Northumberland County Council

Report on the External Audit to the Audit Committee

For the year ending 31 March 2014

September 2014

Contents

I am pleased to present our ISA260 report on the findings of our 2013/14 audit of the Council's financial statements. We have a number of procedures to complete, and I will provide a verbal update on outstanding matters to the Audit Committee.

Paul Thomson, Audit Partner

The big picture

The big picture

We have set out below an overview of the audit procedures performed and our significant conclusions on various matters considered as part of our audit.

Overall View

Our audit is substantially complete. We plan to sign the accounts today, 30 September 2014, following the Audit Committee meeting.

We anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements upon satisfactory completion of outstanding matters.

We plan to issue an unmodified opinion in relation to our Value for Money work.

Working papers to support the financial statements were of a good standard and we would like to thank management for their cooperation throughout the audit.

We have yet to complete our work on the Council's submission as part of the Whole of Government Accounts (WGA) process. We expect to be able to issue this opinion by the deadline of 3 October 2014.

We have identified a number of immaterial misstatements in the financial statement in relation to provisions and the pension liability which have not been corrected by management at the time of writing this report. See Appendix 2.

Outstanding Items

- Completion of WGA procedures;
- Receipt of management letter of representation; and
- Update of subsequent events review to the date of signing the accounts.

Reminder of our audit plan

- We determined materiality as £14m and a reporting threshold of £701k.
- We identified 5 significant risks in our audit plan and have not made any changes to the scope of our audit.
- We have taken a substantive approach to testing the financial statements.

Our commitment to you

Year round communication

We have maintained regular contact with Steven Mason and with Alison Elsdon and other members of the Business Support Team to ensure we remain up to date with the developing issues at the Council through the year.

Paul Thomson, Celia Craig and Deborah Wright have attended all meetings of the Audit Committee as scheduled and Paul Thomson has also met privately with the Chair of the Audit Committee during the year.

We have made ourselves available through the year for ongoing discussions as necessary.

During the main audit period

During the audit period we worked closely with Alison Elsdon and other key members of the Business Support team. We have also worked with a number of other officers who have assisted with specific aspects of our audit and VFM work.

During the final audit visit we held weekly meetings with Alison and her team to discuss progress on the audit. We will hold a close meeting with management following completion of the outstanding items, prior to presenting our report to the Audit Committee.

Open feedback process

We will carry out a debrief meeting after the audit with the Audit Committee Chair and with Steven Mason and Alison Elsdon to discuss how we have delivered against the commitments on both sides, as set out in this document, and any other aspects of our delivery.

We will respond to this feedback with agreed actions and timescales.

Responding to queries and requests

We have responded to queries promptly during the year and have provided solutions for resolution.

We made ourselves available to discuss issues as they arise and maintained regular contact regarding the closedown and accounts production processes to align our audit timetable.

Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks were addressed by our audit work and any related presentational and/or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement. Having considered the qualitative significance, value and predictability of the inventory and intangible assets, we have concluded the risk of material misstatement is remote and have therefore performed limited procedures on these balances.

For the Council's 2013/14 financial statements, we have set materiality at **£14m** based on gross expenditure for the year. We report to the Audit Committee on all unadjusted misstatements greater than £701k and other adjustments that are qualitatively material.

1. Revenue recognition

We identified a significant risk in relation to grant income recognition including determining whether the grant has conditions

Nature of the risk

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transaction or assertions give rise to such risks.

The key judgement area, its impact on the financial statements and our audit challenge:

We identified recognition of grant income as a significant risk due to:

- Grant income being recognised only once any conditions attached over grants have been met;
- Significant management judgement over determining if there are any conditions attached to a grant, and if conditions have been met; and,
- Complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.

Audit work completed to address the significant risk:

- We have tested the design and implementation of controls which management has put in place to ensure grant income is recognised in the correct period.
- We performed testing on a focussed sample of grant income. We reviewed correspondence in relation to these grants to check that they had been recognised in accordance with any attached grant conditions.
- We agreed the entitlement to the grant claim form and verified that the grant control account balance has been properly reconciled.
- Our testing covers specific and non specific revenue grants, donations and capital grants.

Deloitte View

We are satisfied with the accounting treatment of grant income and we do not consider there to be evidence of management bias in the revenue recognition policies adopted. One disclosure deficiency was noted which management have corrected.

2. Management override of controls

No inappropriate instances of management override of controls have been noted

Nature of risk

In accordance with ISA 240 (UK and Ireland) management override of controls is always a significant risk. Auditing Standards require auditors to assume that the incentive and opportunity to manipulate the financial statements presents a risk of material misstatement.

The significant risk in relation to management override, its impact on the financial statements and our audit challenge:

Management occupy a unique position within the Council in that:

- Their financial success, standing among their peers, and future career prospects can be heavily influenced by the financial results achieved by the Council; and
- They are able, through the exercise of management judgement, bias and posting of management journals, to override the normal operational controls within the Council and fraudulently manipulate the financial results.

Audit work completed to address the significant risk

- We gained an understanding of and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, and tested the appropriateness of a sample of such entries and adjustments;
- We reviewed accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between the best estimates based on supporting evidence and those estimates in the financial statements, even if individually reasonable, indicate a possible bias on the part of management;
- We have used our ‘Audit Analytics’ software to test a risk focused sample of journals to ensure the appropriateness of journal entries.

Deloitte View

We have not identified any fraudulent or inappropriate instances of management override of controls during the course of our audit.

We did not identify evidence of management bias resulting in material misstatement of the financial statements. However, we did note that management have taken a prudent approach with regard to certain provisions.

3. Loan to Northumbria Healthcare NHS Foundation Trust

The Council made a loan to Northumbria Healthcare NHS Foundation Trust during 2013/14

Nature of risk

The Council made a loan of £114.2m to Northumbria Healthcare Trust in March 2014. The Council raised the funds through PWLB borrowing and subsequently made a loan to the Trust with a fixed rate of interest of 3.98% to be paid on a reducing balance basis over a twenty five year period. The loan was approved by the Department of Health, Monitor and HM Treasury, with legal opinion supporting the legality of the loan. In order to protect the Council's position, security for the loan was provided by taking legal charges over a number of assets.

As this is a material transaction this requires appropriate disclosure in the financial statements.

The significant risk in relation to the Northumbria Healthcare loan, its impact on the financial statements and our audit challenge:

We identified a significant risk in relation to the loan provided to Northumbria Healthcare Trust. The risk is focussed on:

- Appropriate disclosure within the financial statements
- The final loan agreement being in line with the recommendations as set out in our external audit letter dated November 2013.

Audit work completed to address the significant risk:

- We reviewed the approval letters from Monitor, Department of Health and Her Majesty's Treasury. In addition to this we reviewed the advice note obtained by NCC from the QC they engaged with.
- We issued a further external audit letter in February 2014 updated to reflect that our recommendations had been incorporated within management's report on the final draft loan agreement
- We have reviewed the financial statements to ensure appropriate disclosure of the loan and have tested the year end debtors balance within the financial statements.

Deloitte View

We are satisfied with the accounting treatment of the loan and the disclosures within the financial statements.

4. Valuation of fixed assets

A significant risk was raised in relation to fixed asset valuations

The significant risk in relation to valuation of Fixed Assets, its impact on the financial statements and our audit challenge:

A significant risk was identified in relation to the valuation of Property, Plant and Equipment ("PPE") due to the changes in market conditions and the level of management judgement applied to the revaluation assumptions.

There is also a risk in relation to the valuation of buildings following decisions made to restructure certain schools as a result of Ofsted reports.

The Code provides further clarification on the frequency of valuations for PPE. Valuations should be carried out with sufficient regularity to ensure the carrying amount does not differ materially from the fair value at the end of the reporting period.

Audit work completed to address the significant risk:

We have performed the following:

- Tested the design and implementation of management's controls to ensure the methods and assumptions used by the Council's valuers are appropriate;
- Reviewed a sample of valuations performed in 2013/14 to consider the reasonableness of the methodology and assumptions applied and to test the calculations;
- Requested that management prepare a paper showing asset categories revalued in year and from this we tested a sample of categories to review the movements in year in order to consider potential valuation changes of the assets within each category which were not revalued in 2013/14; and
- We reviewed a paper prepared by management's expert which confirmed that for assets valued at 1 April 2013 the valuation did not change significantly between that date and 31 March 2014.

Deloitte View

No issues have been noted in relation to our testing of PPE. The methodology and assumptions applied to valuations appear reasonable.

We are satisfied that sufficient work has been performed by the Council regarding the frequency of valuations for PPE.

5. Calculation of provisions

We raised a significant risk in relation to three specific provisions

In our planning report we raised a significant risk in relation to the completeness and accuracy of Equal Pay provisions, the NNDR appeals provision and the Repairs & Maintenance provision.

The significant risk in relation to provisions, its impact on the financial statements and our audit challenge:

Equal Pay provision

There are a significant number of cases which have different settlement values and the calculations are highly subjective.

During our 2012/13 audit we also noted issues regarding the underlying claim schedules.

NNDR appeals provision

From 1 April 2013, 50% of business rates collected by NCC were returned to central government and at 31 March 2014, NCC were required to recognise a provision for appeals. There is a significant level of judgement in relation to the calculation of the appeals provisions.

Repairs & Maintenance provision

The provision has increased by £3.6m to £11.98m at 31 March 2014 for repairs and maintenance required to a building within the Council's portfolio.

There is a high level of judgement and sensitivity in relation to this provision.

Audit work to address the significant risk:

Equal Pay provision:

We tested the design and implementation of controls in relation to the equal pay provision to ensure accuracy and completeness.

We reviewed the calculation prepared by management for the provision of £7m as noted in the financial statements. We also reviewed the work performed by Internal Audit which included a provision calculation of £5.45m, which excluded the additional £0.3m management have also provided for legal fees. A sample of claims were reviewed for validity and accuracy. We have concluded that the provision calculated by management is overstated by £1.255m, see Appendix 2

NNDR appeals provision:

We tested the design and controls relating to the NNDR appeals provision. We obtained the calculation prepared by management and agreed the appeals data to the Valuation Office Agency (VOA) system.

We reviewed the disclosure in the accounts and conclude it is in line with the Code.

Repairs & Maintenance provision:

We reviewed the calculation for the additions to the provision during the year. We obtained the supporting documentation and have concluded that the provision appears reasonable.

5. Calculation of provisions (continued)

Management identified further provisions as part of their preparation of financial statements. These provisions related to leisure management, land restoration and estates rationalisation.

Further provisions identified:

Leisure Management

The Council are currently reviewing the leisure contracts and have provided for future costs associated with the early termination of these contracts.

Land Restoration

This provision was created to cover the potential future restoration liabilities.

Estates Rationalisation

The Council created this provision to cover the anticipated costs in relation to rationalising the Council's estate.

Deloitte View

Provisions are highly judgemental areas and management have taken a prudent approach in identification and calculation of proposed provisions. We do not consider the leisure management provision to meet the definition of a provision under the Code and IAS19. In addition, we note an overprovision in relation to the land restoration and equal pay provisions.

The total impact of the adjustments proposed to provisions is a reduction in liabilities of £4.096m and corresponding credit of £4.096m to I&E. Appendix 2 provides details of the misstatements.

Audit work completed:

Leisure Management

We have reviewed correspondence with the other party's solicitors confirming the value of the provision. However, as termination of the contract had not been communicated prior to year end, we do not consider this to meet the criteria for a provision as set out in IAS19 as there is no present obligation as a result of past events. An adjustment has therefore been proposed in respect of this for £1.781m, see Appendix 2.

Land Restoration

We reviewed management's calculation and reports from external experts and noted a difference of £1.060m due to management adopting a prudent approach to the valuation of the liability. We have proposed this difference as an audit adjustment in Appendix 2.

Estates Rationalisation

We have reviewed management's calculation and have agreed it to an analysis of expected future costs following the pre-year end decisions in relation to the estates rationalisation process.

Value for money

Value for money conclusion

Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether Northumberland County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as "the VFM conclusion".

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2014
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the Council's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Audit Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Audit Commission – of which there was none in 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

From our work to date we anticipate issuing an unmodified vfm conclusion.

Risk assessment

We carried out a risk assessment, involving consideration of common risk factors for local authorities identified by the Audit Commission, our prior year audit findings, and our understanding of corporate management arrangements in place for risk, performance and project management, and concluding on whether they represent risks for the purpose of our VFM conclusion on the Council.

We undertook this preliminary work through review of relevant documentation, including Committee papers, the Council's strategic risk register and financial and non-financial performance management information, and discussion with officers as necessary.

We have updated our detailed risk assessment from April to take account of the outturn financial and performance information for 2013/14, and through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities. No changes have been made to our VFM plan as a result of this update to our risk assessment.

Value for money conclusion (continued)

Our work focussed on the extent to which the Council has proper arrangements in place to secure value for money

1. Financial Resilience – Economy, Efficiency and Effectiveness

Following the Government's comprehensive spending review and the extent of reduction in the funding settlement, and major changes in Government policy such as Welfare reform, the Council continues to face severe financial pressures over the next few years. Savings of £130 million are required over the next 4 years.

A medium term financial plan (MTFP) is in place covering 2014-18 and efficiency plans are in place to achieve the target for 2014/15.

Work to address the risk:

We have reviewed the financial planning process, focusing on the Council's approach to developing the Medium Term Financial Plan (MTFP) and the assessment of risk in relation to the planned future level of reserves held.

We selected a sample of budget reduction measures and assessed the reasonableness of the quantification of the savings to be achieved, the risk assessments and processes for identifying and addressing any costs of implementation.

We have maintained a watching brief over the delivery of the savings plans.

Deloitte View

The approach to developing the budget for 2014/15 was consistent with prior years. Budget reduction measures were identified within the budget to cover the £32.5m required target but a number of measures were identified as at risk, exposing the Council to a potential shortfall of £5.5m. Performance reported to Quarter 1 however reflects a forecast underspend in 2014/15 of £2.4m, but within this Wellbeing & Community Health is forecasting an overspend of £2.8m. This overspend arises due to a number of pressures primarily within Childrens social care. In addition there are unallocated savings of £2.1m in 2014/15 that are expected to be met from reserves within the Group. Work is ongoing to address the shortfall.

Savings targets required over the next three years have been quantified by the Council to be £32.5m per year. Further work is required to assess the assumptions within the MTFP and profile the savings required. The Heads of Service Group has been refocused and is now playing a more central role in developing the MTFP. Work is ongoing to identify activity streams to deliver the savings but it is too early to assess the feasibility of initial proposals that are still being developed.

Usable reserves reported in the 2013/14 accounts totalling £108m, have been maintained above the expected level detailed in the MTFP (£103m).

Our review of our sample of cost savings indicates that there is some slippage within the cost savings selected, however these are being managed within the overall budgets.

Value for money – Locally Agreed Work

In addition to the work to support our vfm conclusion, we undertook a number of locally agreed areas of work. These do not form part of the vfm conclusion and are considered below.

2. Review of PSN Connectivity, Data Security in relation to the proposed ERP solution and the procurement of a new data centre and ERP system.

Ensuring Public Services Network (PSN) connectivity is maintained and robust data security measures are in operation are central to the effective functioning of a Local Authority. To ensure these goals are achieved it is key that appropriate governance arrangements and effective decision-making processes are in place and it is important that members have sufficient assurances around the effectiveness of these arrangements.

Work to address the risk:

At the request of the Leader and Deputy Leader, we carried out a review covering:

- the Council's PSN Connectivity;
- Data security and PSN issues in relation to the proposed Oracle Enterprise Resource Planning (ERP) Solution; and
- The proposed procurement of a new data centre.

Our findings were presented to the Audit Committee in March 2014.

Deloitte View

We identified a number of recommendations as a result of our work. Management accepted these recommendations and have agreed to implement them going forward.

Value for money – Locally Agreed Work (continued)

3. Planning Process and Appeals

Following discussions with Council officers and the Audit Committee, concerns have been expressed over the number and cost of appeals which raises questions over a number of factors within the planning process.

Work to address the risk:

In our audit plan we set out proposals to perform a review of the planning processes including :

- a review of the number and costs of appeals, including why appeals are lodged, the decision making process and outcomes of appeals;
- the effectiveness of advice from officers in Planning and Legal; and
- the completeness of declarations of potential conflicts of interest.

Subsequent to the audit plan, we identified that separate reviews were being undertaken by Planning Officers Society Enterprises. The timing of our work has therefore been amended in order to ensure this work was taken into account in scoping our approach and to avoid duplication.

Deloitte View

Our work in this area is ongoing and will be reported to the Audit Committee in a separate report later in 2014. We are satisfied that this area of work will not impact our overall value for money conclusion.

Value for money – Locally Agreed Work (continued)

4. Follow up of prior year findings

We have carried out follow up work in two areas considered during our 2012/13 audit:

- Section 106 agreements – in 2012/13 we reviewed arrangements to recover income under Section 106 agreements in response to a complaint received from a member of the public. Further complaints were received from another member of the public during 2013/14 in relation to similar issues;
- Estate rationalisation – in 2012/13 we reported that progress had been slow in progressing estate rationalisation since Local Government Re-organisation in 2009.

Work to address the risk:

Section 106 agreements – we have:

- reviewed progress in implementing recommendations identified in the prior year, placing reliance on the work of Internal Audit; and
- considered the issues raised by, and responded to the complainant. Concerns raised related to the extent of progress in implementing the recommendations referred to above and to potential non-compliance with two specific agreements in that the complainant believed monies had not been spent in accordance with the terms of the agreements. Both agreements related to prior years for which the accounts have been closed. Concerns were also raised in relation to the provision of information to the public but this falls outside the scope of external audit. We have discussed these issues with management.

Estates rationalisation – we have:

- discussed progress with key members of the management team; and
- reviewed supporting documentation such as minutes of meetings of the Accommodation Group and example control documents to corroborate the updates provided by management.

Deloitte View

Progress has been achieved in implementing recommendations to improve controls going forwards over the recovery of income under Section 106 agreements. Internal Audit have scheduled further follow up of the action plan so we have not undertaken detailed testing in this area.

Progress has been made in relation to strengthening arrangements for the rationalisation of the estate. Plans and priorities are now being firmed up and some initial progress in transferring staff between locations has been made. Significant work still needs to be done, and there continues to be a need to ensure that the wider strategic plans of the Council direct key decisions over rationalisation of the estate.

Annual Governance Statement

Annual Governance Statement

In respect of the Annual Governance Statement, we are required to review the statement for compliance with the prescribed format and content and to report where the Statement is inconsistent with our understanding of the Council.

Area of Focus

The AGS covers all significant corporate systems, processes and controls, spanning the whole range of a Council's activities, including in particular those designed to ensure that:

- the Council's policies are implemented in practice;
- high quality services are delivered efficiently and effectively;
- the Council's values and ethical standards are met;
- laws and regulations are complied with;
- Required processes are adhered to;
- Financial statements and other published performance information are accurate and reliable; and
- Human, financial, environmental and other resources are managed efficient and effectively.

Our review is directed at:

- Considering the completeness of the disclosures in the governance statement and whether it complies with proper practice as specified by CIPFA; and,
- Identifying any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work relating to the Code of Audit Practice.

Audit work completed

We have performed the following work in relation to the Annual Governance Statement:

- Ensuring that it complies with the requirements as set out in the Code of Practice on Local Council Accounting in the United Kingdom 2013/14; and

- Reviewed the Governance Statement to confirm that it is consistent with internal audit reports, Board minutes, the Internal Audit Annual Report and Opinion and our work on the financial statements.

Deloitte View

We are satisfied that the Annual Governance statement is consistent with the prescribed format and our understanding of the Council.

Responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our report has been prepared on the basis of, and our audit work carried out in accordance with the Code and the Statement of Responsibilities, copies of which have been provided to the Authority by the Audit Commission.

What we report

- Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:
- Results of our work on key audit judgements and our observations on the quality of your Explanatory foreword;
- Other insights we have identified from our audit; and
- Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors' report.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- While our reports may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Authority's system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice
- Finally, our views on internal controls and risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our Audit Quality Promise.

Purpose of our report and responsibility statement (continued)

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary “Briefing on audit matters” which was circulated as an appendix to the Audit Plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Chartered Accountants

Newcastle upon Tyne

30 September 2014

We view this report as part of our service to you for use as Members of Northumberland County Council or for Corporate Governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent

If you intend to publish or distribute financial information electronically, or in other documents, you are responsible for ensuring that any such publication properly presents the financial information and any report by us thereon and for controls over, and security of the website. You are also responsible for establishing and controlling the process for electronic distributing accounts and other information.

Appendices

Appendix 1: Independence and fees

We confirm we are independent of Northumberland County Council

As part of our obligations under International Standards on Auditing (UK & Ireland) we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
Fees	Our audit fees are set by the Audit Commission in line with national scale fees. Details of the non-audit services fees proposed for the period have been presented separately on the following page.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Appendix 1: Independence and fees (continued)

We have set out below our audit fees for 2013/14

The table below details our proposed audit fees and non-audit fees for the year ending 31 March 2014 for those services for which we have been engaged or proposed for as at the date of this report.

	Current year £'000	Prior year £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of Northumberland County Council's annual accounts, assurance report on the Whole of Government accounts and the value of money conclusion	253	253
Fees payable for the certification of grant claims	15	22
Fees payable for the audit of the Northumberland County Council's pension scheme annual report	23	23
Total fees payable in respect of our role as Appointed Auditor	**291**	**298**
Non audit fees (Note 1)	12	9

Note 1:

Non audit fees during 2012/13 related to work performed by Deloitte Tax for services provided to the Council which include Real Time Information (RTI) and auto enrolment workshop, and a PAYE review during the year to 31 March 2013.

Non audit fees during 2013/14 were in relation to the audit of an ERDF grant.

2013/14 Non Audit Services

The non audit services for 2013/14 relate to the audit of an ERDF grant. We do not note any independence issues in relation to this work as the audit was performed by a separate team.

2012/13 Non Audit Services

The provision of non audit services in relation to Real Time information and Auto Enrolment and a PAYE review carried out by the Deloitte tax department generated fees in 2012/13 of £9k. The key potential threat was self-review arising during the payroll testing.

We managed this risk by undertaking work on the information provided by management and ensuring that management took responsibility for all management decisions.

Further we do not regard there to be a significant self review threat due to the type of work being undertaken and the team undertaking this piece of work were separate from the audit team.

Appendix 2: Uncorrected Misstatements

We set out below a schedule of uncorrected misstatements identified

Uncorrected misstatements
The following uncorrected misstatements (above reportable threshold of £701k) were identified during the course of our audit. We will obtain written representations from the Audit Committee confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments are required.

Main statements	(Credit)/charge to deficit on provision of services £'000	(Credit)/charge to other comprehensive income £'000	Increase/ (decrease) in Assets £'000	(Increase)/ decrease in liabilities £'000
Factual misstatements				
Pension Assets [1]		-1,958		1,958
Judgemental misstatements				
Equal Pay Provision [2]	-1,255			1,255
Leisure Management Provision [3]	-1,781			1,781
Land Restoration Provision [4]	-1,060			1,060
Total	**-4,096**	**-1,958**		**6,054**

In addition to the above there was one adjustment to the Northumberland County Council group accounts due to incorrect elimination of intragroup trading within the Arch Group which overstated income and expenditure by £981k.

[1] The adjustment of £1,958k relates to the year end pension asset values which were understated.

[2] The equal pay provision is overstated by £1,255k. From our review of the work completed by Internal Audit, we noted that the provision included within the financial statements is £1,255k greater than the provision calculated by Internal Audit.

[3] An adjustment of £1,781k has been raised in relation to the leisure management provision as this does not meet the criteria for provisions as set out in IAS19.

[4] An adjustment of £1,060k is proposed in relation to the land restoration provision as supporting documentation can only be provided for £7,940k of the provision.

Appendix 2: audit adjustments

We set out below a schedule of uncorrected and corrected disclosure misstatements identified

Corrected disclosure misstatements
A small number of disclosure deficiencies were identified as part of our audit, these have been discussed with management and corrected in the financial statements.

Appendix 3: Insight

We identified a number of insights following our work on Fixed Assets

Insight Identified

During our testing of PPE valuations, we identified that the land and building elements of council dwellings are combined for revaluation purposes. The Council engaged DTZ to complete revaluations for the year ended 31 March 2014 and have not requested that the land and buildings elements be separated when revaluing.

Further to this, Deloitte Real Estate identified recommendations regarding the content of the valuations reports and the use of a special assumption that certain assets should be valued on the basis that planning permission had been received.

Impact to the Council

If the council dwellings are not revalued each year, there is potential for the depreciation to be overstated as it would include an element in relation to land.

Improved content would enhance the efficiency and reduce the time taken to review the experts work. Regarding the use of special assumptions, there is a risk that valuations may be overstated.

Deloitte Recommendation

We recommend that when future valuations are undertaken, the Council considers the land and building elements separately.

We recommend that the use of special assumptions is avoided where possible and if necessary, the valuations are appraised including an allowance for the perceived risk of the special assumptions not being correct.

Appendix 4: Fraud: responsibilities and representations

Required representations	We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.
Concerns	No concerns have been noted throughout our audit as to the Council's arrangements to identify and respond to fraud.
Audit work performed	In our planning we identified the risk of fraud in revenue recognition and management override of controls as key audit risks for your organisation. During the course of our audit, we have held discussions with internal audit, management and those charged with governance. In addition, we have reviewed management's own documented procedures regarding identifying fraud and error in the financial statements. We have reviewed the paper prepared by management for the audit committee concerning the Annual Governance Statement and have completed our audit work as planned. We have no further issues to raise with you at this time.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.