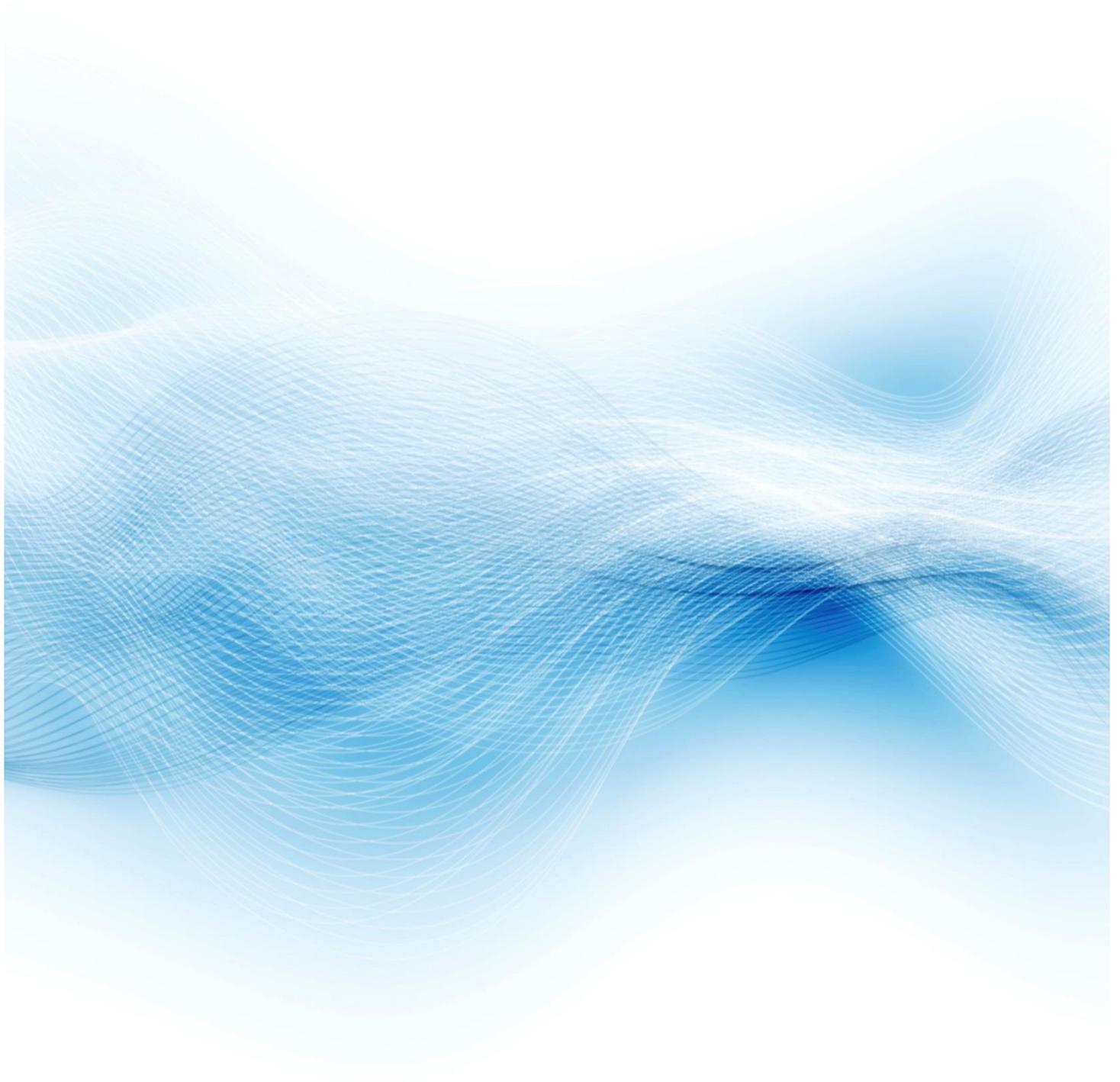
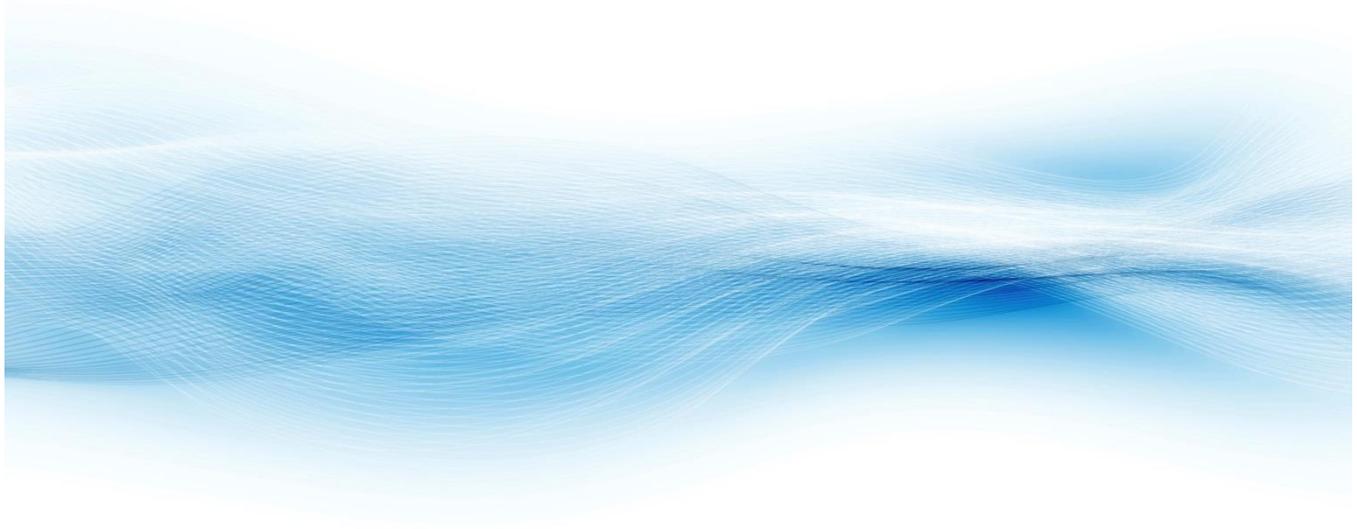


Final Audit Completion Report

Northumberland County Council

Year ending 31 March 2020





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Our reports are prepared in the context of the ‘Statement of Responsibilities of auditors and audited bodies’ and the ‘Appointing Person Terms of Appointment’ issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

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July 2021

Dear Members

Audit Completion Report – Year ended 31 March 2020

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

Members will recall that we issued an Interim Audit Completion Report (ACR) in March 2021 and this ACR gives an update on our findings since that report.

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 our work on the audit of the 2019/20 financial statements, which is now fundamentally complete.

This report does not include any commentary on our work on the value for money conclusion as this is still ongoing.

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

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 28 July 2021.

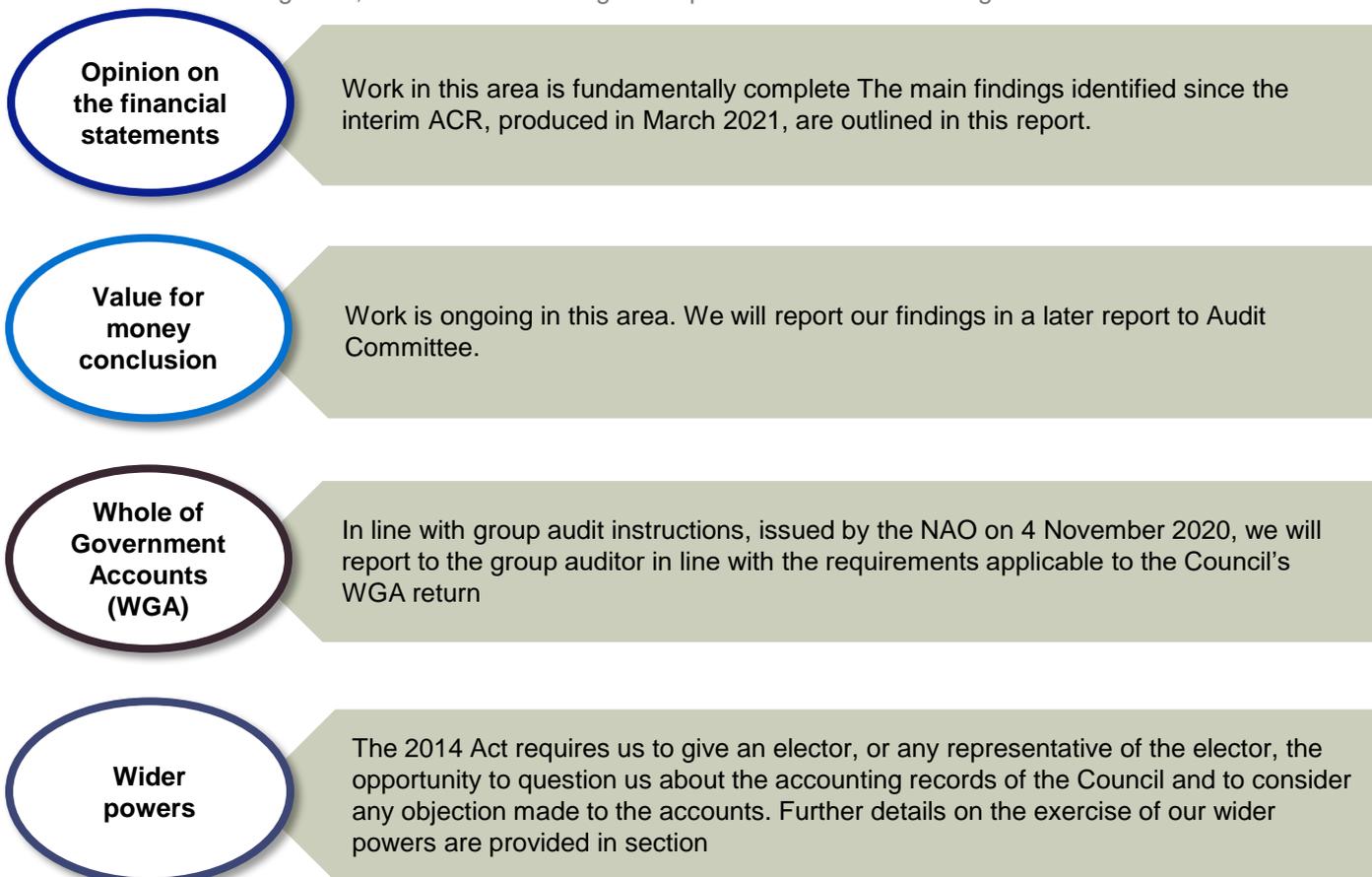
The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been 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:



1. Executive summary

Status of our audit work

We have substantially completed our work on the financial statements for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
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

We will provide the Audit Committee with an update in relation to the outstanding matter 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 £14.426 million (Council) and £15.331 million (Group) using a benchmark of 1.8% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £14.143 million (Council) and £14.596 million (Group), using the same benchmark.. We have set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee), at 3% of overall materiality.



2. Executive summary (continued)

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 10 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

Management override of controls (relevant to Council and Group accounts)

Description of the risk

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

We addressed this risk by carrying out audit work in the following areas:

- accounting estimates impacting on amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Our audit work 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

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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 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.

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2. Significant findings (continued)

Significant risk

Property, plant and equipment and investment property valuations (relevant to Council and Group)

Description of the risk

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.

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.

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

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 14 and Note 43.

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.

Our audit resulted in a number of internal control recommendations being made in Section 3 of this report (and also the Interim ACR reported in March 2021) as follows –

- Management were unable to provide evidence to support the valuation work completed on assets which had not been valued in 2019/20. It was also noted that working papers had not been prepared to show management's assessment of the cumulative movement in assets from their last revaluation date.
- The 2019/20 Land & Buildings revaluation movement provided from the Valuer (BNP) was coded to downward valuation of Assets Held For Sale when it should have been coded to Finance service line.

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2. Significant findings (continued)

Significant risk

Property, plant and equipment and investment property valuations (relevant to Council and Group)

Audit conclusion (continued)

- When reviewing the valuer's assumptions it was found that floor plans held did not include measurements and the valuer was not provided with updated floor plans annually but using data from DTZ (the Council's previous valuer).
- When testing the HRA beacon properties per the asset register to the housing management system, two errors were highlighted where the bedroom size of the properties on the asset register were incorrect meaning that the beacon the property was aligned to was incorrect
- When testing the HRA valuations, the majority of beacons tested either had one comparable property or no comparable sales taken into account for their valuation. The Stock Valuation Guidance 2016 states that 3 comparable sales of a similar nature should be considered.

The Council were also required to make the following amendments due to issues found during the audit. These are outlined in Section 4 of this report (and also the Interim ACR reported in March 2021)

- £2.112 million in relation to the 2019/20 Land & Buildings revaluation movement provided from the Valuer (BNP) being coded to downward valuation of Assets Held For Sale when it should have been coded to Finance service line.
- £12.378 million in relation to infrastructure assets. One asset was highlighted as being owned by a third party and had been transferred to the Council as part of the local government reform in 2009. We asked management to investigate if there were any other assets that may not belong to NCC but were included in their Property, Plant and Equipment. Management highlighted £4.542m of assets that due to a lack of description of the assets could not be concluded as to whether they were owned by the Council or a third party and £7.830m of assets that have been identified as owned by a third party.
- £28.137 million to adjust for non-revalued depreciated replacement cost buildings due to increases in Building Cost Information Service (BCIS) since the previous valuation.
- £4.397 million due to the revaluation of the Energy for Waste Plant and the de-recognition of components
- £5.775 million - on review of the 2019/20 valuations it was found that there were errors in the site areas and floor areas used by the valuer in their valuation. Two assets were identified where the valuation methodology used was incorrect (new build cost had been used instead of DRC). The total value of net errors identified was £6,382k and an extrapolation resulted in an estimated additional net £3,668k error. The accounts have been adjusted by a net value £5,775k which leaves a net value of £4,275k unadjusted – see page 20.
- £15.366 million to correct the valuation of HRA properties to a social adjustment factor of 44% from 1/4/2016. This required a Prior Period Adjustment being made to the 2019/20 accounts.

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

Our work has provided the assurance sought in this area

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 August 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 14 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, identified since the Interim Audit Completion Report was reported in March 2021, 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.	4
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	2

3. Internal control recommendations (continued)

Significant deficiencies in internal control – Level 2

Description of deficiency

Client identified that there was 1 person missing from the 2019/20 exit packages in Note 8. This has now been included and working paper revised.

The problem has arisen because of the timing of the entries being recorded in the Payroll system. Usually any termination and/or compromise payments will be aligned with an individual's pay day and will go through the payroll in the normal way and be costed against the appropriate elements.

In this instance the instruction to make a payment came to the Payroll team on 14 May 2019 and the payment was required to be made asap. The individual's leaving date had been 24 April 2019. The payment was made through Accounts Payable. In this case the full calculation had to be done manually, all payments were made (including tax, NI etc.), and GL was updated. However, the individual's record was not updated until a later date which was after NCC officer completed the 2019/20 accounts disclosure.

Potential effects

Potential material misstatement due to sensitivity in this area.

Recommendation

Officers should ensure that the working papers to support exit packages are complete and accurate.

Management response

A checklist for such cases (which are few and far between) will be put in place to ensure that this is covered going forward and that any timing issues are taken into account when preparing this Note.



3. Internal control recommendations (continued)

Significant deficiencies in internal control – Level 2 (continued)

Description of deficiency

When management were asked to provide their assessment of assets not revalued in 2019/20, it was noted that working papers had not been prepared to show management's assessment of the cumulative movement in assets from their last revaluation date.

Potential effects

Potential material misstatement

Recommendation

Management should assess the cumulative movement of non-revalued assets since their last valuation date to assess if the assets could be materially misstated at the year end.

Management response

Previous external auditors have gained assurance from the narrative in the asset valuer's final valuation report which highlighted that, in their professional opinion, there had been no material change in the assets not valued in that particular year, since the previous valuation date. When Mazars confirmed this would not give sufficient assurance and requested that management provide an assessment of non-revalued assets, officers prepared a detailed working paper estimating the potential impact on asset values cumulatively using BCIS building indices. Officers also exhausted all options in sourcing local land value trends as well as relevant obsolescence data. Upon completion of the exercise, an accounting adjustment was made to reflect the potential cumulative movement of assets from their last valuation date. The Council is in the process of going out to tender for its asset valuation service provider, effective from 2021/22. The tender specification includes specific instruction for the appointed valuer to annually provide an assessment of the Council's non-revalued assets, utilising BCIS indices and available local land trend data.

3. Internal control recommendations (continued)

Significant deficiencies in internal control – Level 2 (continued)

Description of deficiency

When reviewing the valuer's assumptions it was found that floor plans were not held with measurements on and the valuer was not provided with updated floor plans annually but using data from DTZ (the Council's previous valuer).

Potential effects

Potential material misstatement due to accuracy and completeness of floor areas.

Recommendation

The valuer should be using floor plans that have been updated and reviewed annually to ensure that the valuations are accurate.

Management response

The Council's external asset valuer BNP Paribas, relied on floor area information used by DTZ, the previous asset valuer, which had been sourced from a combination of measured surveys conducted at site visits during valuations, and plans provided to them by the Council's Property Section. BNP were then advised of any disposals/extensions to assets by the Council and the floor areas reflected accordingly. Northumberland County Council's Property Team have provided plans for all assets. However, not all of the plans contain measurements which agree with the floor areas used by BNP in its valuations. The majority of the plans can be verified with a detailed room schedule for the building, which has provided Mazars with the required assurance. However, there were a couple of instances where updated measured surveys were required, which has led to a revaluation of assets. The Council recognises that it should hold updated measured floor plans for each of its assets, and provide these to its asset valuer annually. The requirement for a full measured survey has been included in the tender specification for the upcoming asset valuer tender exercise. The Council has specified that a full measured survey of all assets in its asset portfolio is conducted in year one (2021/22) of the contract. Ahead of the 2020/21 financial year end process, officers have proactively assessed floor areas for a significant sample of the assets valued in 2020/21, to ensure floor areas can be evidenced thoroughly.

3. Internal control recommendations (continued)

Significant deficiencies in internal control – Level 2 (continued)

Description of deficiency

When we requested detailed information in relation to our work on infrastructure assets, Management, in many cases, had great difficulty providing detailed evidence to support the descriptions and amounts included in the fixed asset register.

In addition, testing of the records kept identified that the Council were unable to provide evidence to support that they owned all items of infrastructure included in their fixed asset register and in a number of cases that the items of infrastructure existed.

Potential effects

The Council's fixed asset register is inaccurate and not up to date which could result in a material misstatement.

Recommendation

The Council should ensure that it has sufficient, up to date evidence available to support all items of infrastructure included in the fixed asset register.

Management response

The Council will need to undertake an analysis of all infrastructure assets and identify the evidence it currently holds for those assets. Once this exercise is complete and where a gap is identified a further piece of work will need to be undertaken. This exercise will not be complete for the 2020-21 Statement of Accounts, but the Council will endeavour to complete the work during 2021-22.

3. Internal control recommendations (continued)

Other recommendations on internal control – Level 3

Description of deficiency

When testing the HRA beacon properties per the asset register to the housing management system, two errors were highlighted where the bedroom size of the properties on the asset register were incorrect meaning that the beacon the property was aligned to was incorrect. Management investigated all properties on the Housing Management system and compared them against the valuer's asset register to highlight all variances between properties with regards to bed size for further investigation. 104 properties were noted to have different bed sizes on Northgate and the asset register and this led to a trivial difference in valuation therefore not corrected in 2019/20. It was noted during this process that management were not notified about 1 property being tenanted until after the property data was submitted to the valuer therefore it did not hold a value in the 2019/20 valuation.

Potential effects

Potential material misstatement with regards to the valuation of HRA dwellings.

Recommendation

Management should obtain all relevant dwellings data to ensure that the valuer is provided with accurate and complete records to use in their valuation of the HRA dwellings.

Management response

The property amendments have been supplied to the valuer so that they can be incorporated into the 2020-21 valuations and have been checked as part of the 2020/21 year end process. All 8,390 property records were checked during the course of the audit. Further checks will be made in the future to ensure that the correct information is acquired for any new properties added to the asset register and that the records match with the NPS Housing Management system.



3. Internal control recommendations (continued)

Other recommendations on internal control – Level 3

Description of deficiency

When testing the HRA valuations, the majority of beacons tested either had one comparable property or no comparable sales taken into account for their valuation. The Stock Valuation Guidance 2016 states that 3 comparable sales of a similar nature should be considered.

Potential effects

Potential material misstatement with regards to the valuation of HRA dwellings

Recommendation

Management should ensure that the valuer has used an appropriate number of comparable properties for the beacons valued in year to comply with the Stock Valuation Guidance 2016.

Management response

Although valuations for 2020/21 have now been completed this will be built into the requirements for the re-tender of this work for 2021/22 valuations. A point to note is that on average the Council only has 50 sales per year so the likelihood of comparable sales in each beacon would be low. Some property areas sell more frequently than others. The diverse nature of properties that the Council has could mean that there are only one or two sales in a beacon.

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Summary of misstatements

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 £424k (Council) and £438k (Group), which we identified at the audit planning stage.

The first table outlines the misstatements that have been identified since the Interim Audit Completion Report was reported in March 2021 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 identified since the Interim Audit Completion Report was reported in March 2021 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: Short Term Creditors Cr: Short Term Debtors		641	641
	A miscoding between two schools occurred whereby short term debtors were overstated by £59k. The extrapolated error is £641k.			
2	Dr: Long Term Debtors - NCC - Airport Loan Notes Cr: Short Term Debtors - public corporations and trading funds		1,058	1,058
	Review of the airport loan confirmed that no payments were due in 2020/21 due to an interest holiday. Therefore the entire balance should be within long-term for 2019/20.			
3	Dr: Short Term Creditors Cr: Short Term Debtors		1,009	1,009
	Following review by the client, it has been established that there had been a misstatement between creditors and debtors over £745k relating to payroll. This was extrapolated and the total error was £1,009k.			

4. Summary of misstatements

Unadjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
4 Dr: PPE – Other land and buildings Cr: Revaluation reserve			4,275	4,275

On review of the 2019/20 valuations it was found that there were errors in the site areas and floor areas used by the valuer in their valuation. There were two assets where the valuation methodology used was incorrect (new build cost had been used instead of DRC). The total value of net errors identified was £6,382k and an extrapolation resulted in an estimated additional net £3,668k error. The accounts have been adjusted by a net value £5,775k which leaves a net value of £4,275k unadjusted (£3,668k of which is the extrapolated element).

Total unadjusted misstatements	0	0	6,983	6,983
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Summary of
misstatements

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 Long term debtors - Advance Northumberland		1,373	
	Cr Short term debtors - public corporations and trading funds			1,373
	Our testing of debtors identified a balance, relating to several Arch schemes, included within short term debtors that had seen no movement since 2016/17. Management agreed that the total should be within long term.			
2	Dr: CIES Finance	12,378		
	Cr: PPE – Infrastructure			12,378
	On review of infrastructure assets, one asset was highlighted as being owned by a third party and had been transferred to NCC as part of the local government reform in 2009. We asked management to investigate if there were any other assets that may not belong to NCC but are included in their PPE and management highlighted £4.542m of assets that due to a lack of description of the assets could not be concluded as to whether they were owned by NCC or a third party and £7.830m of assets that have been identified as owned by a third party.			
3	Dr: PPE – Other land and buildings		28,137	
	Cr: Revaluation reserve			28,137
	To adjust for non-revalued depreciated replacement cost buildings due to increases in Building Cost Information Service (BCIS) since the previous valuation.			

4. Summary of misstatements (continued)

Adjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
4	Dr: PPE – Other land and buildings Cr: CIES - Deficit/Surplus on Revaluation Dr: CIES – Other operating expenditure	1,437 5,834	4,397	
Revaluation of the Energy for Waste Plant and de-recognition of components				
5	Dr: PPE – Other land and buildings Cr: Revaluation reserve		5,775	5,775
On review of the 2019/20 valuations it was found that there were errors in the site areas and floor areas used by the valuer in their valuation. There were two assets where the valuation methodology used was incorrect (new build cost had been used instead of DRC). The total value of net errors identified was £6,382k and an extrapolation resulted in an estimated additional net £3,668k error. The accounts have been adjusted by a net value £5,775k which leaves a net value of £4,275k unadjusted – see page 20.				
6	Dr PPE 1.4.18 Prior Period Adjustment Cr Unusable reserves 1.4.18 PPA Dr CIES HRA expenditure 2018/19 Cr CIES HRA income 2018/19 Dr MiRS HRA 2018/19 Dr PPE 2018/19 Cr Unusable reserves 2018/19 Dr CIES HRA expenditure 2019/20 Cr CIES HRA income 2019/20 Dr MiRS HRA 2019/20 Dr PPE 2019/20 CR Unusable reserves 2019/20	424 764 434	14,981 340 340 45 45	14,981 340 45
To correct the valuation of HRA properties to a social adjustment factor of 44% from 1/4/2016				
Total adjusted misstatements		14,673	7,077	55,433
				63,029

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misstatements

4. Summary of misstatements (continued)

Disclosure amendments

Our audit identified a number of presentational and disclosure errors which have been amended. Only those which have been identified since the Interim Audit Completion Report was reported in March 2021 and which we consider as being significant are listed here:

- Officers Remuneration (Note 8) – the Note was updated due to -
 - addition of a column to disclose expenses of senior officers; and
 - the omission of one officer from the 2019-20 exit packages and officers remuneration Notes.
- Heritage Assets (Note 16) – Narrative updated to more clearly explain the insurance valuation process.
- Nature and Extent of Risks Arising from Financial Instruments (Note 20) – The Note was updated to highlight issues relating to financial guarantees and an aged analysis of customer debt.
- Cash Flow from Financing Activities (Note 34) - Note expanded to include a 'Reconciliation of liabilities from financing activities' which is required as per sector guidance.
- Trust and Other Third Party Funds (Note 36) - Note title has been amended to "Trust and Other Third Party Funds" to reflect the disclosures within the Note.
- Contingent Liabilities (Note 38) – the Note was amended to take account of the current position in relation to Home Housing. The Council also deleted the disclosure in relation to the Morpeth Bypass as the latest appeal was dismissed on 19/2/2021.
- Contingent Assets (Note 39) – the Note was updated to disclose -
 - deletion of the waste vehicle price fixing Contingent Asset (highlighted by management); and
 - additional narrative to further explain the position in relation to Street Lighting Modernisation Project - Galliford Try Contracts
- Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty (Note 43) - the narrative has been expanded to state what the material valuation uncertainty is specifically for NCC as well as an update to the current situation due to the delayed sign off date.
- Events After the Reporting Period (Note 44) – Note updated to reflect –
 - an additional 5 academy conversions after April 2020; and
 - additional disclosure to identify that the Council incorporated a new company with Companies House, Northumberland Enterprise Holdings Limited on 17 September 2020.

Appendix A

Draft Management Representation letter

Mr Cameron Waddell
Partner
Mazars LLP
The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Date: X August 2021

Northumberland County Council and Group - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of Northumberland County Council (the Council) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Interim Executive Director of Finance and s151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.



Appendix A

Draft Management Representation letter (Continued)

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Interim Executive Director of Finance and s151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Charges on assets

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Appendix A

Draft Management Representation letter (Continued)

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2019/20 in relation to the Council's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Newcastle Airport

I confirm that the Council does not intend requiring Newcastle Airport to adhere to the original agreed long-term loan repayment schedule and that in assessing the expected credit loss recognised in the financial statements, I have considered the revised repayment schedule and have assessed it as being reasonable.

Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council and Group, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that the Council and Group will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. *Please make sure the appendix is attached to the letter and not cross-referenced to the appendix in the ACR.*

Yours faithfully

Interim Executive Director of Finance and s151 Officer

Date:



Appendix B

Draft Auditor's report

Independent auditor's report to the members of Northumberland County Council and Group

Report on the financial statements

Opinion

We have audited the financial statements of Northumberland County Council and Group for the year ended 31 March 2020, which comprise the which comprise Council and Group Movement in Reserves Statement, Council and Group Comprehensive Income and Expenditure Statement, Council and Group Balance Sheet, Council and Group Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31st March 2020 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

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

Emphasis of Matter

Material uncertainty relating to valuations of land and property

We draw attention to Note 14 and Note 43 of the Council's single entity financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings. As disclosed in Note 14 and Note 43 of the financial statements, the Council's valuer included a 'material valuation uncertainty' declaration within their report as a result of the Covid-19 pandemic impacting on the relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.

Material uncertainty relating to valuations of investment property

We draw attention to Group Note 3 of the Council's group financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Group's investment property. As disclosed in Group Note 3 of the financial statements, the Group's investment properties have been revalued at the reporting date by a third party firm of RICS registered commercial surveyors. The valuation is reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA 10 of the RICS Red Book Global. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Interim Executive Director of Finance and s151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Interim Executive Director of Finance and s151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's and Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Interim Executive Director of Finance and s151 Officer is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.



Appendix B

Draft Auditor's report (continued)

Responsibilities of the Interim Executive Director of Finance and s151 Officer for the financial statements

As explained more fully in the Statement of Responsibilities, the Interim Executive Director of Finance and s151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Interim Executive Director of Finance and s151 Officer is also responsible for such internal control as the Interim Executive Director of Finance and s151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Interim Executive Director of Finance and s151 Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Interim Executive Director of Finance and s151 Officer is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

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

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Northumberland County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Northumberland County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

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



Appendix B

Draft Auditor's report (continued)

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of Northumberland County Council as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We can not formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Cameron Waddell
Key Audit Partner
For and on behalf of Mazars LLP
The Corner
Bank Chambers
26 Mosley Street
Newcastle
NE1 1DF

Date

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Appendix C

independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



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.

*where permitted under applicable country laws

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