

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBERLAND COUNTY COUNCIL

Opinion

We have audited the financial statements and the firefighters' pension fund financial statements of Northumberland County Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Related notes to the financial statements 1 to 46,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 10,
- Collection Fund and the related notes 1 to 2,
- and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 4.

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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Northumberland County Council and Group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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 for the audit of the financial statements section of our report below. We are independent of the group 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 the Comptroller and Auditor General's (C&AG) AGN01, 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.

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 Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority'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 other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Section 151 Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis of Adverse Conclusion

- Experience of the executive team

Since May 2017, the Council has had three Section 151 Officers in post and is currently recruiting for a permanent appointment. The high level of turnover in the post makes it difficult for the Council to demonstrate how they are able to secure appropriate administration over their financial affairs as there is a loss of corporate knowledge and senior local government experience, when it comes to developing and approving budgets set.

- Maintenance of a sound system of internal control

We identified potential threats to the independence of the Council's internal audit function including the Chief Internal Auditor taking on roles which could be perceived to be management functions and the employment of a close relative of a senior manager by the shared Internal Audit Service who worked on Council audits. The

safeguards in the Public Sector Internal Audit Standards to prevent conflicts of interest in these areas had not been applied. We also observed that management did not recognise these threats to the perception of the independence and believed that, as the Chief Internal Auditor is employed by another body, independence was inbuilt into the arrangements.

We have observed that there have been instances where the name of the Section 151 Officer has been added to public reports without their specific sign-off. This is a weakness in the report approval process and it could be misleading to the users of the report and other stakeholders and creates a risk that decisions are made on incomplete or inaccurate financial information.

- Management and cultural challenges

The Council operates within a highly politically charged environment and we have observed a growing tension between the main political parties over the last few years. Management has commented that the politics of the Council can make it difficult to carry out their 'day job' and it is clear that the historical issues are still at the forefront of management's mind. The above factors create the potential to seriously impact on the Council's governance arrangements and there is a risk that improvements to management culture and governance are not being progressed as quickly as required.

- Management of wholly owned subsidiary companies

Management commissioned a review of the wholly owned group of subsidiary companies in June 2017 in response to allegations of impropriety concerning transactions entered into during the financial year 2016/17. The review identified that there were some significant weaknesses in proper arrangements for acting in the public interest and that there was evidence that the principles and values of sound governance were not appropriately applied for decisions taken.

During 2017/18 and 2018/19 work has been undertaken by management to strengthen the governance arrangements in relation to the oversight of the subsidiary companies; however the new arrangements were not fully embedded for the whole year

Our opinion was also qualified in this respect of this matter for the years ended 31 March 2017 and 31 March 2018.

The above matters are evidence of weaknesses in proper arrangements for taking informed decisions and the Council is not demonstrating and applying the principles and values of sound governance.

Adverse conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are not satisfied that, in all significant respects, Northumberland

County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We 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 written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

In respect of the following we have matters to report by exception:

- the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council

We report to you if, in our opinion, the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council. We identified that the annual governance statement does not fairly reflect the findings from our additional procedures undertaken in respect of allegations received and considered by EY as 'protected disclosures' and the resulting impact of our findings on our value for money conclusion.

Responsibility of the Section 151 Officer

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 25, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority 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.

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 Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Northumberland 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 under the Code of Audit Practice in satisfying ourselves whether the Northumberland County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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, Northumberland County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Northumberland County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our 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 for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Northumberland County Council and Northumberland County Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Newcastle upon Tyne
29 November 2019

The maintenance and integrity of the Northumberland County Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.