regulations removed Northumberland County Council from the LGPS Regulations as a body required to maintain a LGPS fund or prepare accounts from 1 April 2020. South Tyneside Council is the administering body for that Fund and the Tyne and Wear Pension Fund Accounts are presented in South Tyneside Council's Statement of Accounts only on this basis.

8. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council.

An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable at the 31 March. Any accrual made is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date; or, an officer's decision to accept voluntary redundancy; and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for termination benefits related to pensions enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees and former employees of the Council are members of nine pension schemes:

- **The Local Government Pension Scheme** administered by South Tyneside Council;
- **The LGPS Unfunded Scheme** administered by Northumberland County Council;
- **The Teachers' Unfunded Scheme** administered by Northumberland County Council;
- **The 1992 Firefighters' Pension Scheme** administered by Northumberland County Council;
- **The 2006 Firefighters' Pension Scheme** administered by Northumberland County Council;
- **The 2015 Firefighters' Pension Scheme** administered by Northumberland County Council;
- **The Firefighters' Compensation Scheme** Pensions administered by Northumberland County Council;
- **The Teachers' Pension Scheme** administered by Capita Teachers' Pensions on behalf of the Department for Education; and,
- **The NHS Pension Scheme** administered by NHS Business Services Authority on behalf of the Department of Health.

These schemes provide members with defined benefits, earned as employees worked for the Council.

However, the arrangements for the Teachers' and NHS Pension Schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payment of benefits is recognised in the Council's Balance Sheet. The relevant service lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to these schemes in the year.

The other seven schemes are accounted for as defined benefit schemes.

Local Government Pension Scheme

Northumberland County Council Pension Fund merged into Tyne and Wear Pension Fund on 1 April 2020. The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020 (UK Statutory Instrument 2020 No 502) came into force on 3 June 2020 giving this merger retrospective effect. All assets and liabilities of Northumberland County Council Pension Fund became the assets and liabilities of Tyne and Wear Pension Fund on 1 April 2020, and therefore Northumberland County Council Pension Fund's final day as a reporting entity was 31 March 2020.

The Merger Regulations removed Northumberland County Council from the LGPS Regulations as a body required to maintain a LGPS fund or prepare accounts from 1 April 2020. South Tyneside Council is the administering body for that Fund and the Tyne and Wear Pension Fund Accounts are presented in South Tyneside Council's Statement of Accounts only on this basis.

- The liabilities of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, and former employees, based on assumptions about mortality rates, commutation rates, and projected earnings for current employees, etc.
- Liabilities are discounted to their current value, using the appropriate discount rate (based on the rate of return on high quality corporate bonds).
- The assets of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities at current bid price
 - unquoted securities at professional estimate
 - unitized securities at current bid price

- property at market value.

The change in the Net Pensions Liability is analysed into the following components:

Component	Description
Service cost comprising:	
Current service cost	The increase in liabilities as a result of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
Past service cost	The increase in liabilities arising as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority	The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
Remeasurement comprising:	
Return on plan assets	Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
Actuarial gains and losses	Changes in the Net Pensions Liability that arise because of changes in the actuarial assumptions from the previous year – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities – not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the amount payable by the Council in the year not the amount calculated in accordance with relevant accounting standards. There are appropriations to and from the Pensions Reserve in the Movement in Reserves Statement to remove the notional debits and credits for retirement benefits and replace them with debits for the employer contributions paid or payable in the year. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

9. Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and,
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

10. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and then carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and, interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over either the term of the replacement loan or the remaining term on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost;
- fair value through profit or loss (FVPL); and,
- fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore largely classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest), and, interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be forgone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the

Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets Measured at Fair Value through Other Comprehensive Income

The Council has elected to classify its equity shareholdings in Newcastle Airport Local Authority Holding Company Limited (NALAHCL) and Advance Northumberland Limited into a 'fair value through other comprehensive income' treatment, rather than 'fair value through profit or loss', as the assets are not held for trading.

The impact of the election is that movements in fair value will not be debited/credited to the Surplus or Deficit on the Provision of Services as they arise. Instead, movements will be accumulated in the Financial Instruments Revaluation Reserve until the asset is derecognised, at which point the net gain or loss would be transferred to the General Fund Balance.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

11. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

12. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and,
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Revenue Grants Receipts in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

13. Heritage Assets

Tangible and Intangible Heritage Assets (described here as "Heritage Assets")

The Council's Heritage Assets are held with the aim of increasing the knowledge, understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed; these rules together with the accounting treatment for heritage assets are as follows.

Museum, Art and Artefact Collection

The Council's museum and art collections are reported on the Balance Sheet based on their insurance valuations, which are periodically reviewed.

The Council does not consider it appropriate to charge depreciation on the assets as they have high residual values and indeterminate lives.

The collection is relatively static and acquisitions and donations are rare. Where these do occur, acquisitions are initially recognised at cost and donations are recognised at valuation.

Public Sculptures and Memorials

Due to the nature of the assets held and the lack of comparable values, the Council considers that obtaining valuations for the vast majority of Public Sculptures & Memorials would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. This is because of the nature of the assets held and the lack of comparable values. Other than recently acquired public art, which is held at cost, the Council does not recognise these heritage assets on the Balance Sheet.

These assets have indeterminate lives hence the Council does not consider it appropriate to charge depreciation.

Historic Buildings

Similar to community assets, the Council considers that obtaining valuations for this type of asset would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. The Council holds this class of asset at cost on the Balance Sheet.

Archaeology

Due to the diverse nature of the assets held and lack of comparable market values, the Council does not consider that reliable cost or valuation information can be obtained for archaeological assets. Consequently, the Council does not recognise these assets on the balance sheet.

The Council does not make any purchases of archaeological items.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. Heritage assets which have a doubtful provenance or are unsuitable for public display may be disposed of. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

14. Intangible Assets

Capital expenditure on non-monetary assets that do not have physical substance but are controlled by the Council (e.g. software licences), and are expected to have future economic benefits or service potential to the Council, are classified as intangible assets.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured at cost. Amounts are only revalued where the fair value of the assets can be determined by reference to an active market.

Intangible assets are given finite useful lives, based on an assessment of the period that the asset is expected to be of use to the Council. The useful lives assigned to the major intangible asset types are:

Asset Type	Estimated Useful Life
Applications Software	5 Years
Library Management System & Housing Management System	5 Years
Fire Service call taking and mobilising system	5 Years
Vehicle Tracking System & Parking Enforcement Software	5 Years

The carrying amount of an intangible asset is amortised on a straight-line basis, over its useful life.

For statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. They are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.01 million) the Capital Receipts Reserve.

15. Interests in Companies and Other Entities

The Council has material interests in companies that have the nature of subsidiaries and is required to prepare group accounts. In the Council's own single entity accounts the interests are recorded as financial assets at cost, less any provision for losses. In preparing the Group accounts, the following have been applied:

- All relationships within the scope of the Group accounts have been assessed;
- Transactions between the Council and its subsidiaries have been eliminated from the Group statement of accounts and accompanying notes; and,
- The financial statements of the subsidiaries are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 the Financial Reporting standard and this may give rise to difference in accounting treatment. Where material differences are identified, the subsidiary accounts are aligned to the accounting policy of the Council upon consolidation.

16. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

17. Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.01 million) the Capital Receipts Reserve.

18. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the years in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and,
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and,
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

19. Non-current Assets Held for Sale

Property assets where a disposal is highly probable within the next 12 months and the asset is available for sale in its present condition are classified as assets held for sale. Management must be committed to the sale within one year from the date of classification. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

Subsequent decreases in fair value less costs to sell are charged directly to the Comprehensive Income and Expenditure Account. Gains in fair value are

only recognised to the extent that they reverse a loss previously recognised in the surplus or deficit on provision of services. No depreciation is charged on assets held for sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified as non-current assets and valued at the lower of either:

- the carrying amount before classification as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, or,
- the recoverable amount at the date of the decision not to sell.

When an asset is disposed of the carrying amount of the asset on the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement, alongside any receipts from the disposal.

Amounts received are categorised as capital receipts and credited to the Capital Receipts Reserve. The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing and is appropriated to the Capital Adjustment Account through the Movement in Reserves Statement.

Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

20. Overheads and Support Services

Corporate departments work within predetermined budgets and generally their costs are not distributed to service departments. The exceptions are primarily services funded by external grant or where the service operates within a ring-fenced budget, for example the Housing Revenue Account.

21. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

22. Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. For General Fund items of property, plant and equipment, a de minimis level of £0.01 million is applied below which expenditure is charged directly to the Comprehensive Income and Expenditure Statement as it is incurred.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

23. Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at current value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost;
- vehicles, plant and equipment - depreciated historical cost basis as a proxy for current value due to the short useful lives, or low value (or both), Energy from Waste PFI plant is valued at current value;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- surplus assets - current value, determined using the fair value approach by the measurement of the highest and best use value.
- all other assets – current value, determined using the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Assets included in the Balance Sheet at current value are revalued at least every 5 years to ensure that their carrying amount is not materially different from their current value at the year-end.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

24. Impairment

Assets are assessed each year for possible impairment. If a material impairment is identified a material change valuation is carried out to value the asset at its current value.

25. Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement, alongside any receipts from the disposal.

Amounts received for a disposal in excess of £0.01 million are categorised as capital receipts and credited to the Capital Receipts Reserve, this can only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). A proportion of receipts relating to housing is payable to the government.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

26. Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

The depreciation charge is applied on a straight line basis over the following periods:

Asset	Depreciation Period
Land & Buildings & Community Assets (after deducting residual value)	4 to 40 years (as determined by the valuation officers)
Infrastructure:	
Other	40 years

Asset	Depreciation Period
Surface Dressing	10 years
Vehicles, Plant and Equipment:	
CCTV equipment	3 to 30 years
Fire engines	10 to 15 years
Furniture and Fittings, ICT, other equipment	3 to 15 years
Grounds maintenance / car parking equipment	3 to 15 years
Other vehicles	3 to 10 years
Play / sport / gym equipment	3 to 20 years
Salt Barns	25 years
Solar Panels	25 years
PFI Assets:	
Buildings and Infrastructure	25 to 40 years
Waste Plant Shell & Equipment	3 to 50 years

Where an item of Property, Plant and Equipment has major components where the cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

27. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge (with the exception of the energy from waste plant as it is deemed to have negligible value at the end of the period), the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge applied to the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet liability due to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

28. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

29. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and do not represent usable resources for the Council – these reserves are explained therefore in the relevant policies below.

30. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

31. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

32. Tax Income - Council Tax and National Non Domestic Rates (NNDR).

Council Tax and NNDR income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year.

Council Tax and NNDR income will be recognised in the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line. As a Billing Authority, the difference between the Council Tax and NNDR included in the Comprehensive Income and Expenditure Statement and the amount required by regulation credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

Council Tax and NNDR income is recognised when the obligating event that triggers the payment to the Council has taken place; it is probable that the economic benefits or service potential associated with the transaction will flow to the Council; and the amount of revenue can be measured reliably.

Revenue relating to Council Tax and NNDR is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

33. Accounting for Schools

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) are considered to be entities controlled by the Council and are recognised in the Council's single entity accounts. Therefore all schools' transactions, cash flows and balances are recognised in each of the financial statements.

Schools' non-current assets (school buildings and playing fields) are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school governing body own the assets or have had rights to use the assets transferred to them through a licence arrangement.

When a maintained school converts to an Academy, the schools non-current assets held on the Council's balance sheet are treated as a disposal. The carrying value of the asset is written off to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off asset value is not a charge against the General Fund, as the cost of non-current asset disposals resulting from schools transferring to an Academy is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

34. Fair Value

The Council measures some of its non-current assets such as surplus assets and Investment Properties and some of its financial instruments such as equity share holdings at fair value at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or,
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The valuation of these assets and liabilities, use appropriate techniques for each circumstance, maximising the use, relevant known data, and minimising the use of estimates.

To increase consistency and comparability in fair value measurement and related disclosures, the inputs to valuation techniques used to measure fair value are categorised into three levels:

- **Level 1** inputs - unadjusted quoted prices in active markets for items identical to the asset being measured.
- **Level 2** inputs – inputs other than those in level 1 that are directly or indirectly observable.
- **Level 3** inputs – unobservable inputs for the asset or liability.



Northumberland County Council

AUDIT COMMITTEE

23 March 2022

Statement of Accounts - Group Boundary Review

Report of Jan Willis, Interim Executive Director of Finance

Cabinet Member: Richard Wearmouth, Portfolio Holder for Corporate Services

1. Purpose of Report

- 1.1 The purpose of this report is to provide members of the Audit Committee with details of the boundary review which has been undertaken to determine those organisations which should have their financial statements consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2022.
- 1.2 Particular consideration is given to the position of Active Northumberland.

2. Recommendations

- 2.1 It is recommended that the members of the Audit Committee:
 - a. Note the contents of the report.
 - b. Note that the financial statements of Advance Northumberland Limited will continue to be consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2022.
 - c. Note that Northumberland Enterprise Holdings Limited's financial statements will be consolidated with the Council's Statement of Accounts.
 - d. Agree that Active Northumberland's financial statements **should not** be consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2022.

3. Link to the Corporate Plan

- 3.1 This report is consistent with the priorities in the Corporate Plan 2018-21 "A Council that works for everyone".

4. Key Issues

- 4.1 The Council has undertaken an assessment (Boundary Review) in advance of producing its 2021-22 Statement of Accounts to ascertain if there are any relationships which fall under the definition of the Code and should therefore be consolidated into the group position. The outcome of the review is detailed within the report.
- 4.2 The Code of Practice on Local Authority Accounting in the United Kingdom 2021-22 “the Code” paragraph 9.1.1.7 sets out a requirement to prepare group accounts where the authority has interests in subsidiaries, associates and/or joint ventures, subject to consideration of materiality.
- 4.3 The Code does not make any specific comments on the consolidation of charitable organisations in local authority financial statements; therefore, local authorities are required to follow the requirements of IFRS 10 in the Code; and, where material, consolidate any charitable trust where an authority meets the criteria for control.

5. Advance Northumberland Limited Group of Companies

- 5.1 Advance Northumberland Limited is a wholly-owned company of the Council. The company was established on 13 November 2018 when all of the assets, liabilities and shares of the now dissolved Arch Group were transferred to it. The Company acts as the holding company for the Advance Group and it conducts no business in its own right; its operational subsidiaries are as follows:
- Wholly-owned:
 - Advance Northumberland (Commercial) Ltd
 - Advance Northumberland (Housing) Ltd
 - Advance Northumberland (Developments) Ltd
 - Advance Northumberland (Financial) Ltd
 - Joint venture:
 - Prudhoe Estates LLP (dormant)
- 5.2 The Council has a material financial interest and a significant level of control over Advance Northumberland Limited and it is named in the Council’s Statement of Accounts as an “entity controlled or significantly influenced by the Council”.
- 5.3 Since its inception the financial statements of Advance Northumberland Limited (which incorporate the financials for the overall group) have been consolidated with the Council's Statement of Accounts and they will continue to be consolidated for the financial year 2021-22.

6. Northumberland Enterprise Holdings Limited Group of Companies

- 6.1 Northumberland Enterprise Holdings Limited (NEHL) was incorporated on 17 September 2020 and is a wholly owned company of the Council. NEHL also owns a subsidiary company, Northumbria Integrated Consultancy Limited, which is currently dormant.

- 6.2 The Council therefore has a material financial interest and a significant level of control over NEHL and the company will be named in the Council's Statement of Accounts as an "Entity Controlled or Significantly influenced by the Council".
- 6.3 NEHL was dormant during 2020-21 so its financial statements were not included within the Council's 2020-21 Statement of Accounts. However, the Company was active in 2021-22 and as such its financial statements (which will include its subsidiary once active) will be consolidated within the Council's 2021-22 Statement of Accounts.

7. Active Northumberland

Determination of Control

7.1 The following factors should be considered when determining whether Active Northumberland should be consolidated with the Council's accounts. Active Northumberland is not a wholly owned or partially owned subsidiary of the Council.

7.1.1 The purpose and design of the charitable trust:

- a. Active Northumberland is registered at Companies House (08484436) as a Private Limited Company by guarantee without share capital use of 'Limited' exemption.
- b. Active Northumberland is registered with the Charity Commission (1153198).
- c. Active Northumberland's Memorandum and Articles of Association were amended on 17 April 2019 to change the membership of the charity to individual members only. There are no Board appointments from Northumberland County Council. The number of Trustees shall not be less than three and, unless otherwise agreed by the Trustees, shall not be subject to any maximum. There are currently 12 Trustees on the Board (see Appendix A for details).
- d. Consideration needs to be given to the following:
 - Whether or not the Council has voting rights on the Board of Trustees; and,
 - whether or not the Council is able to exercise the majority of voting power over the Trust.

There have been no representatives from Northumberland County Council on the Board during 2021-22 and therefore no direct influence has been exerted by the Council.

- e. The Council is not involved with the recruitment of Active Northumberland Board members. The Memorandum and Articles of Association allow the Active Northumberland Board the ability to appoint and remove Board members.
- f. All Active Northumberland Board members are required to adhere to the Code of Conduct and submit declarations of interest. A Trustee must declare

the nature and extent of any interest, direct or indirect, which they have in a proposed transaction or arrangement with the Charity which has not previously been declared. A Trustee must absent themselves from any discussions of the Trustees in which it is possible that a conflict will arise between their duty to act solely in the interests of the Charity and any personal interest. The Trustee does not vote on any such matter. This can be evidenced in the Board minutes.

7.1.2 What the relevant activities of the charitable trust are and how decisions about those activities are made.

- a. From 1 April 2018 Active Northumberland was commissioned by Northumberland County Council to provide Leisure Services. Whilst the Council determines what activities it requires Active Northumberland to deliver on its behalf, the Council is not involved operationally with how those services are delivered and this is a matter for the Active Northumberland Board. This can be evidenced in a strictly confidential letter dated 27 February 2018 from the Council's Chief Executive to the Chair of Active Northumberland.

7.1.3 IFRS 10 states that an investor (the Council) controls an investee (Active Northumberland) if and only if the investor has all the following elements (8.1.4, 8.1.5 and 8.1.6)

7.1.4 Whether the rights of the authority give it the ability to direct the relevant activities of the charitable trust. Such rights can be straightforward (e.g. through voting rights) or be complex (e.g. embedded in contractual arrangements). A holder of protective rights cannot have power over an investee and so cannot control the investee

- a. As described in point 7.1.2 operational decisions are taken by the Active Northumberland Board and not the Council. This can be evidenced in the Active Northumberland Board minutes and via the Partnership Agreement.
- b. The Partnership Agreement between the Council and Active Northumberland does not contain protective rights.

7.1.5 Whether the authority is exposed, or has rights, to variable returns from its involvement with the charitable trust. Such returns must have the potential to vary as a result of Active Northumberland's performance and can be positive, negative, or both.

- a. No positive returns are made from Active Northumberland to the Council. All balances are retained by Active Northumberland, and it is the decision of the Active Northumberland Board how those reserves are used. In the event that the charity dissolves then the Board will decide what it does with the funds.
- b. The Council has provided significant additional funding to Active Northumberland during the current and previous financial year to assist in minimising the impact of the Covid-19 pandemic. This could be assessed as

a negative return under IFRS 10, although is due to exceptional circumstance (Force Majeure).

- c. The Partnership Agreement between the Council and Active Northumberland references Force Majeure in section 31 – Termination on Force Majeure (page 53) and section 36 – Compensation on Termination for Force Majeure (page 58).
- d. Section 31.3 – Consultation (page 53) states that ‘as soon as practicable following such notification, the Parties shall consult with each other in good faith and use all reasonable endeavours to agree appropriate terms to mitigate the effects of the Force Majeure Event and facilitate the continued performance of the relevant Project Agreement’.
- e. The significant additional funding provided to Active Northumberland forms part of the outcome to this consultation between the parties.

7.1.6 Whether the authority has the ability to use its power over the charitable trust to affect the amount of the returns to the authority

- a. No returns are made from Active Northumberland to the Council. The Council sets the scope in terms of the services that it would like Active Northumberland to provide. However, the Council does not exercise control or power over how Active Northumberland delivers these services. The Board of Active Northumberland determines the delivery plan.
- b. The Active Northumberland Board will formally request financial assistance for 2021-22 when the final amount is known. This will then need to be approved by County Council.
- c. Active Northumberland serves only a single customer, the Council, which implies it is highly dependent upon the Council’s actions, funding and wider support.
- d. Analysis suggests that Active Northumberland would struggle to leverage alternative funding arrangements, such as bank loans, as they have limited long-term assets. This increases the dependence upon the Council.

7.1.7 Other factors

- a. The budget for Active Northumberland is funded predominantly by service income, as well as a management fee from the Council. The proportion of budgeted income which was service income in 2021-22 was 50%, management fee was 14% with the remaining 36% being Covid grants and other financial support. In previous years Advance Northumberland provided a charitable donation of up to £1 million to Active Northumberland however this arrangement has now ended. Due to the cessation of the arrangement, it was agreed at the meeting of the County Council on 19 February 2020 that the Council would increase the management fee in 2019-20 and then in the subsequent two years by up to £1 million. It was subsequently agreed at the

meeting of the County Council on 24 February 2021 that the Council continue this arrangement in 2021-22 and in the subsequent two years.

- b. The Council's Rate Relief Policy was approved at the meeting of the County Council on 24 February 2021. The policy grants 20% discretionary relief top up for business rates to Leisure Centres operated by Charitable Trusts. For Active Northumberland this amounts to £0.260 million.
- c. There is a Leisure Partnership Agreement, covering the period 2018-19 to 2021-22, which formally documents the commissioner/provider contractual relationship between the Council and Active Northumberland for the provision of Leisure Services. The agreement was signed by the Council's Legal Services Manager and the Chair of the Active Northumberland Board and Company Secretary on 18 April 2019.
- d. There are quarterly review meetings between Active Northumberland and Northumberland County Council. The meetings are attended by the Council's client officer, Contracts Officer and representatives from Active Northumberland. Prior to each quarterly review meeting Active Northumberland is required to provide quarterly key performance indicators (KPIs) and a written report on progress and achievements against the Annual Plan under the headings of Partners, People, Places and Products. Quarterly KPI results are shared with the Council's Performance Team via the Corporate Performance system and reported to the Executive Team and Cabinet accordingly.
- e. A number of Service Level Agreements (SLAs) between Active Northumberland and the Council were agreed and effective from 1 April 2018. Active Northumberland purchases some of its support services from the Council. The SLAs continued throughout 2021-22.
- f. The Active Northumberland Board has a Finance and Audit Committee which meets bi-monthly. The purpose of the Committee is to assist the Board in its responsibilities by reviewing:
 - financial planning and information;
 - strategic financial plans, the annual operating and capital budgets and quarterly forecasts;
 - performance against plans and their key targets;
 - appropriateness of accounting and financial policies;
 - appropriateness and method of disclosure of information relating to Active Northumberland;
 - investment appraisal and post investment performance;
 - funding requirements and terms, including monitoring bank covenants;
 - financial liabilities;

- monitor, review and report to the Board on the effectiveness of Active Northumberland's risk management processes and financial and other internal control systems;
 - overseeing Active Northumberland's relationship with its External Auditors; and,
 - Health and Safety.
- g. As part of the Leisure Review currently being undertaken by the Council, detailed performance information for each facility has been updated and shared. Performance information is provided to the Active Northumberland Finance and Audit Committee and Board on a monthly basis through the Finance Report.
- h. Active Northumberland has established and implemented a business plan and strategy. A new Strategy and Business Plan is being developed for 2022-25.
- i. The Board agreed to introduce its own internal audit provision. The contract was awarded in March 2020 to TIAA. They attend Active Northumberland's Finance and Audit Committee.
- j. The 2021-22 budget was agreed by the Board at its meeting on 21 April 2021. A monthly report is produced to ensure that the Executive Team, Finance and Audit Committee and Board are informed of the financial position against the budget for 2021-22.
- k. The Council is in discussion with Active Northumberland regarding the level of assistance required to balance the budget for 2021-22. The provisional figure required as at December 2021 is £1.069 million, which has been reported in both parties' monthly financial reports.

8. Conclusion

- 8.1 The financial statements of the following entities should be consolidated with Northumberland County Council's Statement of Accounts for the financial year ended 31 March 2022:
- Advance Northumberland Limited
 - Northumberland Enterprise Holdings Limited
- 8.2 The Council does not legally own Active Northumberland, nor does it have direct control, via members on the Active Northumberland Board. It is a third-party legal entity with a contractor relationship with the Council. Although Active Northumberland is highly dependent upon the Council and has received significant financial support due to the impact of Covid-19, all additional financial support can be linked back to a Force Majeure event and should be managed via a contract variation to the Partnership Agreement which the Head of Cultural Services is leading on. It is concluded that Active Northumberland does not fall within the scope of group accounts as per the Code of Practice on Local Authority Accounting in the

United Kingdom 2021-22 and IFRS 10 and should therefore continue to be out of scope of Northumberland County Council's consolidated Statement of Accounts for the financial year ended 31 March 2022.

Implications

Policy	The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 guidance notes for practitioners. The CIPFA accounting for collaboration in Local Government.
Finance and value for money	This report has no financial implications for the Council.
Legal	There are no specific legal implications within this report.
Procurement	There are no specific procurement implications within this report.
Human Resources	There are no specific human resources implications within this report.
Property	There are no specific property implications within this report.
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	There are no specific equalities implications within this report.
Risk Assessment	The risks associated with the budget were considered in February 2021 and were considered to be acceptable.
Crime & Disorder	There are no specific crime and disorder implications within this report.
Customer Consideration	There are no specific customer consideration implications within this report.
Carbon reduction	There are no specific carbon reduction implications within this report.
Health & Wellbeing	There are no specific health & wellbeing implications within this report.
Wards	All wards.

Background papers

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 guidance notes for practitioners.

The CIPFA accounting for collaboration in Local Government.

Report sign off

	Name
Deputy Monitoring Officer/Legal	Suki Bingal
Interim Executive Director of Finance & Section S151 Officer	Jan Willis
Relevant Executive Director	Jan Willis
Chief Executive	Daljit Lally
Portfolio Holder	Richard Wearmouth

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Current Board Membership of Active Northumberland

Trustee	Role	Key Dates
David Hall	Chair	Appointed 19 October 2015
Jane Riley	Vice Chair	Appointed 21 September 2018
Karla Sweeney	Secretary	Appointed 1 April 2021
Malcolm Copland	Director	Appointed 21 September 2018
Stephen Crosland	Director	Appointed 21 September 2018
Modaser Choudhary	Director	Appointed 12 February 2020
Claire Riley	Director	Appointed 12 February 2020
David Carss	Director	Appointed 15 October 2021
Jamie Chapman	Director	Appointed 15 October 2021
Brian Welsh	Director	Appointed 15 October 2021
Helen Wilcox	Director	Appointed 15 October 2021
Emma Williams	Director	Appointed 19 October 2021
Lindsay Marie Muers	Director	Resigned 9 June 2021



Northumberland County Council

AUDIT COMMITTEE

23 March 2022

Changes to the Code of Practice for Local Authority Accounting in the UK for 2021-22

Report of Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth – Deputy Leader and Portfolio Holder for Corporate Services

1. Purpose of the Report

- 1.1. The purpose of this report is to provide the Audit Committee with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code) which will apply to the 2021-22 Statement of Accounts.

2. Recommendations

- 2.1. It is recommended that the Members of the Audit Committee:
 - a. note the changes detailed in the report and in Appendix A which will be taken into account in the preparation of the 2021-22 statement of accounts.

3. Key Issues

- 3.1. In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK, which is based on approved accounting standards.
- 3.2. The 2021-22 Statement of Accounts will be prepared in accordance with the CIPFA Code 2021-22.
- 3.3. On 3 February 2022, CIPFA/LASAAC issued an exceptional consultation on time limited changes to the 2021-22 and 2022-23 Codes to help alleviate delays to the publication of audited financial statements in England, where only 9% of local authority accounts met the audit publication deadline of 30 September 2021. This includes an adaptation to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years.

- 3.4. At this stage, it appears unlikely that the proposals will have a significant impact on the preparation on the 2021-22 accounts.
- 3.5. The consultation closed on 3 March 2022. Until the outcome is known, we will continue to prepare for the accounts on the basis of the 2021-22 Code as it currently stands.
- 3.6. The key accounting changes to the Code from 2020-21 to 2021-22 are outlined in Appendix A, detailing their relevance and applicability to the Council.

4. **Background**

- 4.1. In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code), which is based upon approved accounting standards.
- 4.2. The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
- 4.3. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies to accounting periods commencing on or after 1 April 2021. It supersedes the 2020-21 Code.
- 4.4. In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.
- 4.5. In December 2021, proposed measures were announced by Government to support the timely completion of local government audits and the ongoing stability of the local audit market. The proposals include:
 - a. extending the published/audited deadline to 30 November 2022 for the 2021-22 accounts, then reverting to 30 September for five years until 2027-28.
 - b. providing councils with £45 million additional funding over the course of the next Spending Review period to support with the costs of strengthening their financial reporting and increased auditing requirements.
 - c. strengthening training and qualifications options for local auditors and audit committee members.
 - d. reviewing whether certain accounting and audit requirements could be reduced on a temporary basis, where these are of lesser risks to councils.

- 4.6. The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code in exceptional circumstances. On 3 February 2022, in response to the proposed measures announced by Government in December 2021, the Code Board issued an exceptional consultation on time limited changes to the 2021-22 and 2022-23 Codes to help alleviate delays to the publication of audited financial statements.
- 4.7. The consultation runs until 3 March 2022 and explores the following temporary changes:
- a. an adaptation to the Code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021-22 financial year) with an index approach used to increase or decrease the valuations.
 - b. deferring the implementation of IFRS 16 (leases) for a further year and reversing the planned changes to the 2022-23 Code to implement that standard.

5. **Main implications**

- 5.1. The Council's 2021-22 valuation programme is already well underway; therefore, the changes being explored as part of the CIPFA/LASAAC consultation are unlikely to have a significant effect on the workload for the 2021-22 Statement of Accounts and may be of more benefit to the 2022-23 workload. Although work on IFRS 16 (leases) is also fairly advanced deferring for an extra year will be of benefit. Even if this standard is delayed all work undertaken to date would have been necessary.
- 5.2. Until the outcome of the consultation is known, we will continue to prepare for the accounts on the basis of the 2021-22 Code as it currently stands.
- 5.3. Appendix A provides a summary of the key accounting changes to the Code and their relevance to the Council in preparing its Statement of Accounts for the year ended 31 March 2022.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None.
Finance and value for money:	The report considers the changes to the Code of Practice for Local Authority Accounting in the UK for the County Council's Statement of Accounts 2021-22.
Human Resources:	None.
Legal:	It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
Procurement:	None.
Property:	None.
Equalities:	None.
Risk Assessment:	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime & Disorder:	None.
Customer Considerations:	None.
Carbon Reduction:	None.
Consultation:	Portfolio Holder for Corporate Services.
Health & Wellbeing:	The Council's budget is founded on the principle of promoting inclusivity.
Wards:	All.

Background Papers:

Northumberland County Council Draft Statement of Accounts 2020-21

Report sign off

Authors must ensure that officers and members have agreed the content of the report:

	Full Name
Interim Monitoring Officer/Legal	Suki Binjal
Service Director Finance & Deputy S151 Officer	Alison Elsdon
Executive Director	Jan Willis
Chief Executive	Daljrit Lally
Portfolio Holder(s)	Richard Wearmouth

Alan Mason Finance Manager

Telephone: 01670 622167 Alan.Mason@northumberland.gov.uk

Changes to the Code of Practice for Local Authority Accounting in the UK for 2021-22

The table below provides a summary of the key accounting changes in the 2021-22 CIPFA Code and their applicability to Northumberland County Council. Note, this does not contain the emergency proposals that are still subject to consultation at the time of this report.

	Change	Relevant to Northumberland County Council?
1	Confirmation that the code will be based on UK endorsed accounting standards following the United Kingdom's withdrawal from the European Union.	Yes
2	Confirmation of the accounting arrangements for the Dedicated Schools Grant as a consequence of the issue of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020. This was legislation that came into force in 2020-21, but after the 2020-21 Code was issued.	Yes
3	Confirmation in Section 3.3 (Accounting Policies, Changes in Accounting Estimates and Errors) of the treatment of new standards that have been issued but not yet adopted.	Yes
4	Confirmation of the new standards introduced in the 2021-22 Code, and of the transitional reporting requirements for them: <ul style="list-style-type: none"> • Definition of a Business: Amendments to IFRS 3 • Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) • Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) 	Yes
5	Augmentations to Section 3.4 (Presentation of Financial Statements) for the reporting of estimation uncertainty: <ul style="list-style-type: none"> • focus on estimates where there is the greatest potential for material adjustments • disclosures to help the understanding of users of the accounts 	Yes

	Change	Relevant to Northumberland County Council?
6	Confirmation in Sections 7.2 (Subsequent Measurement of Financial Assets and Financial Liabilities) and 7.3 (Financial Instruments – Disclosure and Presentation Requirements) of the reporting requirements of interest rate benchmark reform – that is, the change from the London Inter-Bank Offered Rate (LIBOR) to the Sterling Overnight Index Average (SONIA).	Yes



Northumberland County Council

AUDIT COMMITTEE

23 MARCH 2022

CORPORATE FRAUD TEAM – COUNTER FRAUD INTERIM REPORT

Report of Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth, Portfolio Holder for Corporate Services, and Deputy Leader of the Council

Purpose of report

The purpose of this report is to update the Audit Committee on work undertaken by the Corporate Fraud Team within the Council covering the period 1 April 2021 - 30 September 2021.

Recommendations

It is recommended that the Audit Committee

1. Note the progress in work undertaken by the Corporate Fraud Team since the last report in September 2021 and the steps being taken to recover any monies owed to the Council.

Link to Corporate Plan

This report is relevant to the Councils Corporate Plan by delivering a service that has a positive outcome for the community by stopping or preventing losses from public money through an effective counter fraud service.

INTRODUCTION

The Council is committed to providing an effective Anti-Fraud Service which is supported by efficient policies and sanctions for those that offend. Counter fraud is the responsibility of everyone in the Council and by ensuring that effective measures are in place to prevent, detect, investigate and report fraud we can ensure that public money is spent where it should be, on services for the community.

Failure to investigate fraud will see money leaving the Council by way of fraud or error and failure to tackle this effectively could lead to qualified subsidy claims and loss of revenue for the Council.

It is therefore important to demonstrate that resources are focused on fraud reduction and to identify, investigate and rectify administrative weaknesses in order to assure Members of the quality and integrity of investigations.

At the end of September 2021, the team consisted of the Corporate Fraud Manager, 3 Corporate Fraud Investigators and an Administration Assistant and achieved gross savings of £1,313,097.73 (£76,027.73 cashable) for the Council plus total savings of £291,020 for our local housing partners Bernicia and Karbon.

ANNUAL REPORT OF ALL SUSPECTED FRAUD – 1 April 2021 to 30 September 2021

Internal Fraud

All reports of suspected fraud continue to be documented, whether investigated or not, and during the first 6 months of the year there have been zero referrals in relation to potential internal fraud.

It is natural to link the lack of referrals with Covid-19 and the national restrictions since March 2020.

We still have 3 cases open from earlier referrals which are being considered for legal action – one case involves allegations of theft, abuse of position and false representation. The other 2 cases involve allegations of theft.

An update on these cases will be given upon their conclusion in future reports.

External Fraud

There was a total of 436 fraud referrals received during the period 1 April 2021 to 30 September 2021 in the following case types:

Council Tax - 129

Business Rates – 6

Covid-19 Self Isolation payments- 56

Insurance - 7

Schools - 5

Single Person Discount - 32

Tenancy - 164

Blue Badge/Concessionary Passes - 7

Other (inclusive of DWP information requests) – 30

As the figures above show, most referrals received from 1st April 2021 to 30th September 2021 have been in the Revenues and Tenancy arena. Proactive single person discount exercises were temporarily suspended to prevent any reputational damage to the authority during the pandemic.

There was an upturn in the number of Covid-19 Self Isolation payment referrals for the period 1st April 2021 – 30th September 2021. In the same period, 39 were found to be recoverable, amounting to £19,500.

The reintroduction of joint working with the Department for Work and Pensions (DWP) in May 2019 initially raised several cases that we would be investigating with our counterparts at DWP. Due to the pandemic, all this work was suspended and will be reviewed to establish if we can still proceed with any of the cases when restrictions are

lifted. If not, these cases will be looked at being concluded via a telephone interview, but this will negate any chance of the cases being progressed by the Crown Prosecution Service through DWP if offences are admitted to.

During the year, although the Council does not have any remit to investigate Housing Benefit fraud, often it is the case that overpayments are created when we deal with Council Tax Support fraud cases. Overpayments of Housing Benefit that have been calculated whilst investigating Council Tax Support during the period 1 April 2021 to 30 September 2021 amounted to £21,812.68. This figure is reducing over time with customers moving to Universal Credit claims.

The Council Tax Support fraudulent overpayments identified during investigations amounted to just £7,866.53. This figure is lower than previous years, again due to the pandemic, the drop in referrals and the restrictions we are now working within. Single Person Discount cases and recoverable amounts for this period amounted to £14,442.52. This exercise will restart in time, but options are being looked at with the aim to review all council tax accounts where single person discount is being claimed on an ongoing basis.

As documented in previous reports, the team continues in our work providing all verification and anti-money laundering checks on Right to Buy applications. The enhanced vetting procedures incorporate stringent money laundering checks and home visits to ensure residency and identity.

As a result of this initiative, a total of 80 Right to Buy applications were scrutinised in detail. In the same period, 19 were withdrawn by the tenants resulting in a total saving of £865,070 that would have been allowed as a discount to the property purchase price.

In addition to the savings outlined above, the 19 properties remain as part of our housing stock and continue to generate rental income.

There have been 4 properties recovered during this period. 3 of the properties where they had been abandoned and the tenancy was terminated and 1 where a false application for succession was successfully investigated and the property was re-let. Under the guidelines issued by The Cabinet Office (NFI Report) the recovery of properties is worth a minimum of £93,000 per property to the Council amounting to £372,000 for this period. 3 of these homes have now been allocated new tenants which also reduces the housing waiting list.

Our collaboration with the Insurance Team is continuing to develop into a worthwhile exercise. We have closed 8 referrals of suspicion from the Insurance Team and following investigation and enquiries being made by the team, resulting in 2 cases being fully denied

liability and 1 case where the settlement figure was reduced. The value of our reserve figures not being paid in these cases totalled £12,406.00

We also continue to assist with school allocations and have been asked to investigate 5 individual referrals to identify any potential false information being supplied. These cases are all now closed resulting in 1 school place being withdrawn and a formal caution was issued in that instance.

Total Sanctions

	2020-2021
Prosecution	0
Formal Caution	1
Admin Penalty	0
Total Sanction	0

Due to Covid-19 there has only been one case to consider for sanction action which was a formal caution, and none to consider for submission to Legal with a view to prosecute. Decisions were made that due to the restrictions enforced by the pandemic, not having a Covid secure interview room and also considering the courts and the pressure they were under with cases waiting to be heard that cases would not be considered for sanctions or prosecution during this period.

PROACTIVE COUNTER FRAUD WORK

Plans for proactive work have slowed due to the current climate we are working within, but we will continue to build on the work undertaken so far and will concentrate on the following key risk areas:

1. IDIS, our datahub is proving to be an essential tool within the team. Since April 2019, we have raised over 1,100 cases for investigation from data input into the hub. This has produced savings of over £280,000 up to 31 March 2021. IDIS will continue to be used as a tool for identifying possible fraud and error.
2. The Right to Buy verification and money laundering checks will remain a top priority for future work and it is envisaged that this will be expanded to look at other areas of Housing Fraud.
3. We continue to provide a Right to Buy/Acquire verification process for Karbon Homes. For this period, we concluded 8 applications. In the same period, 1 application was withdrawn saving £9,000 that would have been allowed as a discount. This service is chargeable and has generated £2,400 for the Council.

4. It is envisaged that discussions will recommence with Karbon Homes to look into expanding our partnership work and hopefully provide a tenancy investigation service including training within the housing arena. Essentially, Karbon would pay for our services to investigate tenancy matters within their housing stock. We hope to report further on this in future reports.
5. Bernicia Housing also benefit from partnership working with the Corporate Fraud Team again with the Council to conducting the same verification and anti-money laundering checks on their Right to Buy/Acquire applications. For the period of this annual report, we concluded 38 applications. In the same period, 10 applications were withdrawn saving £282,020 that would have been allowed as a discount. This is the same chargeable service as Karbon Homes and has generated £11,400 for the Council.
6. The regional Tenancy Fraud Forum Group for all local authorities and Registered Social Landlords in the area continues to meet on a quarterly basis. The purpose of the forum is to work closer together, share best practices and assist each other with housing fraud matters. The Team are the group organisers alongside Durham County Council's Corporate Fraud team.

During the year members of the team have also attended a number of conferences and seminars to both actively publicise the team and gain additional knowledge and experience.

REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

Since the last report to the Audit Committee there have been no applications for Directed Surveillance by the Corporate Fraud Team.

Implications

Policy	None.
Finance and value for money	Investigations into suspected fraud, corruption and theft help identify financial losses incurred by the Council and assist in the process of seeking recovery of such sums. It also supports the governance framework.
Legal	Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a S151 Officer, also known as a Chief Financial Officer (CFO), to have responsibility for those arrangements.

Procurement	None.
Human Resources	None.
Property	None.
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	None. An impact assessment is not applicable as the report does not require a key decision.
Risk Assessment	Work carried out within the scope of this report reduces the risk of financial loss and adverse publicity to the Authority through fraud.
Crime & Disorder	A programme of pro-active counter fraud work reduces the potential opportunities for fraud and corruption within the Council's activities.
Customer Consideration	None.
Carbon reduction	None.
Wards	All.
Consultation	Section 151 Officer

Report sign off

	Full Name
Interim Monitoring Officer/Legal	Suki Binjal
Service Director Finance & Deputy S151 Officer	Alison Elsdon
Executive Director	Jan Willis
Chief Executive	Daljit Lally
Portfolio Holder(s)	Richard Wearmouth

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External audit progress report

Northumberland County Council

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Audit Committee
March 2022



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01

Section 01:
Audit progress

Audit progress

Purpose of this report

This report provides the Committee's March 2022 meeting with:

- an update on progress in delivering the 2020/21 audit and assurance work; and
- a summary of recent relevant reports and publications for your information (Section 2).

2020/21 assurance work

For 2020/21, we have been engaged to carry out three assurance engagements, namely:

- Teachers' Pensions return;
- the pooling of housing capital receipts return to DHLUC; and
- the housing benefits subsidy return to DwP.

Teachers' Pensions return

This work was completed in November 2021, with no issues arising.

Pooling of housing capital receipts return

This work was completed in February 2022, with no issues arising.

Housing benefits subsidy return

Work is close to completion. Some additional testing has been required in respect of errors identified.

Audit progress

2020/21 audit

Our work is ongoing. We intend to bring our 2020/21 Audit Completion Report to the May 2022 Audit Committee.

We have set out, in the following table, a summary of progress to date, to give an overview of:

- whether key areas of work are on-going or complete;
- where complete, whether there is any material misstatement of the financial statements (where work is on-going, this is shown as 'TBC' i.e. to be confirmed); and
- some brief narrative to set out any issues arising to date, noting a full schedule will be included in our Audit Completion Report.

We would highlight that where work is shown as 'complete' in the following table, this is subject to:

- manager, partner and independent partner review; and
- our technical team's review of the final revised financial statements.

The file review process may raise queries which lead us to revisit areas completed; this is a normal part of the audit process.

Significant matters discussed with management in relation to the audit of the financial statements

Significant matters discussed with management to date have included:

- **Property, plant and equipment valuations**
- **Property, plant and equipment:** infrastructure derecognition of £45.021 million. This is a result of the Council's follow-up of an issue identified during the 2019/20 audit and an internal control recommendation we raised. Our work is on-going in this area and the Council is carrying out further work.
- **Pensions:** the Council obtained a revised pensions report from the Actuary, resulting in a decrease to the net pensions liability of £44.810 million. This was due to there being a significant movement in the stock market, impacting on Pension Fund asset valuations in the final quarter of 2020/21. This, in turn, led to a material difference between the estimated return on assets used by the Actuary and the actual return on assets. A similar issue was identified at other local authorities in the North East part of the same Pension Fund.

Audit progress

Significant matters discussed with management in relation to the audit of the financial statements (continued)

- **Group financial statements:** prior period adjustment for an error identified in the classification between Group Usable and Group Unusable Reserves (no net impact).
- **Covid-19 grant recognition:** the impact of the pandemic and how grants from central government have been treated in the financial statements.
- **The calculation of the impairment of debtors allowance** and the impact of the economic downturn.
- **Airport shares and loan notes:** the external valuation and the assumptions made in the small upwards valuation of the Airport shares, as well as the expected credit loss for the Council's long-term loan notes to the Airport.

We are grateful to officers in the Council's finance team for their continued co-operation in undertaking the 2020/21 audit.

Audit progress

This table sets out progress on the 2020/21 financial statements audit.

Area	Status	Material misstatement?	Comments
Statutory records	Complete	No	Additional disclosure required to explain the restatement of the income and expenditure statement due to portfolio changes.
Related party transactions	On-going	TBC	Largely complete; some residual areas to complete. Formal responses to our letters to 'Those Charged with Governance' and the s151 officer outstanding.
Movement in Reserves Statement	Complete	No	Conclusion will be revisited following completion of other work.
Expenditure testing	On-going	TBC	Payroll testing on-going; some delays in obtaining information.
Income testing	On-going	TBC	Additional work was required due to an error identified in our initial 'cut-off' testing (i.e. testing whether income was included in the correct year). Further work was carried out, with the conclusion that it was an isolated non-material error.
Grant income testing	On-going	TBC	
Covid-19 grant income testing	On-going	TBC	
Other operating income and expenditure	Complete	No	
Financing and investment income and expenditure	Complete	Yes	Amendment to the 'remeasurement of the net pensions liability' as a result of the revised pensions report (further details overleaf).

Audit progress

This table sets out progress on the 2020/21 financial statements audit (continued).

Area	Status	Material misstatement?	Comments
Cash flow statement	Complete	No	Conclusion will be revisited following completion of other work.
Property, plant and equipment	On-going	Yes	<p>Issues arising, including:</p> <ul style="list-style-type: none"> • delays in obtaining the required sample evidence; • schools not valued on the required 'modern equivalent asset' basis, requiring additional work by the Council which we are considering; • incorrect inclusion of a 'contingency' allowance in depreciated replacement cost valuations; • floor plan evidence not readily available for some of the sampled assets, with the Council having to undertake additional work to evidence floor areas; • capital expenditure on assets not owned by the Council incorrectly treated in the financial statements; • the write-out of £45.021 million of infrastructure assets, which is a significant area we are discussing with management; and • amendments required to disclosures.
Capital financing requirement disclosure	On-going		Discussions with management and internal challenge in respect of the Council's approach to not setting aside any revenue provision for repayment of loans where the principal is repaid over the term of the loan.
Investments	On-going		One direct confirmation remains outstanding at the time of writing this report (where we write to the organisation to obtain 'direct' confirmation of the investment the Council has made).
Debtors	On-going		Internal control recommendation (medium priority) to be raised in respect of the lack of signed copy of one loan agreement in our sample.
Cash and cash equivalents	On-going		One school omitted from the bank confirmation we received; we have requested an updated confirmation from the bank.

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Audit progress

This table sets out progress on the 2020/21 financial statements audit (continued).

Area	Status	Material misstatement?	Comments
Loans and borrowings	Complete	No	
Creditors	On-going	TBC	
Capital grants receipts in advance	On-going	TBC	Consideration of whether the classification of these grants is correct i.e. long-term or short, as well as the accounting treatment.
Long-term liabilities – pensions	On-going	Yes	<p>The Council obtained a revised pensions report from the Actuary, due to there being a material difference in the ‘return on assets’, between what the Actuary estimated and the actual return on assets for the final quarter of 2020/21. This increase in the pension fund assets will result in a decrease to the Council’s net pensions liability by approximately £44.8 million.</p> <p>We will also be reporting an unadjusted non-material error (subject to consideration of cumulative materiality) arising from our consideration of the assurance from the Pension Fund auditor.</p>
Private finance initiative	Complete	No	
Financial instruments	Complete	No	Amendments required to disclosures.
Usable & Unusable reserves	Complete	No	Amendments required to disclosures.
Housing Revenue Account	Complete	No	
Collection Fund	Complete	No	

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Audit progress

This table sets out progress on the 2020/21 financial statements audit (continued).

Area	Status	Material misstatement?	Comments
Firefighters' Pension Fund	Complete	No	
Provisions	Complete	No	
Contingent liabilities and contingent assets	Complete	No	Amendments required to disclosures, plus, depending on progress in reaching settlements in one area, the Council may need to consider whether there are any material post balance sheet events to consider, which may impact on disclosures.
Use of experts	On-going	No	Response outstanding from one of the Council's Valuers.
Accounting estimates	On-going	TBC	Informed by audit work in multiple other areas.
Group accounts	On-going	Yes	<p>The Council plans to restate the Group accounts, following identification of an error in classification between the Group Usable and Unusable Reserves (with no net impact upon net assets of the Group).</p> <p>In addition, the Council plans to restate the Group Movement in Reserves Statement for classification between several areas.</p> <p>The external audit of Advance is nearing completion at the time of issuing this report and we have obtained permission to include on this Committee's agenda the Audit Completion Report setting out the results of the 2020/21 external audit.</p> <p>Once the Advance audit is complete, we intend to review of the audit file of the Advance auditor, as planned, to feed into our assurance for the Group financial statements.</p>

Audit progress

This table sets out progress on the 2020/21 financial statements audit (continued).

Area	Status	Material misstatement?	Comments
Senior officers' remuneration	On-going	TBC	
Exit packages	On-going	TBC	
Members' allowances	On-going	TBC	
Expenditure and funding analysis	Complete	No	Amendments required to disclosures.
Accounting policies	Complete	No	Amendments required to disclosures.
Disclosure of assumptions and key sources of estimation uncertainty	Complete	No	Amendments required to disclosures.
Disclosure of critical judgements	Complete	No	Amendments required to disclosures.
Going concern	Complete	No	Complete, subject to final procedures and other work.
Dedicated Schools Grant disclosure	Complete	No	Linked unadjusted non-material error will be included in our report in respect of the prior year incorrect treatment of the schools deficit for 2019/20, which was taken to an earmarked reserve; this accounting treatment is not permitted. We note this in the context of this 'negative' earmarked reserve becoming 'positive' by the end of March 2021, due to an overall schools' surplus in 2020/21.

Audit progress

This table sets out progress on the 2020/21 financial statements audit (continued).

Area	Status	Material misstatement?	Comments
Narrative report	Complete	No	Amendments will be required as a result of amendments to the primary statements.
Annual governance statement 2020/21	On-going	-	We would highlight the requirement for the Council to ensure that the Annual Governance Statement (AGS) covers the period up to and including when the opinion on the 2020/21 financial statements are signed, therefore, further work may be required, depending on any changes to the AGS.
IT general controls testing	Complete	No	One recommendation to be raised (medium-priority) in respect of the Council ensuring that any leavers have their access promptly removed from the 'Active Directory'.
Value for money	On-going	-	As we have not reported yet on the 2019/20 value for money conclusion, we cannot conclude our work in respect of the 2020/21 value for money requirements. Our conclusions for both years will be informed by the outcomes of the current review that is currently being undertaken by SOLACE.

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02

Section 02:

National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1.	New Prudential and Treasury Management Codes	These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities operate.
2.	CIPFA launches value for money toolkit with the University of Oxford's GO Lab	Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation.
3.	Emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code	CIPFA published a consultation on emergency proposals for the update of the 2021/22 (and 2022/23) Code. They are aimed at improving the completion rates for publication of audited accounts and include: <ul style="list-style-type: none"> • delaying the implementation of IFRS 16 for at least 1 year, so the implementation date would now be 1 April 2023 at the earliest; and • allowing for an optional pause of the property revaluation cycle.
Department for Levelling Up, Housing and Communities		
4.	Consultation on changes to the capital framework: Minimum Revenue Provision	This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.
5.	Measures to improve local audit delays and accounts and audit timetable confirmed	DLUHC have announced a new package of measure to support the improved timeliness of local audit. These include additional funds and an extension of the deadline for publishing accounts.
National Audit Office (NAO)		
6.	The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management	The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall approach.
7.	The Local Government finance system in England: Overview and Challenges	This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.
8.	Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities	This provides a summary of the Department's spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year.
9.	Cyber and Information Security: Good practice guide	Audit committees should be scrutinising cyber security arrangements. This guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

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National publications

	Publication/update	Key points
National Audit Office (NAO) - continued		
10.	Climate change risk: A good practice guide for Audit and Assurance Committees	This guide helps Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.
11.	AGN/03 – Auditor’s work on Value for Money Arrangements – Updated Guidance	NAO has updated its guidance and confirmed there are no significant changes to the expected approach or timetable.
Financial Reporting Council		
12.	Inspection findings into the quality of major local body audits	The findings show an improvement on the previous year but the timeliness of reporting was a concern.

NATIONAL PUBLICATIONS

CIPFA

1. CIPFA publishes new Prudential and Treasury Management Codes, December 2021

CIPFA has published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) following a consultation period. These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions. Guidance notes will follow shortly in the new year.

The updated **Prudential Code** includes the following as the focus of the substantive changes:

- The provisions in the code, which present the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. The relevant parts of the code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for yield as the primary purpose of the investment or represent an unnecessary risk to public funds.
- Proportionality has been included as an objective in the Prudential Code. New provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes.

The main changes to the updated **Treasury Management Code** and the accompanying guidance for local authorities are as follows:

- Investment management practices and other recommendations relating to non-treasury investments are included within the Treasury Management Practices (TMPs) alongside existing TMPs.
- The guidance will recommend the introduction of the Liability Benchmark as a treasury management indicator for local government bodies (note that CIPFA has issued a toolkit to assist local authorities with the production of this indicator).
- Environmental, Social and Governance (ESG) risks are incorporated into TMP1 (Risk Management) rather than a separate TMP 13.
- The purpose and objective of each category of investments should be described within the Treasury Management Strategy.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-issues-new-prudential-and-treasury-management-codes>

NATIONAL PUBLICATIONS

CIPFA (continued)

2. CIPFA launches value for money toolkit with the University of Oxford's GO Lab, August 2021

CIPFA has partnered with the Government Outcomes Lab (GO Lab) from the University of Oxford's Blavatnik School of Government to develop the innovative GO Lab-CIPFA Value for Money (VfM) Toolkit.

Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation and has been developed in response to recent trends towards the use of outcomes-based contracts (OBCs) and impact bonds.

The toolkit provides public managers with a framework to help assess the economic validity of public programmes, while also serving as a self-assessment instrument. The toolkit promotes thinking about the longer-term effects of interventions, such as outcomes and impacts, during the design and planning stage of public sector programmes.

The GO Lab-CIPFA VfM toolkit is available for free download on the CIPFA website.

<https://www.cipfa.org/services/go-lab-cipfa-value-for-money-toolkit>

3. Emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code, February 2022

CIPFA LASAAC has issued an exceptional consultation on time limited changes to the code to help alleviate delays to the publication of audited financial statements. Only 9% of local authority accounts in England met the audit publication deadline of 30 September 2021. The consultation closes on 3 March 2022.

In December 2021, the Department of Levelling-up Housing and Communities asked CIPFA LASAAC to consider ways in which the code may ameliorate this crisis position. CIPFA LASAAC considered this request and has issued this exceptional consultation, which explores two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code. After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

- an adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation
- deferring the implementation of IFRS 16 *Leases* for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

The consultation also shows the wide range of options that CIPFA LASAAC considered, which includes some which the board considered were outside of its terms of reference.

<https://www.cipfa.org/policy-and-guidance/consultations/emergency-proposals-for-update-of-202122-and-202223-codes>

Department for Levelling Up, Housing and Communities

4. Consultation on changes to the capital framework: Minimum Revenue Provision, December 2021

This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.

Local authorities borrow and invest under the Prudential Framework (the Framework), which comprises legislation and 4 statutory codes that authorities must have regard to. Under this system, authorities have wide freedoms to borrow and invest without the need to seek the government's consent, provided that borrowing is affordable. The intent of the Framework is to make sure local decisions are prudent, affordable and sustainable.

The government is aware that some authorities employ practices that are not fully compliant with the duty to make a prudent revenue provision, resulting in underpayment of MRP. This was reported in the NAO's report Local Authority Investment in Commercial Property (February 2020) and the subsequent report by the Public Accounts Committee in July 2020, which recommended the government take steps to address the issue.

<https://www.gov.uk/government/consultations/changes-to-the-capital-framework-minimum-revenue-provision/consultation-on-changes-to-the-capital-framework-minimum-revenue-provision#excluding-specific-debt-from-mrp-determination>

5. A new package of measures to support the improved timeliness of local audit

This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. The measures include:

- Steps to increase the number of auditors with skills to carry out the work;
- Additional funding to support increases in audit fees; and
- Extension of the audit deadlines to 30 November 2022 and 30 September for 2023 onwards.

https://www.gov.uk/guidance/measures-to-improve-local-audit-delays?utm_medium=email&utm_campaign=govuk-notifications&utm_source=81365e1a-e6b1-4c1b-bce1-b5ef8fafef6f&utm_content=daily#section-4-longer-term-measures-to-help-stabilise-the-market-and-address-long-term-supply-issues

NATIONAL PUBLICATIONS

National Audit Office

6. The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management, November 2021

This report sets out the facts on:

- the government's approach to risk management and emergency planning (Part One);
- the actions the government took to identify the risk of a pandemic like COVID-19 (Part Two);
- the actions the government took to prepare for a pandemic like COVID-19 (Part Three); and
- recent developments (Part Four).

The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall risk management approach.

The report concludes that this pandemic has exposed a vulnerability to whole-system emergencies – that is, emergencies that are so broad that they engage the entire system. Although the government had plans for an influenza pandemic, it did not have detailed plans for many non-health consequences and some health consequences of a pandemic like COVID-19. There were lessons from previous simulation exercises that were not fully implemented and would have helped prepare for a pandemic like COVID-19. There was limited oversight and assurance of plans in place, and many pre-pandemic plans were not adequate. In addition, there is variation in capacity, capability and maturity of risk management across government departments.

The pandemic also highlighted the need to strengthen the government's end-to-end risk management process to ensure that it addresses all significant risks, including interdependent and systemic risks. This will require collaboration on risk identification and management not only across government departments and local authorities, but also with the private sector and internationally. For whole-system risks NAO states that the government needs to define its risk appetite to make informed decisions and prepare appropriately so that value for money can be protected. NAO state that the pandemic has also highlighted the need to strengthen national resilience to prepare for any future events of this scale, and the challenges the government faces in balancing the need to prepare for future events while dealing with day-to-day issues and current events.

The full report can be seen at this link: <https://www.nao.org.uk/report/the-governments-preparedness-for-the-covid-19-pandemic/>

NATIONAL PUBLICATIONS

National Audit Office

7. The Local Government finance system in England: Overview and Challenges, November 2021

This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.

The overview aims to enhance financial transparency about local government in England. It covers:

- An introduction to local government funding
- Government policy and actions since 2010
- Some results or consequences of these changes.

The report headlines include the following in respect of the impact of the changes implemented by government on councils:

- Rising social care spending has squeezed funds available for non-social care services, yet rising spend has not prevented concerns about social care, and projections suggest continued cost and demand pressures.
- Local authorities have made substantial spending reductions in some services and sought to maximise revenue funding from other sources. Some local authorities have sought to maximise revenue available for services in ways that may reduce financial resilience. Commercial property investment strategies have increased some local authorities' exposure to risk. Local authorities now rely more on sources of income that are dependent on local economic conditions.
- A lack of short-term funding certainty hampers local authorities' ability to plan. Local authorities are also planning and delivering services amid medium-term financial uncertainty. Financial uncertainty does not support value-for-money decision-making.
- The governance mechanisms that support decision-making about financial sustainability are under strain. The financial resilience of the local government sector was being tested, even before the COVID-19 pandemic

The full report can be seen at this link: <https://www.nao.org.uk/report/the-local-government-finance-system-in-england-overview-and-challenges/>

NATIONAL PUBLICATIONS

National Audit Office

8. Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities, November 2021

This provides a summary of the Department for Levelling Up, Housing and Communities' spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year, based on the insights from NAO's financial audit and value for money work.

The full report can be seen at this link: <https://www.nao.org.uk/report/departmental-overview-2020-21-department-for-levelling-up-housing-and-communities/>

9. Cyber and Information Security: Good practice guide, October 2021

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The guide provides a checklist of questions and issues covering:

- the overall approach to cyber security and risk management;
- capability needed to manage cyber security; and
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.

The guidance is based on NAO previous work and our detailed systems audits, which have identified a high incidence of access-control weaknesses. It also provides links to other government guidance and NAO resources.

The full report can be seen at this link: <https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>

NATIONAL PUBLICATIONS

National Audit Office

10. Climate change risk: A good practice guide for Audit and Assurance Committees, August 2021

This guide will help Audit Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

The full report can be seen at this link: <https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/>

11. AGN/03 – Auditor’s work on Value for Money Arrangements – Updated Guidance, December 2021

NAO has updated its guidance and confirmed there are no significant changes to the expected approach or timetable for 2021/22 audits.

The guidance can be seen at this link: <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

NATIONAL PUBLICATIONS

Financial Reporting Council

12. Inspection findings into the quality of major local body audits, October 2021

The Financial Reporting Council (FRC) published in October 2021 its [inspection findings into the quality of major local body audits](#) in England (which includes large health and local government bodies) for the financial year ended 31 March 2020.

The FRC reviewed 20 major local audits performed by six of the largest audit firms and found 6 (30%) required improvements. This is an improvement on the prior year inspection results where 60% of audits inspected required either improvements or significant improvements.

The FRC found that the firms have taken action in response to previous findings, however, the timeliness of auditor reporting was disappointing.

The key areas requiring action by some of the audit firms included:

- strengthening the audit testing of expenditure;
- improving the evaluation and challenge of assumptions used in concluding over investment property valuations;
- improving the evaluation of assumptions used in property, plant and equipment valuations; and
- providing improved rationale supporting a modified audit opinion.

FRC found that all Value for Money arrangement conclusions inspected by the FRC required no more than limited improvements.

The full report can be seen at this link: <https://www.frc.org.uk/news/october-2021/frc-publishes-latest-major-local-audit-quality-ins>

Contact

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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Northumberland County Council

AUDIT COMMITTEE

23 MARCH 2022

AUDIT COMMITTEE WORK PROGRAMME 2022/23

Report of the Acting Head of Internal Audit and Risk Management

Purpose of report

The purpose of this report is to propose an updated programme of core business for the Audit Committee for 2022/23, in accordance with its Terms of Reference as set out in the Council's Constitution.

Recommendations

It is recommended that the Audit Committee agrees:

- 1) the proposed 'core business' work programme set out within the report, for 2022/23;
- 2) that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues, and to respond to emerging trends during the year;
- 3) that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference, in the usual way; and
- 4) that work is ongoing to establish a work programme to allow the Committee to demonstrate how it discharges its responsibilities as Group Audit Committee for all group entities as set out in the Group Audit Committee's Terms of Reference and this will be reported to a future meeting of Audit Committee.

Link to Corporate Plan

The work of the Audit Committee contributes to the achievement of all priorities in the Council's Corporate Plan 2021-2024.

Key issues

- 1 An Audit Committee work programme is developed annually to drive the frequency and duration of meetings, ensuring the Committee receive adequate

coverage of assurance reports whilst maintaining an appropriate focus on business concerns and minimising the resource requirements in their preparation and presentation.

- 2 The work programme is also useful to officers in planning, monitoring and managing reporting throughout the year. Accordingly, the previous work programme has been reviewed to identify a proposed updated work programme for 2022/23.
- 3 This updated programme reflects known changes in service delivery; ensures that legal requirements relating to governance, risk and control obligations can be met; and aims to ensure that the Audit Committee receives information at the optimum times during the year to properly perform its role as set out in the Constitution and its Terms of Reference.
- 4 At its meeting on 4 November 2020 full Council agreed that a Group Audit Committee for all entities within the County Council's accounting group boundary would be established, and that the County Council's Audit Committee would be designated the Group Audit Committee. The County Council's Constitution was updated to reflect this and incorporate Terms of Reference for the Group Audit Committee. Work is ongoing to establish a suitable work programme and timetable for this aspect of the Committee's responsibilities. Internal Audit will continue to present an update of its work in relation to the Council's active group entities to each scheduled meeting of the Audit Committee. The active companies within the Council's group currently relate to those within the Advance Northumberland Group of Companies.

Background

- 5 The core programme of work for the Audit Committee covers its main areas of responsibility as set out in its Terms of Reference agreed in the Council's Constitution. This work programme aims to ensure that the Committee is properly able to discharge its duties effectively and efficiently, strengthening the Council's overall governance arrangements, and to highlight which reports are planned for presentation to each meeting throughout the financial year.
- 6 The work programme recognises that it is also necessary to update the Audit Committee on an ad-hoc basis, as relevant and topical areas arise during the year.
- 7 For several years, the work programme has proved very helpful in planning, monitoring and managing reporting to the Audit Committee and, accordingly, has been reviewed to identify a proposed updated work programme for 2022/23, set out below.

Constitution and Terms of Reference

- 8 The Council's Constitution, updated in February 2021 and incorporating the Terms of Reference for the Audit Committee approved in November 2020, sets out that the Audit Committee provides assurance on the adequacy of the risk management framework and internal control environment of the Council, has oversight of the financial reporting process and oversees the Council's internal

and external audit processes. The Constitution also sets out that the Committee acts as the parent Group Audit Committee for all entities within the County Council accounting group boundary with responsibility for maintaining governance oversight of all group entities.

- 9 The Committee's Terms of Reference identify a number of clear roles for the Audit Committee to discharge, throughout the course of the year. Some aspects of the Committee's business are time-bound in nature (e.g. relating to the Council's Accounts, or agreeing future plans of work), whilst other items can reasonably be considered at any point during the year allowing some flexibility in planning the work programme of the Committee. The Committee's Terms of Reference establish a separate set of roles for the Committee to discharge its Group Audit Committee responsibilities.

Identification of Core Business Areas

- 10 The Audit Committee's responsibilities as set out in the Constitution can reasonably be expected to form the basis of the core business of the Audit Committee. The work programme is reviewed annually in consultation with lead report authors within the Council, and the external auditor, to ensure it continues to be based upon the Committee's responsibilities as set out in the Constitution and to ensure that reports are scheduled to reach the Audit Committee at the optimum time during the year.
- 11 Work is ongoing to establish a suitable work programme in relation to the Committee's role as Group Audit Committee for all entities within the County Council's accounting group boundary. Upon completion this will be presented to the Audit Committee for consideration and approval.

Proposed Annual Work Programme

- 12 The following updated programme of the core business of the Committee for 2022/23 is proposed. This sets out the suggested timing and frequency of reports in the coming year and ensures that the responsibilities defined in the Constitution can be met. The proposed programme will help to ensure that the Committee continues to receive necessary information at the right time during the year.
- 13 In order to help with a sector wide resourcing and capacity issue, the Department for Levelling Up, Housing and Communities (DLUHC) has proposed extending the deadline for publishing 2021/22 audited local authority accounts to the end of November 2022. At the time of preparing this report this is at consultation stage, but it is expected to be agreed and the amended timetable is reflected in the proposed work programme.
- 14 The work programme has been prepared in consultation with officers in the Shared Internal Audit and Risk Management Service, Finance, Democratic Services and also with the external (local) auditor, Mazars LLP. During discussions with Finance and External Audit it was stressed that some 2019/20 external audit work is not yet complete and the 2020/21 external audit is ongoing and this may impact on the work programme. The Committee will be kept up to date as these matters progress.

15 The work programme should be treated as a helpful guide, and it may be necessary to alter or amend the proposed timing during the year as work progresses. Where this is the case, the relevant report author will be responsible for informing the Chair of the Audit Committee, and Democratic Services.

Month	Item of Business
May 2022	<p><u>Internal Audit & Risk Management</u></p> <ul style="list-style-type: none"> • Annual Report from Chief Internal Auditor and Opinion on the Framework of Governance, Risk Management and Control • Key Outcomes from Internal Audit Assignments • Final Outturn Report (showing performance in achieving the previous year's Strategic Audit Plan from Internal Audit) • Risk Management Update • Update on Internal Audit work in relation to active group entities <p><u>Corporate Finance</u></p> <ul style="list-style-type: none"> • Northumberland County Council – Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2022 • Annual Governance Statement 2020-21 * • Statement of Accounts 2020-21 * <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Audit Completion Report 2020-21 * • Audit Strategy Memorandum 2021-22 <p><i>*subject to completion of external audit</i></p>
July 2022	<p><u>Internal Audit & Risk Management</u></p> <ul style="list-style-type: none"> • Update on Internal Audit work in relation to active group entities <p><u>Corporate Finance</u></p> <ul style="list-style-type: none"> • Draft Annual Governance Statement 2021-22 * <i>*subject to completion of 2020-21 statement</i> • Annual Treasury Management (year-end) Report • FPS Local Pension Board Annual Report <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Annual Audit Letter 2019-20 * <i>*subject to completion of external audit</i> • Audit Progress Report <p><u>Education and Safeguarding Performance</u></p> <ul style="list-style-type: none"> • Review of External Inspection Reports
September 2022	<p><u>Internal Audit & Risk Management</u></p> <ul style="list-style-type: none"> • Update on Internal Audit work in relation to active group entities <p><u>Corporate Finance</u></p> <ul style="list-style-type: none"> • NCC Statement of Accounts 2021-22 - Update <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Auditor's Annual Report 2020-21 • Audit Progress Report <p><u>Counter Fraud Team</u></p> <ul style="list-style-type: none"> • Counter Fraud Annual Report

Month	Item of Business
November 2022	<p><u>Internal Audit & Risk Management</u></p> <ul style="list-style-type: none"> • Key Outcomes from Internal Audit Assignments • Strategic Audit Plan Monitoring Report • Risk Management Update Report • Update on Internal Audit work in relation to active group entities <p><u>Corporate Finance</u></p> <ul style="list-style-type: none"> • NCC Statement of Accounts 2021-22 • Treasury Management In-year Update Report <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Final Audit Completion Report 2021-22 • Annual Audit Letter 2021-22
January 2023	<p><u>Internal Audit & Risk Management</u></p> <ul style="list-style-type: none"> • Approach to preparing the Strategic Audit Plan 2023-24 • Update on Internal Audit work in relation to active group entities <p><u>Corporate Finance</u></p> <ul style="list-style-type: none"> • Statement of Accounts 2022-23 - Timetable and Policies • Changes to Code of Practice for 2022-23 • Treasury Management Strategy Statement for the Financial Year 2023-24 <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Audit Strategy Memorandum 2022-23 • Audit Progress Report <p><u>Education and Safeguarding Performance</u></p> <ul style="list-style-type: none"> • Review of External Inspection Reports
March 2023	<p><u>Internal Audit & Risk Management</u></p> <ul style="list-style-type: none"> • Strategic Audit Plan 2023-24 • Annual Audit Committee Work Programme • Annual Review of Audit Committee Effectiveness • Update on Internal Audit work in relation to active group entities <p><u>Corporate Finance</u></p> <ul style="list-style-type: none"> • Group Boundary Review 2022-23 <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Audit Progress Report <p><u>Counter Fraud Team</u></p> <ul style="list-style-type: none"> • Counter Fraud Update

Implications

Policy	The role of Audit Committee is set out in the Council's Constitution and the Audit Committee's Terms of Reference.
Finance and value for money	Through its review of a range of audit, accounting and governance related items, the Audit Committee assesses the Council's use of financial resources and value for money.
Legal	The work of Audit Committee is undertaken in accordance with the Accounts and Audit Regulations 2015.
Procurement	None
Human Resources	There are no human resources implications arising directly from this report.
Property	There are no property implications arising directly from this report.
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	An equalities impact assessment is not applicable to this report.
Risk Assessment	This report refreshes the work programme of the Committee, mitigating the risk that the frequency and timing of some reports may not be optimised.
Crime & Disorder	There are no crime and disorder issues directly arising from this report.
Customer Consideration	There are no direct customer considerations arising from this report.
Carbon reduction	There are no carbon reduction issues directly arising from this report.
Wards	All

Consultation

The proposed work programme of core business items has been proposed with reference to the Constitution and discussion with lead report authors within the Council and the external (local) auditor for consultation with Audit Committee.

As emerging issues or trends arise during the year, the core business items will be supplemented with additional reports agreed in association with the Chair of the Audit Committee.

Background Papers

- Northumberland County Council Constitution 24 February 2021.

Reports sign off

Finance Officer	N/A
Monitoring Officer/Legal	N/A
Human Resources	N/A
Procurement	N/A
I.T.	N/A
Portfolio Holder(s)	N/A

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