# Interim Audit Completion Report

## Northumberland County Council

Year ending 31 March 2020

mazars

# Contents

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The Audit Committee
Northumberland County Council
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March 2021

Dear Members

**Audit Completion Report – Year ended 31 March 2020**

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 29 July 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

This report focuses on work that has been completed to-date on the financial statements. We will issue an updated report when our work on the financial statements is fundamentally complete and our work on the value for money conclusion has been concluded.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0781 375 2053.

Yours faithfully

Signed: {{_es_:signer1:signature }}

Cameron Waddell (Key Audit Partner)
For and on behalf of Mazars LLP





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# 1. Executive Summary

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Northumberland County Council and Group (Council and Group) for the year ended 31 March 2020, and forms the basis for discussion at the Audit Committee meeting on 24 March 2021.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls (relevant to the Council and Group)
- Revenue recognition (relevant to Council and Group)
- Defined benefit liability valuation (relevant to Council and Group)
- Property, plant and equipment and investment property valuations (relevant to Council and Group)
- Valuation of short and long-term debtors (relevant to Council and Group).

## Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

| | |
|---|---|
| **Opinion on the financial statements** | Work is ongoing in this area, however the main findings to date are outlined in this report. |
| **Value for money conclusion** | Work is ongoing in this area. We will report our findings in our final Audit Completion Report. |
| **Whole of Government Accounts (WGA)** | In line with group audit instructions, issued by the NAO on 4 November, we will report to the group auditor in line with the requirements applicable to the Council's WGA return |
| **Wider powers** | The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section |

# 1. Executive summary

## Status of our audit work

Work is ongoing in relation to our audit of the financial statements for the year ended 31 March 2020. As at 15 March 2021 the main areas of work ongoing are outlined below:

| Audit area | Status | Description of outstanding matters |
|---|---|---|
| Fraud | ● | We are awaiting additional evidence in this area |
| Laws & Regulations | ● | We are awaiting additional evidence in this area |
| CIES – Cost of Services | ● | Work ongoing in relation to officer remuneration |
| Cash Flow Statement | ● | Audit work is ongoing in this statement. |
| Property, Plant and Equipment | ● | Work ongoing in a number of areas including detailed work on –<br>• Valuations of assets both HRA and non HRA<br>• Infrastructure |
| Debtors | ● | We are awaiting responses to queries relating to items selected in our testing |
| PFI | ● | The main area of work ongoing is in relation to the Waste PFI scheme. Whilst the Waste PFI asset has been valued in a consistent way since its inception and has been agreed by all former external auditors, we have requested a specialist valuation to seek independent assurance over the valuation of this asset.<br>The valuation inspection has taken place and the Council is awaiting the specialist valuer's response. The valuer is waiting for information from Suez, the company that runs and maintains the plant. |
| Group Audit Procedures | ● | Work to be finalised, including consideration of final assurance from the component auditor. |
| Annual Governance Statement | ● | We are yet to receive a signed Annual Governance Statement. |
| Audit Closing Procedures | ● | We have several audit closure procedures to complete. This includes reviewing the final version of the Statement of Accounts. |

**Status**

- ● Likely to result in material adjustment or significant change to disclosures within the financial statements
- ● Potential to result in material adjustment or significant change to disclosures within the financial statements
- ● Not considered likely to result in material adjustment or change to disclosures within the financial statements

# 2. Executive summary (continued)

We will provide the Audit Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

### Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in July 2020.

### Materiality

We set materiality at the planning stage of the audit at £14.426m (Council) and £15.331m (Group) using a benchmark of 1.8% of Gross Operating Expenditure. Our final assessment of materiality, will be based on the final financial statements and qualitative factors using the same benchmark. We will set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at 3% of overall materiality.

### Overview of our group audit approach

Our Audit Strategy Memorandum provided details of our intended group audit approach, including our initial assessment of group materiality. The table below confirms the approach we have taken to auditing the Council's consolidated financial statements.

| Entity | Nature of entity audit | Auditor | Description of audit procedures undertaken on the component | Changes to audit approach |
|---|---|---|---|---|
| Northumberland County Council (parent) | Full scope audit | Mazars LLP | Full scope audit as described in this report | None |
| Advance Northumberland Group (subsidiary) | Statutory audit | Mazars LLP | A full audit of the consolidated financial information using component materiality. | None |

### Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.

# 2. Significant findings

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 9 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- modifications required to our audit report

## Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

| Significant risk | Description of the risk |
|---|---|
| Management override of controls (relevant to Council and Group accounts) | Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. |
| | **How we addressed this risk**<br>We addressed this risk through performing audit work over:<br>• Accounting estimates impacting on amounts included in the financial statements;<br>• Consideration of identified significant transactions outside the normal course of business; and<br>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. |
| | **Audit conclusion**<br>Our audit work to date has provided the assurance we sought and has not identified any material issues to bring to your attention. There is no indication of management override of controls |

# 2. Significant findings (continued)

**Significant risk**

Revenue recognition (relevant to Council and Group)

**Description of the risk**

Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and grant income.

In our view, in our first year of audit there is insufficient scope for us to rebut this risk in respect of the recognition of fees, charges and other income given the demand led nature of these revenue streams. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism

**How we addressed this risk**

- substantively tested fees, charges and other income to ensure it had been correctly classified and recognised;
- tested journals; and
- obtained direct confirmation of year-end bank balances and tested the reconciliations to the ledger.

**Audit conclusion**

Our work to date has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

**Management judgement**

Defined benefit liability valuation (relevant to Council and Group)

**Description of the management judgement**

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

The risk has increased as a result of the economic downturn arising from COVID-19.

**How our audit addressed this area of management judgement**

- we discussed with key contacts the significant changes to the pension estimates;
- in addition to our standard programme of work in this area, we evaluated the management controls in place to assess the reasonableness of the figures provided by the Actuary; and
- considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is carried out annually by the NAO's consulting actuary (PWC).

**Audit conclusion**

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

# 2. Significant findings (continued)

| Significant risk | Description of the risk |
|---|---|
| Property, plant and equipment and investment property valuations (relevant to Council and Group) | The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment and investment properties.<br>The Council employs a valuation expert to provide information on valuations, however there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment and investment properties due to the significant judgements and number of variables involved.<br>The risk has increased as a result of the economic downturn arising from COVID-19.<br>We note also the Valuation Practice Alert issued by the valuation body The Royal Institute of Chartered Surveyors (RICS) recently. This highlighted the use by Valuers, where appropriate, of material uncertainty declarations in their valuation reports. |

**How we addressed this risk**

- we considered the Council's arrangements for ensuring that PPE values are reasonable;
- we used an external expert (Gerald Eve) to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer;
- we also assessed the competence, skills and experience of the valuer; and
- where necessary we also performed further audit procedures on individual assets to ensure that the basis and level of revaluation was appropriate.

**Audit conclusion**

The valuers followed guidance issued by the Royal Institute of Chartered Surveyors and their valuation reports disclosed a "material valuation uncertainty" in relation to the valuation of the Council's land and buildings. The draft financial statements include reference to this material valuation uncertainty in Note 15 and Note 44.

We plan, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements.

Work is ongoing in relation to the valuation of the Council's waste facility and also the valuations of assets (both HRA and non HRA) and infrastructure.

# 2. Significant findings (continued)

**Significant risk**

Valuation of short and long-term debtors (relevant to Council and Group)

**Description of the risk**

There is an increased risk that the valuation of debtors, both short and long-term, will be impacted by the economic downturn.

The Council's long-term debtors includes loans to other bodies and Newcastle Airport.

The Council also has provided for the potential impairment of short-term debtors which may be impacted by the economic downturn.

**How we addressed this risk**

We:

- critically reviewed the basis of valuation of short and long-term debtors;
- challenged the assumptions made by the Council; and
- required specific representations from management.

**Audit conclusion**

Subject to the completion of outstanding work, our work has provided the assurance sought

**Enhanced risk**

Valuation of long-term investments, Airport shares and other investments. (relevant to Council and Group)

**Description of the risk**

The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, namely Newcastle Airport.

The risk has increased as a result of the economic downturn arising from COVID-19.

**How we addressed this risk**

We:

- assessed the basis of valuation for the Council's shares in the Airport;
- critically reviewed the assumptions made by management; and
- assessed whether disclosures were in line with the Code of Audit Practice.

**Audit conclusion**

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

# 2. Significant findings (continued)

## Qualitative aspects of the Council's accounting practices

We have reviewed the accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 1 July 2020 and were of a good quality. Given the impact of COVID-19 the whole audit is being completed remotely.

## Significant matters discussed with management

Over and above our challenge of management's judgements and assertions made in producing the financial statements, the following significant matters were discussed with management:

- the impact of COVID-19 on the Council's financial statements, including the potential impact on risks of material misstatement;
- the valuation of the Council's land & buildings, as reported elsewhere in this report, including the Valuer's material uncertainty statement, as disclosed in Note 15 of the financial statements, due to COVID-19;
- the valuation of the PFI waste facility, for which the Council engaged its own expert, due to the specialist nature of the asset and therefore we similarly engaged an expert;
- the significant variances arising from the triennial valuation of the Pension Fund;
- the external valuation and the assumptions made in the downward valuation of the Airport shares, as well as the expected credit loss for the Council's long-term loan notes to the Airport;
- the calculation of the impairment of debtors allowance and the impact of the economic downturn; and
- the Council's assessment of whether there are any post balance sheet events.

## Significant difficulties during the audit

The impact of the COVID-19 pandemic on the audit has been significant. We have had the full co-operation of officers and Council management during what has been a challenging audit period. These challenges have been resolved through the dedication and support provided by officers.

## Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. There have been no objections or questions from local electors during the audit.

# 3. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

| Priority ranking | Description | Number of issues |
|---|---|---|
| **1 (high)** | In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately. | 0 |
| **2 (medium)** | In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future. | 7 |
| **3 (low)** | In our view, internal control should be strengthened in these additional areas when practicable. | 3 |

# 3. Internal control recommendations (continued)

## Other deficiencies in internal control – Level 2

### Description of deficiency

Nominal ledger – for journals, the same user can raise and post journals – there are no data validation checks to prevent this from happening.

### Potential effects

Increased potential of fraud, as journals can be posted by a single person without a second check/authorisation.
Potential material misstatement if inaccurate journals are posted and not checked by another person.

### Recommendation

Recommended that client adds a data validation check that prevents a single person from being able to raise and then post their own journal.

### Management response

The Oracle system does allow a journal to be uploaded and posted by the same person, this cannot be changed in the system. However, the process is managed through the journal control sheets where a record is held for each journal showing who uploaded the journal and who posted it. Oracle access is restricted so if a journal is uploaded correctly only Senior Accountants and above can post them (below this level the 'post' button is deactivated), but during the journal load process it is possible that someone could select the 'upload and post' option instead of just 'upload'. A transaction report is run periodically which shows who created (loaded) a journal and who last updated (posted) it, on the rare occasion when this happens it is noted on the control and cross checked and relevant action taken to prevent this happening again.

### Description of deficiency

Accounts payable – we understand that there is a monthly reconciliation between AP accruals report and nominal ledger code for AP accruals by AP manager however there has not been a monthly reconciliation of outstanding invoices as per AP system and the nominal ledger code for trade creditors.
We understand this was an issue raised by predecessor auditor in 2018/19 as their Audit results report stated that "The Council updated the general ledger to Oracle Cloud in November 2018 and we noted that since the new system has been implemented, monthly key control reconciliations were not being performed as management were unable to access the reports that they needed. We recommend that this is prioritised so that the full schedule of reconciliations is in place for 2019/20." Although this report does not list the key control reconciliations we would expect the creditors control account reconciliation would be included.

### Potential effects

Potential material misstatement if outstanding invoices as per accounts payable are not regularly reconciled to the nominal ledger trade creditors control account.

### Recommendation

Monthly control account reconciliations should be completed and reviewed in a timely manner.

### Management response

Regular AP reconciliations are now being carried out and have been done retrospectively back to November 2018 to address the period when they were not completed.

# 3. Internal control recommendations (continued)

## Significant deficiencies in internal control – Level 2 (continued)

### Description of deficiency

When requesting evidence to support the valuation work completed on assets not valued in year, it was highlighted that BNP completed a desktop review for the assets. When we requested the working papers and information on the methodology behind this desktop review, management were unable to provide any information as they did not receive anything from BNP.

### Potential effects

Potential material misstatement if inaccurate assumptions or incorrect conclusions have been made.

### Recommendation

Appropriate challenge should be demonstrated by management for all external experts to ensure the information is accurate and the work completed is appropriate.

### Management response

NCC officers constantly challenge BNP on its asset valuations. Each valuation report that is received is checked and reviewed thoroughly, and in the majority of cases, challenged with BNP. This has often been the reason for delays in the final accounts process on valuations as officers go back and forth with the valuer. NCC operates a five-year rolling programme for its asset valuations and has always relied on valuation reports from its external valuer which determine that asset values have not materially changed since their previous valuation. The 2019/20 audit has highlighted the need for specific tasks to be more explicitly detailed within the asset valuer contract to ensure NCC is being provided with all of the information required to satisfy itself and its auditors. This requirement will be included within the next tender exercise, which will be effective for the 2021-22 accounts closure. In the interim NCC will seek the required information from it's existing valuers.

### Description of deficiency

9 leavers were found that had not had their access to in-scope systems revoked (SWIFT: 1 user; Oracle: 1 user; Pay360: 3 users; Northgate: 1 user; Northgate NPS: 4 users) We identified that 8 of the 9 leavers had had their active directory access revoked in a timely manner, which would have prevented the leavers from accessing the in-scope systems. 1 leaver did not have their access revoked until about 6 months.

### Potential effects

User accounts not being revoked promptly when a user leaves increases the risk of unauthorised access to computer systems.

### Recommendation

Review leaving procedure to ensure that in-scope system and AD access is revoked for leavers in a timely manner.

### Management response

Leaving procedure reviewed for AD access (further review required to include links to the in-scope systems). Initially formal leaving process modified to generate notification to Service Desk when a leavers form submitted to ensure AD access revoked in timely manner.

# 3. Internal control recommendations (continued)

## Significant deficiencies in internal control – Level 2 (continued)

### Description of deficiency

Privileged access to Northgate NPS has been granted to 2 apprentices who are responsible for password resets.

### Potential effects

Potential for fraud/error due to excessive access rights being given to junior members of staff.

### Recommendation

Appropriate challenge should be demonstrated by management for all external experts to ensure the information is accurate and the work completed is appropriate.

### Management response

Recommendation agreed. Primary NPS system administrator to implement process to ensure appropriate challenge is in place if/when apprentices are required to have this privileged access.

### Description of deficiency

The policy and procedure documents we have been provided with do not include details of the process of testing changes before applying them to the live environment. We understand that changes are tested before installing them, but this is not formalised in policy and details of testing performed are not captured in Hornbill at present (based on change tested).

### Potential effects

Changes could be made Live without sufficient testing.

### Recommendation

Update policy and procedure to include details of testing process.

### Management response

Recommendation agreed – Change policy recently reviewed and updated to reflect the recommendation.

# 3. Internal control recommendations (continued)

## Significant deficiencies in internal control – Level 2 (continued)

### Description of deficiency

We would expect to see segregation of duties between development and IT operations (i.e. developers should not have access to the production environment) This is not specified in the policy/procedure documents we have been provided with, and we have not been able to confirm this by reference to user lists.

### Potential effects

Developers may have unnecessary access to the production environment.

### Recommendation

Update policy and procedure to include details of segregation of Duties between development and production.

### Management response

Policy to be reviewed/updated to include explicit details of segregation of duties between development and production.

## Other recommendations on internal control – Level 3

### Description of deficiency

Loans and Investments – Monthly reconciliations are to be reviewed by a senior officer but this is not always the case.

### Potential effects

Increased risk of human error due to lack of review. General Ledger may become inaccurate and not agree to actual loans and investments.

### Recommendation

Recommended that client ensures that monthly reconciliations are reviewed by a senior officer.

### Management response

The monthly reconciliation of investments and long term debt is now reviewed monthly by a Senior Officer. This process was implemented during 2020/21 and feeds into the Treasury Management element of NCC's monthly budget monitoring process. Suspense accounts in relation to loans to third parties are reviewed and approved by a Senior Officer on a quarterly basis.

# 3. Internal control recommendations (continued)

## Other recommendations on internal control – Level 3

### Description of deficiency

Property Plant & Equipment (PPE) disposals – Milfield School was tested as part of the PPE system walkthrough work and found that a deposit was received and recognised in 18/19 when the sale did not take place until 2019/20.

### Potential effects

Potential material misstatement due to recognising income in the incorrect year.

### Recommendation

If deposits are received for future sales, they should be deferred and therefore only recognised when the sale has taken place.

### Management response

Agree with the recommendation. The position will be monitored closely in future to ensure the income is accounted for when the sale has taken place

### Description of deficiency

The Council's Password policy does not include means by which initial password is generated.

The Northgate password parameters do not include expiry period.

The Oracle password parameters do not include a maximum number of failed attempts.

### Potential effects

Weaker password parameters increase the risk of unauthorised access to computer systems.

### Recommendation

Add the control over initial password generation to the policy; Northgate password parameters have expiry time added; and Oracle has maximum number of failed attempts added.

### Management response

Password policy reviewed to include means by which initial password is generated.

Third party application suppliers made aware of the requirements and we are awaiting a response to confirm that their application will support these requirements.

# 3. Internal control recommendations (continued)

## Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

### Description of deficiency

In 2018/19, the previous auditor (EY) reported –

"The fixed asset working papers are complex and require a large amount of manual manipulation by management. We recognise that management has undertaken a significant amount of work during 2018/19 to simplify the working papers; however due to the sizeable nature of the asset base held by the Council there still remains a higher level of risk of error whilst a spreadsheet based approach remains in place. We recommend that management consider whether they are able to accept the level of risk inherent in the current approach or whether they may want to look to introduce a more system-based approach to managing the asset base." Through our work on PPE this year, numerous errors have been found in the working papers and are potentially due to the level of manual manipulation.

### Potential effects

Material misstatement of Property Plant & Equipment.

### Recommendation

Working papers should have less manual manipulation by management. As per the prior year, we recommend that management consider whether they are able to accept the level of risk inherent in the current approach or whether they may want to look to introduce a more system-based approach to managing the asset base.

### 2019/20 update

Executive Approval was given in November 2020 for the implementation of a new cloud based fixed asset system for the Council. Following refresher demonstrations by the two preferred suppliers in February 2021, the Council's Procurement Section has initiated contact with one supplier and hopes to conclude the contract by Easter 2021. After a large-scale initial data import onto the new system, expected to take around three months, it is anticipated that the system will be fully implemented by July 2021, allowing a more integrated approach to asset management and valuations across the organisation.

# 4. Summary of misstatements

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £433k (Council) and £460k (Group), which we identified at the audit planning stage.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

## Unadjusted misstatements 2019/20

| | | Comprehensive Income and Expenditure Statement | | Balance Sheet | |
|---|---|---|---|---|---|
| | | Dr (£'000) | Cr (£'000) | Dr (£'000) | Cr (£'000) |
| 1 | Dr: CIES - Gain/Loss on Disposal | 1,787 | | | |
| | Cr: PPE - PFI Assets | | | | 1,787 |
| | On review of the 2019/20 Waste PFI lifecycle costs, it was noted that management do not de-recognise components that have been replaced. This unadjusted error is the total of components that should have been de-recognised from the start of the Waste PFI scheme to this financial year end. | | | | |
| | **Total unadjusted misstatements** | **1,787** | **0** | **0** | **1,787** |

## Unadjusted disclosure

Pension Schemes Accounted for as Defined Benefit Schemes (Note 32) – The Council still holds assets and liabilities associated with nine schools which converted to academies prior to 31 March 2020. When a school converts the assets and liabilities should transfer to the academy and the Council's position be adjusted. The estimated potential impact of the conversions is £4.413m. There is no impact on net liability.

# 4. Summary of misstatements (continued)

## Adjusted misstatements 2019/20

| | | Comprehensive Income and Expenditure Statement | | Balance Sheet | |
|---|---|---|---|---|---|
| | | Dr (£'000) | Cr (£'000) | Dr (£'000) | Cr (£'000) |
| 1 | Dr: Short term creditors | | | 2,766 | |
| | Cr: Bank overdraft | | | | 2,766 |
| | Correction of miscoding in the general ledger | | | | |
| 2 | Dr: Finance expenditure | 2,112 | | | |
| | Cr: Other Operating Expenditure (Upward)/downward Valuation of Assets Held For Sale (AHFS) | | 2,112 | | |
| | The 2019/20 Land & Buildings revaluation movement provided from the Valuer (BNP) was coded to downward valuation of AHFS when it should have been coded to Finance service line. | | | | |
| 3 | Dr: Bank overdraft | | | 947 | |
| | Cr: Cash and cash equivalent | | | | 947 |
| | Testing of reconciling items in bank reconciliation identified that school top up payments were not paid until April 2020 however were recognised in the General Ledger at 31.3.20 | | | | |
| 4 | Dr: Bank overdraft | | | 1,000 | |
| | Cr: Capital grants receipts in advance | | | | 1,000 |
| | Miscoding of a transaction in the ledger which resulted in bank overdraft being overstated by £1m and the balance on capital grants receipts in advance being understated by same amount. | | | | |
| 5 | Dr: Capital grants received in advance | | | 1,568 | |
| | Cr: Taxation and Non Specific Grant Income – Basic Needs capital grant. | | 1,568 | | |
| | The Basic Needs capital grant was shown as a receipt in advance however no conditions were in place therefore it should have been recognised as income in year and then moved to Capital Grants Unapplied Reserve. | | | | |

# 4. Summary of misstatements (continued)

## Adjusted misstatements 2019/20

| | | Comprehensive Income and Expenditure Statement | | Balance Sheet | |
|---|---|---|---|---|---|
| | | Dr (£'000) | Cr (£'000) | Dr (£'000) | Cr (£'000) |
| 6 | Dr: Short term debtors NHS bodies | | | 10,910 | |
| | Cr: : Long term debtors - Cramlington Capital loan £10m and Berwick Hospital loan £1m, Hexham loan increased by £90k | | | | 10,910 |
| | Based on repayment schedule for these loans £11m was due to be repaid in 2020/21 (note we have confirmed that repayments were actually made on the due date) therefore they should be classed as short term not long term debtors and for Hexham loan a transposition error was made when determining split of short and long term so it was initially input at £4,658k not £4,568K. | | | | |
| 7 | Dr: Long term debtors - Hexham hospital loan | | | 1,769 | |
| | Cr: Short term debtors NHS bodies | | | | 1,769 |
| | Adjustments for amortised cost had been incorrectly allocated across the short term and long term split for this debtor balance, resulting in a classification error of £1,679k. A further £90k error resulted from a transposition error when coding the split. | | | | |
| 8 | Dr: CIES Finance expenditure | 6,938 | | | |
| | Cr: Movement in reserves | | | | 6,938 |
| | Dr: Capital adjustment account | | | 6,938 | |
| | Dr: Short term debtors - other Local Authorities | | | 207 | |
| | Cr: Long term debtors - NELEP - East Sleekburn Enterprise Zone | | | | 7,145 |
| | Adjustment to Long term debtor balance for NELEP East Sleekburn Enterprise Zone as a result of a change in the agreement of how the agreement is to be funded. The scheme is subject to a tripartite legal agreement between the Council/NELEP and Advance Northumberland. It is a multi year project and sits in an enterprise zone. Following change to the agreement the repayment schedule was also amended resulting in recognising part of the outstanding debtor as short term | | | | |

# 4. Summary of misstatements (continued)

## Disclosure amendments

Our audit identified a number of presentational and disclosure errors which have been amended. Only those which we consider as being significant are listed here:

- Narrative Report – A number of amendments were required including updates to:
    - Revenue outturn table and bar chart;
    - Capital outturn and Three Year Budget Plan; and
    - Treasury management activities table.
- Expenditure and Income Analysed by Nature (Note 2) - Note was amended to provide segmental analysis for both the current year and previous year for consistency of presentation e.g. fees & charges by segment. In addition, a number of the totals required updating to be consistent with other disclosures.
- Audit Fees (Note 9) - Disclosure updated to show the correct 2019/20 audit fee.
- Grant Income (Note 11) – Errors identified in relation to Grants Credited to Services and also Grants Credited to taxation and non specific grant income.
- Transfers to/from Earmarked Reserves (Note 14) - The Council is currently showing a negative balance for the 'DSG reserve' of -625k, reflecting a deficit position for the DSG as at 31 March 2020. As per Management, this is consistent with the suggested approach set out by CIPFA in their LAAP bulletin for 2019/20 closure of accounts, reflecting the need for DSG resources in 2020/21 to fund this brought forward deficit. In our view is not appropriate as a Council can not set aside amounts that are not available. This means a negative earmarked reserve is not appropriate unless derived from a statutory authority. Whilst the School Finance (England) Regulations 2020 (applicable from 1/4/20) set out that DSG deficits are to be funded from DSG resources and not general fund, we do not consider this to be a statutory override for accounting purposes for 2019/20. Therefore, although the current position may reflect the funding position, i.e., the deficit position will be funded from another source, this is different to the financial reporting position. Management's view is the disclosure reflects the reality of the Council's position and given the immaterial value they are not proposing to amend.
- Property, Plant and Equipment (Note 15) – Note was amended for the following:
    - Fixed asset revaluation table had incorrectly allocated an asset (Morpeth First School Land £678k) to 2018/19 instead of 2019/20;
    - The Valuation of Fixed Assets Carried at Current Value table was incorrect for Land & Buildings column - amendment to numerous figures; and
    - For Surplus Assets, the Council needed to disclose fair value disclosures.

# 4. Summary of misstatements (continued)

## Disclosure amendments (continued)

- Financial Instruments (Note 20) – A number of amendments were required including:
  - Payments in advance and receipts in advance should have been excluded from the debtors and creditors totals, as they are not classed as financial instruments;
  - The Fair Value of Liabilities calculation included a £64m adjustment – it should have been £64k; and
  - FV of long-term investments were overstated by £4,338k.
- Nature and Extent of Risks Arising from Financial Instruments (Note 21) – Note was updated to include:
  - A description of, and the Council's approach to dealing with, collateral; and
  - An aged analysis of debtors past due, by category of debtor in relation to non-financial assets (e.g. council tax and non-domestic rate debtors).
- Leases (Note 22) - Finance leases with Council as Lessor are all peppercorn leases. On the grounds of materiality these do not need to be individually disclosed however a narrative was added stating the nature of the leases as well as them being peppercorn rents.
- Debtors (Note 23) – a number of amendments were made due to an increase in Short Term NHS Debtors of £10.910m (see also adjusted misstatement No. 6 above).
- Private Finance Initiatives and Similar Contacts (Note 26) – Narrative disclosing in year movements/breakdown of unitary charge and applicable grant received was added to the Note.
- Pension Schemes Accounted for as Defined Benefit Schemes (Note 32) – For a multi-employer defined benefit plan, the Council were required to disclose:
  - The expected contributions to the plan for the next annual reporting period; and
  - An indication of the level of participation of the Authority in the plan compared with other participating entities.
- Related Parties (Note 36) – Note was updated to include reference to:
  - Disclosure of Northumbria Foundation Trust as a related party;
  - Narrative added to outline the merger of Northumberland Pension Fund with affect from 1 April 2020;
  - Enhanced narrative in relation to Active Northumberland to clarify the nature of the relationship with the Council;
  - Wording referred to the Arch Group as being dormant, but it was dissolved on 20 November 2020; and
  - Clarifying that Advance is consolidated in the Group statements.

# 4. Summary of misstatements (continued)

## Disclosure amendments (continued)

- Accounting Policies (Note 41) – Officers revisited this area following our review and proposed the following amendments:
    - Measurement - Additional wording added to explain more fully; and
    - Council Tax - amendment to paragraph to add additional text to bring it into line with the Code.
- Critical Judgements in Applying Accounting Policies (Note 43) – Amendments made in relation to:
    - An update of the McCloud critical judgement disclosure to include to the reference the Her Majesty's Treasury consultation issued in the summer of 2020, along with the impact on the Council; and
    - An update in relation to the disposal of schools that have transferred to academy status during the year.
- Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty (Note 44) – Disclosure amendments were identified in relation to:
    - Property, Plant and Equipment (PPE)
        - The disclosure should be quantified in terms of the impact (i.e. depreciation) and should also consider the impact of changes in valuations as likely to be more material / more likely to be subject to change in the coming year; and
        - Whilst it is reasonable to disclose a material uncertainty relating to COVID-19, the Group Investment Properties balance is highly material, therefore this disclosure note should be expanded to cover the Group OR a group assumptions disclosure be included regarding Group Investment Property material uncertainty.
    - Equal Pay Provision – Removal of this disclosure as it does not meet the definition of a key assumption / source of estimation uncertainty as there is no significant risk of material adjustment in the coming year.
    - Arrears – Removal of this disclosure as the impairments of debtors allowance is not a material assumption/material source of estimation uncertainty
- Events After The Reporting Period (Note 45). This Note was updated to take account of the number and value of academy conversions. Officers also identified that a further disclosure was required with regards to Northumberland Enterprise Holdings Limited.
- Housing Revenue Account (HRA) income & expenditure statement - Council re-visited this and identified that Supervision and management for 2019/20 included £376k in relation to council tax on void properties and has been reclassified to rents, rates taxes and other charges.
- HRA Note 3 - Intangible cost and depreciation at 1/4/2019 did not agree to the 2018/19 audited accounts. Discussions identified that officers amended the opening balance to correctly show the gross position as error in PY accounts. Narrative to be added to Note 3 to explain to user why the amendment has been made.

# 4. Summary of misstatements (continued)

## Disclosure amendments (continued)

- Group Accounts – the following disclosures have been added as a result of our audit work:
  - critical judgement re: why Advance assets are held as Investment Properties and not PPE;
  - assumption / estimation uncertainty in relation to the material uncertainty for PPE due to COVID-19;
  - group capital commitments; and
  - group capital grants Receipts in Advance disclosure note.

# CONTACT

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