

Northumberland County Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

16 September 2016

Ernst & Young LLP



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working world

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2016 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions of the other significant areas of the audit process.

Status of the audit

We have substantially completed our audit of the financial statements of Northumberland County Council (the Council) for the year ended 31 March 2016. Subject to satisfactory completion of the outstanding items included in Appendix A we expect to issue an audit opinion in the form which appears in Appendix F.

We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.

We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

We have yet to perform the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We will update the Audit Committee with progress at the meeting on 28 September 2016.

Audit differences

We have identified one unadjusted judgemental difference of £0.9 million in respect of updated information on the carrying value of investment assets in the pension scheme. In addition, the value of one car park (£2.1 million) was excluded from the 2014/15 financial statements and has been included in the 2015/16. Therefore, there is a difference arising in terms of timing of recognition between the 2014/15 and 2015/16 financial statements.

Management has chosen not to adjust. We ask the Audit Committee to consider approving management's rationale as to why the corrections have not been made and, if approved, include this in the Letter of Representation. Appendix G to this report sets out the uncorrected misstatement. We do not consider this to be material to our audit opinion.

Our audit identified two further reclassification differences which our team has highlighted to management for amendment. These have been corrected during the course of our work. These adjustments has not had an impact on useable reserves.

Scope and materiality

In our Audit Plan presented to the March 2016 Audit Committee, we communicated that our Group audit procedures would be performed using a materiality of £16,522,000. We have reassessed this based on the actual results for the financial year and have increased this amount to £17,291,000.

The threshold for reporting audit differences which impact the financial statements has not been changed from £413,000. The basis of our assessment is 2% of gross operating expenditure.

We carried out our work in accordance with our Audit Plan.

Significant audit risks

We identified the following significant audit risks during the planning phase of our audit, and reported these to you in our Audit Plan:

- ∅ Risk of fraud in revenue recognition;
- ∅ Risk of fraud in expenditure recognition;
- ∅ Valuation of land and buildings; and
- ∅ Risk of management override

In addition to the significant risks areas highlighted above, in our Audit Plan we also highlighted the following areas of audit emphasis which, although not likely to result in a material misstatement to the financial statements, required audit attention:

- ∅ Group financial statements;
- ∅ Opening balances;
- ∅ Pension obligations;
- ∅ Related party transactions;
- ∅ Provisions; and
- ∅ Better Care fund

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues and others identified during the audit.

Other reporting issues

We have no other matters we wish to report.

Control observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls. We have not identified any control observations on internal control to report to the Audit committee.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.



Stephen Reid
Partner
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- ∅ Express an opinion on the 2016 financial statements and the consistency of other information published with them;
- ∅ Report on an exception basis on the Annual Governance Statement;
- ∅ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- ∅ Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of significant audit risk and audit emphasis, together with our views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We</p> <ul style="list-style-type: none"> ∅ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ∅ Reviewed accounting estimates for evidence of management bias; ∅ Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised; and ∅ Evaluated the business rationale for any significant unusual transactions. 	<p>We have no matters to report arising from our routine work in this area.</p>
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>We</p> <ul style="list-style-type: none"> ∅ Reviewed and tested revenue and expenditure recognition policies; ∅ Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias; ∅ Developed a testing strategy to test material revenue and expenditure streams; and ∅ Reviewed and tested revenue cut-off at the period end date. 	<p>We have completed our testing of revenue and expenditure streams and have no matters to report arising from our work.</p>
<p>Valuation of land and buildings</p> <p>As at 31 March 2016, the total value of land and buildings was £726 million which represents 42% of the Council's total assets.</p> <p>Land and buildings are initially measured at cost and then revalued to fair value.</p> <p>Revaluations are performed with sufficient regularity to</p>	<p>We</p> <ul style="list-style-type: none"> ∅ Reviewed the output of the Council's valuer; ∅ Tested the assumptions used by the Council's valuer by reference to external evidence, the CIPFA code of practice on local authority accounting and our EY valuation specialists; and ∅ Tested the journals for the valuation adjustments to 	<p>We concurred with the methodology and basis of the valuation adopted.</p> <p>During our testing we identified that Stanley Terrace car park (£2.1 million at 31 March 2016) had been omitted from the valuation process in the prior year and therefore not included in the</p>

<p>ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period.</p> <p>The valuations are based on a number of complex assumptions. Given the high value of these assets, a small change in these assumptions can lead to a material change in value and have a material impact on the financial statements.</p>	<p>confirm that they have been accurately processed in the financial statements.</p>	<p>2014/15 financial statements. The Council has rectified this by including the £2.1 million as a valuation uplift in 2015/16.</p> <p>We are satisfied that the amount of £2.1m is not material and therefore does not require the 2014/15 balance sheet to be restated. We have recorded the impact of this on our difference schedule in Appendix B.</p> <p>We have no further matters to report arising from our work.</p>
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In addition to the significant risks areas highlighted above, we also highlighted in our Audit Plan the following risks which, although not likely to result in a material misstatement to the financial statements, required audit attention. Here, we set out how we have gained audit assurance over those matters.

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>Opening balances</p> <p>2015/16 was the first year of our audit of the Council's financial statements, and as such the requirements of ISA (UK & Ireland 510) apply.</p> <p>The basic objectives of an initial audit are similar to those of any audit engagement. However, when performing an initial audit, we report on the current period's assets, liabilities, and reserves, which are dependent upon the appropriateness of the opening balances.</p> <p>Therefore, we were required to perform additional procedures in order to gain assurance that the opening balances are free from material misstatement.</p>	<p>We</p> <ul style="list-style-type: none"> ∅ Reviewed the work of the predecessor auditor, to identify any issues identified that may impact upon the opening balances; ∅ Reviewed the work of the predecessor auditor to ensure the audit has been completed to an appropriate standard to allow us to place reliance on their audit opinion; ∅ Substantively tested all opening balances to ensure that they agree both to the prior year audited financial statements and closing trial balance; and ∅ Reviewed key judgement areas and PFI models to ensure that prior year disclosures in relation to PFI assets and liabilities were materially correct. 	<p>We have no matters to report arising from our work.</p>
<p>Pension obligations</p> <p>Funding of the Council's participation in the local government pension scheme will continue to have an impact on both Council cash flows and balance sheet liabilities.</p> <p>The Council balance sheet includes the IAS19 deficit relating to the Northumberland Pension Fund totalling £422.2 million. This comprises the Council's share of the fair value of scheme assets of £880.8 million and the present value of the defined benefit obligation of £1,303.0 million.</p>	<p>We</p> <ul style="list-style-type: none"> ∅ Reviewed the output of the report from the Council's actuary; ∅ Reviewed the assumptions used by the actuary to determine whether they were within our expected range; ∅ Tested the journal entries for the pension transactions to ensure that they have been accurately processed in the financial statements; and ∅ Utilised EY pension specialists to challenge the appropriateness of the assumptions used in deriving the liabilities at 31 March 2016. 	<p>Our audit of the Northumberland Pension Fund is reaching completion. Our testing of the scheme assets indicated that the total carrying value was understated by £1.1m. The Council's share of assets is approximately 82.5% of the total and therefore we have noted an audit difference of £0.91 million in Appendix B.</p> <p>We have no other matters to report arising from our work.</p>

<p>Group financial statements</p>	<p>We</p>	<p>Council management</p>
<p>The Council already produces group financial statements; however there were a number of changes this year that impact on the subsidiary companies and consequently the group financial statements. In particular:</p>	<p>∅ Reviewed the Council's group boundary assessment to ensure that it was complete and all group entities have been identified;</p>	<p>concluded that AN did not meet the criteria for consolidation. In particular the AN Board membership changed, such that there are five members of the Board, one member representing the Council. Our testing supported the conclusion of management not to consolidate AN.</p>
<p>∅ Additional culture and leisure services have been transferred to Active Northumberland ("AN") which may make the activity of AN material to the group financial statements. Also, a number of the business support functions have been brought back into the Council and a secondee from the Council is currently the Chief Executive. There is a risk that, with these changes, the Council is able to exert control or significant influence over AN, which may mean that consolidation into the Council financial statements is required.</p>	<p>∅ Reviewed the Council's assessment of the ability to exert control or significant influence to determine whether consolidation of additional group entities was required in the Council's financial statements;</p>	<p>Our testing of HfN and Arch Group did not identify any material issues or differences above reporting threshold for the consolidated financial statements.</p>
<p>∅ Homes for Northumberland ("HfN") is the arm's length management organisation that managed Council housing stock and has been consolidated into the group financial statements for a number of years. In September 2015 the Council brought the management of housing stock back in-house and there are some residual accounting matters which have yet to be resolved, including the transfer of investment properties from HfN to the Council.</p>	<p>∅ Substantively tested the transfer of the assets and liabilities of HfN to the Council to ensure they are reflected accurately in the group financial statements;</p>	<p>We have no other matters to report arising from our work.</p>
<p>∅ The Arch Group is already consolidated into the Council's financial</p>	<p>∅ Substantively tested the consolidation adjustments proposed by management in relation to the Arch Group; and</p>	
	<p>∅ Considered the completeness of consolidation adjustments made in relation to the Arch Group using our knowledge of FRS102.</p>	

<p>statements; however 2015/16 is the first year that they required to report under FRS 102 rather than UK GAAP. There is therefore an increased risk of error in consolidation adjustments made in this first year of new financial reporting requirements.</p>		
<p>Related party transactions</p> <p>In forming an opinion on the financial statements we are required to evaluate whether related party relationships and transactions have been appropriately accounted for and disclosed. We are also required to assess whether the effects of the related party relationships and transactions cause the financial statements to be misleading to the reader.</p>	<p>We</p> <ul style="list-style-type: none"> ∅ Reviewed management's process for identifying related parties and transactions; ∅ Compared members interest forms to Companies House records and wider internet searches to provide assurance over the completeness of the disclosures made; and ∅ Substantively tested the transactions disclosed in the related party transactions note to ensure they are accurate. 	<p>We have no matters to report arising from our work.</p>
<p>Provisions</p> <p>Provisions are typically estimated based on a number of assumptions leading to a range of potential outcomes. Selecting assumptions and measuring the impact of identified exposures requires management to apply judgement.</p> <p>Our review of the Council's provisions identified the repairs and maintenance provision of £6.2 million (2015: £12.3 million) as the provision requiring most audit focus. £5.4m of the opening provision was released in the year, following receipt of the independent assessment by the Council's advisers.</p>	<p>We</p> <ul style="list-style-type: none"> ∅ Challenged the reasonableness of the assumptions made by management when calculating provision values; ∅ Substantively tested the calculations and the data used, challenging management to provide appropriate supporting documentation for all values used in the calculations; ∅ Reviewed prior year estimates against current year performance and requested explanations for variances. 	<p>The repairs and maintenance provision recorded at 31 March 2016 has been based on an independent assessment by the Council's advisers. The lease on this property expires in September, however negotiations will continue past that date before any settlement is made. Management believe that the best estimate of ultimate settlement is in line with the independent assessment. Based on the available evidence, we concur with this approach.</p> <p>In respect of other provisions, we noted that £2.2 million of redundancy provision (2015: £2.9 million),</p>

		<p>£1.2 million of unequal pay provision (2015: £2.5 million) and £3.5 million (2015: £3.5 million) of land restoration provision were all released unutilised during the year. The closing provisions for each of these items reflects the best estimate of the liabilities at 31 March 2016, and we concur that it was therefore appropriate that the above amounts should be released from provisions during the year.</p> <p>We have no other matters to report arising from our work on provisions.</p>
<p>Better Care Fund</p> <p>The establishment of Better Care Funds during 2015/16 has resulted in the creation of pooled budget arrangements between local authorities and clinical commissioning groups (CCG).</p> <p>The Department of Health has issued guidance on accounting for the Better Care Fund; however as this is a newly established arrangement we gave this area specific consideration during our audit, with a particular focus on whether transactions should be accounted for on a gross or net basis.</p>	<p>We</p> <ul style="list-style-type: none"> ∅ Completed a detailed review of the Better Care Fund agreements in place between the Council and NHS Northumberland CCG; ∅ Reviewed the accounting treatment of the Better Care Fund in order to ensure it is compliant with the guidance received from the Department of Health; ∅ Tested a sample of better care fund transactions during 2015/16. 	<p>We have no matters to report arising from our work.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process, including the following:

- ∅ Qualitative aspects of your accounting practices; estimates and disclosures;

- Ø Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Ø Any significant difficulties encountered during the audit; and
- Ø Other audit matters of governance interest.

We have no matters we wish to report.

Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have adopted a fully substantive approach and have therefore not tested the operation of controls. We have not identified any control observations on internal control to report to the Audit committee.

We have reviewed the Annual Governance Statement and can confirm that, while it is extensive, it is not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

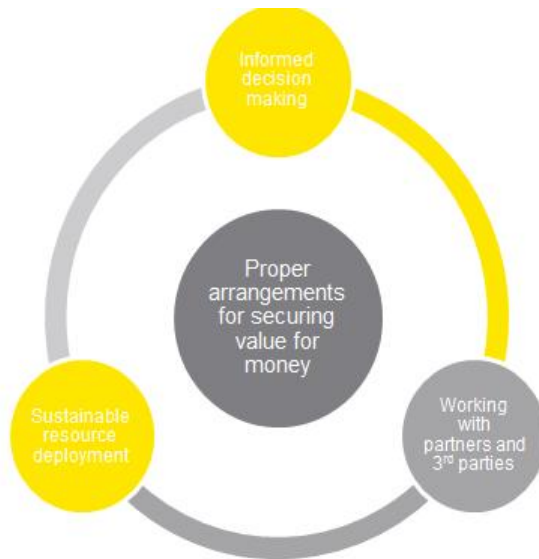
We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix G.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

4. Value for money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ∅ Take informed decisions;
- ∅ Deploy resources in a sustainable manner; and
- ∅ Work with partners and other third parties.

Overall conclusion

In our Audit Plan presented at the March 2016 Audit Committee meeting, we identified one significant risk in relation to these arrangements, as set out in our Audit Plan. This was in respect of:

- ∅ Relocation of Council headquarters

Our procedures performed and our findings were discussed with the Audit Committee on 23 March 2016. Following completion of our procedures we concluded that we were satisfied that there was no implication on our value for money opinion in respect of this matter.

As part of our work on the value for money opinion we also considered the financial position and medium-term financial plan of the Council and noted that:

- ∅ The surplus on provision of services for 2015/16 was £26.4 million and there was an overall contribution to useable reserves of £23 million in year.
- ∅ The medium-term financial plan forecasts a balanced budget for the next three years assuming cost savings of £11.9 million in 2016/17, £6 million in 2017/18 and £20 million in 2018/19. Included within the medium-term financial plan assumptions are the use of reserves in the region of £10 million in 2017/18 and £5 million in 2018/19.

We have performed a sensitivity analysis on the financial plans of the Council and note that, as current levels of reserves are strong, there is no impact on our value for money opinion; however as savings requirements and use of reserves increase in future years we will be required to perform more detailed work on the financial standing of the Council.

In respect of the wider procedures on value for money, we have performed the procedures outlined in our Audit Plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Appendix A – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report.

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed letter of representation	Management and Audit Committee
Financial statements	Incorporation of EY review comments on disclosure notes Approval of financial statements by Audit Committee	EY, management and Audit Committee
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management
Other outstanding work, including: <ul style="list-style-type: none"> ∅ Review of the financial statements; ∅ Audit of the consolidation of the Group financial statements; ∅ Whole of Government accounts; and ∅ Clearing of outstanding review points on the audit file. 	Management and EY to work together to complete any outstanding work	EY and management

Appendix B – Uncorrected audit differences

The following differences, which are greater than £413,000, have been identified during the course of our audit and have not been considered material by management or by us for adjustments. We are bringing them to the Committee's attention to enable you to form your own view on these items.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £	Comprehensive income and expenditure statement (Decrease) / Increase £
Pension deficit	907,500	
Re-measurement of the net defined benefit liability		907,500
Being the valuation difference on pension scheme assets		
Cumulative effect of unadjusted differences before impact of prior year differences	907,500	907,500
Valuation gain relating to Stanley Terrance car park recognised in current year relating to prior years		(2,108,845)
Cumulative effect of unadjusted differences after impact of prior year differences	907,500	(1,201,345)

Appendix C – Corrected audit differences

The following corrected differences, which is greater than £413,000, have been identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £	Comprehensive income and expenditure statement (Decrease) / Increase £
Long term debtors	(935,269)	
Short term debtors	935,269	
Being reclassification of mortgage guarantee debtor with Lloyds due for repayment during 2016/17		
Provisions	(4,385,214)	
Accruals	4,385,214	
Being reclassification of holiday pay liability		
Cumulative effect of corrected differences	-	-

Appendix D – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 12 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 28 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 12 March 2016.

Appendix E – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	TBC	190,596	See notes below
Certification of claims and returns	9,341	9,341	See notes below
Non-audit work	36,296	N/A	See notes below

Our actual audit fee is expected to be higher than the original scale fee set by the PSAA, as a result of the additional scope of work performed on the relocation of Council headquarters. The related fee estimate of £3,000 has been discussed with management and the PSAA and we are awaiting PSAA approval.

In addition we are also the appointed external auditors for the Arch Group and the audit fee totals £34,000 for 2015/16.

Non-audit work relates to VAT advice.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix F – Draft audit report

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

Opinion on the Authority's financial statements

We have audited the financial statements of Northumberland County Council for the year ended 31 March 2016 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,
- ∅ the related notes 1 to 54 of the council financial statements and the group accounting policies and notes 1 to 24 of the consolidated financial statements,
- ∅ Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 14,
- ∅ Collection Fund and related notes 1 to 4,
- ∅ and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 3.

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 2015/16.

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 the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of the Chief Executive Responsibilities set out on page 237, the Chief Executive 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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority, the Group's and the firefighters pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Executive; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify

Independent auditor’s report to the members of Northumberland County Council (continued)

material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- ∅ give a true and fair view of the financial position of Northumberland County Council and the Group as at 31 March 2016 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 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

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 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.

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

Authority’s responsibilities

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

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,

Independent auditor’s report to the members of Northumberland County Council (continued)

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.

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 2015, as to whether the Northumberland County 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 2016.

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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are 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 2016.

Appendix G – Management representation letter

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Northumberland County Council (“the Group and Council”) for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2016 and the income and expenditure and cash flows of the Group and the Council for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the consolidated and council financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the consolidated and council financial statements are appropriately described in the consolidated and council financial statements.
4. As members of management of the Group and the Council, we believe that the Group and the Council have a system of internal controls adequate to enable the preparation of accurate consolidated and council financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the consolidated and council financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Group or the Council

(regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the consolidated and council financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the consolidated and council financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and council financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the consolidated and council financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees held through the year to the most recent meeting.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and the Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in notes to the consolidated and council financial statements all guarantees that we have given to third parties.
4. No claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. There have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

G. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

H. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and council financial statements).

I. Estimates including property valuations

1. We believe that the measurement processes relating to estimates including property valuations, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
3. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events.

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

K. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst the Council and subsidiary undertakings.

Appendix H – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Planning Report
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ∅ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ∅ Significant difficulties, if any, encountered during the audit ∅ Significant matters, if any, arising from the audit that were discussed with management ∅ Written representations that we are seeking ∅ Expected modifications to the audit report ∅ Other matters if any, significant to the oversight of the financial reporting process ∅ Findings and issues regarding the opening balance on initial audits 	Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ∅ Whether the events or conditions constitute a material uncertainty ∅ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ∅ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about the Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ∅ Uncorrected misstatements and their effect on our audit opinion ∅ The effect of uncorrected misstatements related to prior periods ∅ A request that any uncorrected misstatement be corrected ∅ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ∅ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ∅ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ∅ A discussion of any other matters related to fraud 	Audit Results Report
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ∅ Non-disclosure by management ∅ Inappropriate authorisation and approval of transactions ∅ Disagreement over disclosures ∅ Non-compliance with laws and regulations 	We have no matters we wish to report.

Required communication	Reference
<ul style="list-style-type: none"> ∅ Difficulty in identifying the party that ultimately controls the entity 	
<p>External confirmations</p> <ul style="list-style-type: none"> ∅ Management’s refusal for us to request confirmations ∅ Inability to obtain relevant and reliable audit evidence from other procedures 	Where we have not received all requested confirmations, we have performed alternative procedures.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ∅ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ∅ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ∅ The principal threats ∅ Safeguards adopted and their effectiveness ∅ An overall assessment of threats and safeguards ∅ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planing Report and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ∅ Breakdown of fee information at the agreement of the initial audit plan ∅ Breakdown of fee information at the completion of the audit 	<p>Audit Planing Report</p> <p>Audit Results Report</p>
<p>Certification work</p> <ul style="list-style-type: none"> ∅ Summary of certification work undertaken 	Certification Report

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