



Auditor's Annual Report

Northumberland County Council – years ended 31 March 2021 to 31 March 2023

September 2024

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Introduction

Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Northumberland County Council ('the Council') for the years ended 31 March 2021, 31 March 2022 and 31 March 2023. In accordance with Section A of the National Audit Office's Supplementary Guidance Note 02, we are issuing a combined report covering the years ended 31 March 2021 to 31 March 2023. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit reports (audit opinions) on 29 August 2024 for both 2020/21 and 2021/22 and on 27 September 2024 for 2022/23. We included an 'emphasis of matter' paragraph in our audit report for 2020/21 to draw attention to the Council's own disclosure of the material uncertainty relating to valuations of property, plant and equipment. We issued our certificates, closing the audits for 2020/21 to 2021/22 on 24 September 2024.



Wider reporting responsibilities

As the wider 'Whole of Government Accounts' (WGA) audits by the National Audit Office have now been completed for 2020/21 and 2021/22, we have not been required to submit a return in respect of the Council for these years. We submitted our Assurance Statement for 2022/23 on 27 September 2024.

We have not exercised any of our wider powers.



Value for money arrangements

In our Audit Completion Reports for 2020/21 and 2021/22, we explained that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. We then reported our VFM findings to the Audit Committee on 28 August 2024, setting out the significant weakness in arrangements we identified along with the associated recommendation.

In our Audit Completion Report for 2022/23, we explained we had identified significant weaknesses in arrangements and had made an associated recommendation.

Section 3 confirms that we have now completed the work in respect of 2021/22 and 2022/23 and provides our commentary on the Council's arrangements for 2020/21 to 2022/23, along with the resulting significant recommendation in respect of the Council's governance and arrangements for delivering economy, efficiency and effectiveness in its use of resources.

Audit of the financial statements

Audit of the financial statements

The scope of our audits and the results of our opinions

Our audits were conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audits is to provide reasonable assurance to users that the financial statements are free from material error.

We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021, 31 March 2022 and 31 March 2023 and of its financial performance for the years then ended.

Our audit reports, issued on 29 August 2024, 29 August 2024 and 27 September 2024 gave an unqualified opinion on the financial statements for the years ended 31 March 2021, 31 March 2022 and 31 March 2023 respectively. Our audit report for the year ended 31 March 2021 included an emphasis of matter paragraph in respect of valuations of property, plant and equipment, due to market valuation uncertainties which existed at that time.

A summary of the significant risks we identified when undertaking our audits of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and internal control recommendations we made.

Qualitative aspects of accounting practices

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

The deadlines for production of the draft financial statements were extended for 2020/21 and 2021/22. The deadline then reverted back to 31 May and the Council achieved this for the 2022/23 financial year.

Significant difficulties during the audit

We note and acknowledge the elapsed time in completion of the audits for 2020/21 to 2022/23.

Our opinion on the financial statements for 2019/20 was issued in August 2021; at that point we highlighted that we could not complete our VFM conclusion work due to on-going issues. Since that point, various reports have been issued highlighting significant weaknesses in the Council's arrangements, including:

- section 114 notices issued by the Section 151 officer in May 2022 in respect of the legality of the Council's international consultancy activities and the international allowance paid to the Chief Executive;
- the independent governance review of the Council undertaken by SOLACE, which was considered by full Council in June 2022;
- several reports summarising the findings from follow-up investigations into international consultancy activities and exit packages; and
- the section 5 notice issued by the Monitoring Officer in March 2024, in respect of historical flaws in pay policies and exit packages.

We recognise that the Council has taken significant steps since 2022 to implement the action plans it put in place following these reviews and reports, including the peer review undertaken in 2024. We comment further on this in section 3 of this report.

Other reporting responsibilities

Reporting responsibility	Outcome
Other information	We did not identify any significant inconsistencies between the content of the 'other information' and our knowledge of the Council.
Annual Governance Statement	<p>We did not identify matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.</p> <p>The Council has updated the Annual Governance Statements for each year to include significant governance issues and developments.</p>

Our work on value for money
arrangements

VFM arrangements


Overall summary





VFM arrangements – overall summary

Our approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

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Financial sustainability - how the Council plans and manages its resources to ensure it can continue to deliver its services.
- 

Governance - how the Council ensures that it makes informed decisions and properly manages its risks.
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Improving economy, efficiency and effectiveness - how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work, we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- National Audit Office (NAO) guidance and supporting information;
- information from internal and external sources including regulators;
- knowledge from previous audits and other audit work undertaken in the year; and
- interviews and discussions.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risk that we have identified and the work we have done to address the risk overleaf.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements which we set out for each criteria later in this section.




We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **recommendations arising from significant weaknesses in arrangements** - we make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **other recommendations** - we make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant, but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

VFM arrangements – overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weakness identified?	Other recommendations made?
 Financial sustainability	17	No	No	No
 Governance	20	Yes – see page 12	Yes – see page 14	No
 Improving economy, efficiency and effectiveness	27	Yes – see page 12	Yes – see page 14	No

This report covers the years 2020/21, 2021/22 and 2022/23.

In 2019/20, we reported an adverse conclusion in respect of the Council’s arrangements; this was under the Code of Audit Practice in place at that point. Our VFM reporting for 2020/21 onwards is underpinned by a new Code of Audit Practice, which changed how we reported findings.

We reported a significant recommendation in our 2020/21 VFM commentary in respect of the Council’s governance and arrangements for delivering economy, efficiency and effectiveness in its use of resources. Our 2020/21 recommendation applies also to 2021/22 and 2022/23. We note and acknowledge the progress made by the Council in addressing the deficiencies reported.

VFM arrangements

Significant weaknesses in arrangements
and recommendation



VFM arrangements – significant weakness in arrangements and recommendation

Significant weaknesses in arrangements and recommendation

This section sets out:

- A. the risk of significant weaknesses in arrangements in relation to governance and economy, efficiency and effectiveness;
- B. the identified significant weaknesses in arrangements and recommendation for improvement;
- Ci. our formal auditor’s report wording for 2020/21 and 2021/22– significant weaknesses in arrangements;
- Cii. Summary for 2022/23 – significant weaknesses in arrangements; and
- D. progress to date in addressing the recommendation.

A. Risk of a significant weakness in arrangements in relation to governance and economy, efficiency and effectiveness

Risk of significant weaknesses in arrangements for 2020/21, 2021/22 and 2022/23	Work undertaken and the results of our work
<p>The June 2022 SOLACE report, statutory notices and subsequent follow-up investigations identified potential significant weaknesses in the Council’s arrangements for governance and improving economy, efficiency and effectiveness.</p>	<p>Work undertaken</p> <p>Consideration of the findings and conclusions from:</p> <ul style="list-style-type: none">• the independent review of governance arrangements undertaken by SOLACE and reported in June 2022;• statutory Section 5 and Section 114 notices issued by the Council’s Section 151 Officer and Monitoring Officer, s114 reports;• subsequent follow-up reports in relation to “international” activity and exit packages;• review of the Council’s Annual Governance Statements; and• discussions with senior officers and Members. <p>Recommendation for improvement</p> <p>The identified weaknesses and recommendation are set out in the following tables.</p>

VFM arrangements – significant weaknesses in arrangements and recommendation

B. Identified significant weaknesses in arrangements and recommendation for improvement

As a result of our work, we have identified significant weaknesses in the Council’s governance arrangements and also arrangements to secure economy, efficiency and effectiveness it its use of resources. The identified weaknesses are set out below:

Identified significant weaknesses in arrangements for 2020/21, 2021/22 and 2022/23	Reporting criteria	Recommendation for improvement
<p>The June 2022 SOLACE Report, statutory notices and subsequent follow-up investigations identified potential significant weaknesses in the Council’s arrangements for governance and improving economy, efficiency and effectiveness</p> <p>In February 2022, the Council commissioned SOLACE to undertake an independent corporate governance review of the Council. This was reported to full Council on 8 June 2022 and identified numerous and wide-ranging weaknesses in the Council’s arrangements in relation to governance and improving economy, efficiency and effectiveness and also highlighted issues in relation to Member and officer behaviours. The report made several recommendations to address these issues.</p> <p>Separately to the SOLACE report, on 23 May 2022, the Chief Finance Officer of the Council issued a formal report to the Council under sections 114 and 114A of the Local Government Finance Act 1988 as the Council had incurred unlawful expenditure in relation to:</p> <ul style="list-style-type: none">• an unincorporated partnership which traded otherwise than through a company with all of the related income and expenditure recorded in the Council’s accounts - this represented a breach of Section 4(2) of the Localism Act 2011; and• a special “international allowance” of £40,000 per annum to the former Chief Executive, , which was not properly authorised and was in contravention of the Council’s pay policy statements - this represented a breach of Section 41 of the Localism Act 2011 and s112(2A) of the Local Government Act 1972. <p>Follow-up investigations into exit packages have highlighted further evidence of weaknesses in processes for the approval of exit packages, non-compliance with processes in place and unlawful expenditure, leading to a Section 5 report by the Monitoring Officer in March 2024.</p> <p>The Council recognises that a failure to fully address the identified weaknesses will continue to hamper the effective running of the organisation and performance in key services, leading to a detrimental impact on residents and service users. Furthermore, a lack of progress could lead to further external audit action and/or formal intervention by the Ministry for Housing, Communities and Local Government.</p> <p>Our judgement is that these matters are evidence of weaknesses in proper arrangements for governance and improving economy, efficiency and effectiveness, specifically in relation to:</p> <ul style="list-style-type: none">• decision making that is unlawful and/or could lead to reputational risk;• failure to implement or achieve progress on recommendations raised as a result of previous external audit recommendations;• pervasive and significant weaknesses in internal controls; and• failure to implement a comprehensive corporate performance framework, including a scheme of performance appraisal.	<p>Governance</p> <p>Improving economy, efficiency and effectiveness</p>	<p>In order to fully address weaknesses identified by the SOLACE report, statutory notices and follow-up reports, the Council should continue to ensure that the improvements made in its arrangements from 2022 to-date are maintained and that robust monitoring and reporting processes remain in place to sustain progress in implementing the actions to address identified weaknesses.</p>

VFM arrangements – significant weaknesses in arrangements and recommendation

Ci. Risk of significant weaknesses in arrangements in relation to governance and economy, efficiency and effectiveness – 2020/21 and 2021/22

Our signed auditor’s reports, which the Council includes in its published audited financial statements, include the following wording:

Significant weaknesses in arrangements	Recommendation
<p>The significant risk includes the following areas of weaknesses: the Council’s performance management framework, its corporate plan, its Constitution, international consultancy activities, organisational instability, failure to demonstrate best value, exit packages arrangements and governance of subsidiaries. Further narrative on these areas are set out further in each of our VFM criteria in the following sections.</p> <p>In February 2022, the Council commissioned SOLACE to undertake an independent corporate governance review of the Council, which was reported to full Council on 8 June 2022. The report identified numerous and wide-ranging weaknesses in the Council’s arrangements in relation to governance and improving economy, efficiency and effectiveness.</p> <p>Separately to the SOLACE report, on 23 May 2022, the Chief Finance Officer of the Council issued a formal report to the Council under sections 114 and 114A of the Local Government Finance Act 1988 as the Council had incurred unlawful expenditure in relation to an unincorporated partnership and a related “international allowance” paid to the former Chief Executive.</p> <p>Follow-up investigations into exit packages have highlighted further weaknesses and irregular expenditure, leading to a Section 5 report by the Monitoring Officer in March 2024.</p> <p>These matters are evidence of weaknesses in proper arrangements for governance and improving economy, efficiency and effectiveness.</p>	<p>In order to fully address weaknesses identified by the SOLACE report, statutory notices and follow-up reports, the Council should continue to ensure that the improvements made in its arrangements from 2022 to-date are maintained and that robust monitoring and reporting processes remain in place to sustain progress in implementing the actions to address identified weaknesses.</p>

VFM arrangements – significant weaknesses in arrangements and recommendation

Cii. Risk of significant weakness in arrangements in relation to governance and economy, efficiency and effectiveness – summary for 2022/23

Significant weaknesses in arrangements	Recommendation
<p>Our work identified evidence of the following significant weaknesses in governance arrangements:</p> <ul style="list-style-type: none">• how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency: weaknesses identified in respect of:<ul style="list-style-type: none">- the Council's Constitution which required redrafting to be fit for purpose;- how the Council delivered its 'best value' responsibilities; and- governance and approval processes for exit packages;• how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations / conflicts of interests): weaknesses identified in relation to:<ul style="list-style-type: none">- the lack of adequate governance and transparency underpinning international activities;- the lack of stability at the senior officer level; and- weaknesses in ensuring appropriate Member and officer standards were maintained <p>Our work also identified evidence of significant weaknesses in arrangements for improving economy, efficiency and effectiveness, as follows:</p> <ul style="list-style-type: none">• how financial and performance information has been used to assess performance to identify areas for improvement: weaknesses identified in respect of:<ul style="list-style-type: none">- a corporate plan which did not drive and link performance throughout the Council appropriately; and- an inconsistent and inadequate performance management framework.• how the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve: weaknesses identified, arising from:<ul style="list-style-type: none">- governance failings in the Council's subsidiary companies, the Advance Northumberland Group (the Group), as well as the Council's own oversight role of the Group.	<p>In order to fully address weaknesses identified by the SOLACE independent governance review report of June 2022, statutory notices and follow-up reports, the Council should continue to ensure that the improvements made in its arrangements from 2022 to-date are maintained and that robust monitoring and reporting processes remain in place to sustain progress in implementing the actions to address identified weaknesses.</p>

VFM arrangements – significant weakness in arrangements and recommendation

D. Recommendation in relation to governance and economy, efficiency and effectiveness – progress to date

We set out below our assessment of progress to date made by the Council in addressing the recommendation.

Recommendation	Progress to date
In order to fully address weaknesses identified by the SOLACE independent governance review report of June 2022, statutory notices and follow-up reports, the Council should continue to ensure that the improvements made in its arrangements from 2022 to-date are maintained and that robust monitoring and reporting processes remain in place to sustain progress in implementing the actions to address identified weaknesses.	<p>Following the SOLACE report and Section 114 notices, the Council put in place an action plan to address each area for improvement, which was reviewed by and agreed by officers and Members. This included the necessary steps to address the issues identified by SOLACE in their report, the Section 151 Officer's Section 114 notices and the Monitoring Officer's Section 5 Notice.</p> <p>To provide additional challenge and oversight the Council also established a challenge board with appropriate experience at both senior officer and Member level to work with it, on a cross-party basis, as it addressed the identified weaknesses. The Challenge Board provided the Council with external support and assurance over the implementation of the action plan to ensure progress was made at the required pace.</p> <p>In the Council's 2023/24 Annual Governance Statement, it reflects on the progress to date, where it highlights the following:</p> <p><i>"During the past two years, the Council has moved swiftly and decisively, supported by external partners, to resolve the governance issues highlighted in the various reports.</i></p> <p><i>The Council had to take strong and decisive action to ensure that there was proper governance following concerns raised by some councillors and officers. This was resolved some years ago now with certain individuals exiting the organisation.</i></p> <p><i>A new Chief Executive and Senior Team has been appointed who, together with Members have delivered on all the recommendations of the external governance review. This was recognised in the recent external Corporate Peer Review which highlighted the council's "impressive improvement at pace".</i></p> <p><i>In conclusion I can say that I am satisfied that the Council now has robust governance in place, a strong financial position, and is undertaking work to drive value for money for hard working Northumberland council taxpayers."</i></p> <p>As the Council's external auditor, we also recognise the progress made and the acknowledgement by the Council that whilst the formal Challenge Board has concluded its work as of June 2023, the activities to improve and strengthen governance continue as part of ongoing programmes and workstreams across the Council. It will take time for new arrangements to become fully embedded.</p>

VFM arrangements

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



VFM arrangements – financial sustainability

Overall commentary on the financial sustainability reporting criteria

How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

The Council's Medium-Term Financial Plan (MTFP) includes financial projections analysis and context that supports the Corporate Plan.

Quarterly reports are presented to the Cabinet throughout the year, underpinned by budget monitoring within each portfolio and service. The quarterly reports provide a summary of the projected outturn and the actuals, along with supporting narrative to explain any significant changes. Financial reporting of the Council's companies was not a regular Cabinet agenda item until part way through 2020/21.

The Council has a strong track record of delivering its budget over the last decade, despite the continued pressures of funding reductions and the need to identify and deliver expenditure reductions, reporting outturns as follows:

- 2020/21: surplus of £7.01 million
- 2021/22: deficit of £0.97 million
- 2022/23: surplus of £5.92 million
- 2023/24: surplus of £0.35 million

On-going financial pressures are highlighted in the Council's quarterly reports and robust budget monitoring remains crucial to its financial sustainability.

Our review of minutes and supporting papers has confirmed MTFP arrangements have remained in place in 2020/21 and to date, including consideration of the latest MTFP covering 2024/25 to 2027/28.

How the Council plans to bridge its funding gaps and identifies achievable savings

The overarching MTFP includes the identification of savings and efficiencies over the period of the next four years, after taking into account estimated funding. The annual budget savings cycle is a continuous approach with budget developments brought to Cabinet for consideration throughout the year to allocate resources to services and consider consultation outcomes.

Savings of approximately £9.80 million, £8.17 million, £9.70 million and £17.05 million were built into the budget for 2020/21 to 2023/24 respectively, not all of which were achieved; in the context of the net budget, the savings not delivered were not a significant amount. For 2024/25 and 2025/26, savings of £10.85 million and £14.95 million respectively are planned.

How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

As detailed in the MTFP, *"Members will be aware that the Council's debt has historically been at a high level due to the level of lending to other organisations such as Arch and its successor Advance Northumberland and Northumbria Healthcare NHS Foundation Trust (at 31 March 2023 the Council lending to third parties was £402.460 million); as well as being the main source of funding to service the Capital Programme"*. This is noted in the context of the financial resilience of the Council. To date there have been no issues in respect of these debts being repaid.

We confirmed the MTFP was based on reasonable assumptions available at the time of approving the Plan. The MTFP is regularly reviewed, including the main assumptions, and regularly reported including where changes in assumptions affect the forecast financial position.

How the Council ensures that its financial plan is consistent with other plans

The Council's MTFP sets out the financial context for the Council's resource allocation process and budget setting and it underpins decision-making and other plans.

VFM arrangements – financial sustainability

Overall commentary on the financial sustainability reporting criteria – continued

In line with the Prudential Code and the Council’s Capital Strategy, the revenue implications of capital investment decisions are considered and form part of the MTFP planning and budget setting processes. This is designed to ensure investments are fully funded. A detailed Capital plan is included in the MTFP.

How the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

As part of the annual budget setting process, the Council’s s151 officer sets out his assessment of the adequacy of reserves and the robustness of budget estimates. Appropriate risk factors are considered as part of this assessment, including the level of reserves, prudential and treasury indicators and the robustness of inflationary estimates.

This risk assessment is underpinned by the review of reserves set out in the annual update of the Council’s MTFP, which includes an estimate of projected earmarked reserves.

Earmarked reserves held by the Council per the Statement of Accounts are as follows:

- year ended 31 March 2020: £122.833 million
- year ended 31 March 2021: £174.430 million
- year ended 31 March 2022: £183.148 million
- year ended 31 March 2023: £178.175 million
- year ended 31 March 2024: £165.996 million

Overall, earmarked reserves (including school reserves) are currently projected to reduce to £103.133 million by 31 March 2025.

The Council also manages risks to its financial resilience by maintaining a general fund balance. The Council’s policy for the level of this balance is set out in the MTFP annually, along with the Section 151 Officer’s risk assessment.

In line with good practice, the Council prepares and takes a formal report to the Audit Committee on whether the ‘going concern’ assumption is appropriate. Reports were taken to meetings of the Audit in July for 2021/22 and subsequent years.

The Council has an established MTFP process which is designed to reflect changes that affect the Council’s financial plans. The latest MTFP, for example, has been updated to reflect the known pressures identified in recent years including: pay increases; contract inflation; and social care costs.

The budget is monitored on a regular basis ahead of quarterly reporting to the Cabinet. We have reviewed budget monitoring reports presented during the year and noted that they reflect in-year changes.

Summary: overall commentary on the financial sustainability reporting criteria

Our work did not identify any evidence to indicate a significant weakness in arrangements.

VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



VFM arrangements – governance

Risk of significant weaknesses in arrangements in relation to governance

We identified a risk of significant weaknesses in arrangements, which is set out in the earlier section of this report.

Overall commentary on the governance reporting criteria

The Council's 2022/23 Annual Governance Statement (AGS) sets out progress in the implementation of the recommendations arising from the 2022 independent review of governance (Caller), stating:

“The past year has seen an intensive period of improvement activity. This activity, and resultant progress is reflected in all three of the Challenge Board’s reports to Full Council. In their final report to Full Council [in June 2023], the Challenge Board was also clear that the actions delivered will take time and ongoing focus to be embedded in the organisation and to make long-term, positive change in culture and ways of working. This would be the case in any local authority undergoing such change.

This AGS sets out how these ongoing actions will be governed through the seven workstreams within BEST [new strategic change programme launched in 2023/24] as well as other committees and forums”.

How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

Constitution

The Council's 2020/21 Annual Governance Statement summarised the key recommendations from the Caller review, setting out that: *“The Constitution requires a comprehensive review. It needs to start from establishing the principles of what is properly delegated, whether it be from Cabinet to individual Members, from Council to officers and how each and every decision can be documented and reported, individually or collectively, for scrutiny or as part of performance measurement and improvement”.*

The matter reported is evidence of a significant weakness in arrangements.

We note the progress made by the Council when it reviewed and redrafted the Council's Constitution in 2022/23, supported by a cross-member Constitution Working Group. The Council's redrafted Constitution was approved by full Council in May 2023; this was a key step, as the Constitution underpins the Council's governance arrangements.

Best Value

The Caller review recommended the Council needs to establish what it means to be a Best Value Unitary Local Authority in its geographic area delivering appropriate services and community leadership to every resident and entity in its area.

As part of this the Caller review recommended the Council:

- establish what it means to be a Best Value Unitary Local Authority in its geographic area delivering appropriate services and community leadership to every resident and entity in its area. To do this, it needs new seasoned local government professional leadership at the top of the organisation now to help it do this; and
- establish a Challenge Board with appropriate experience at both top officer and elected Member level in unitary authorities to work with the Council, on a cross-party basis, as it addresses these recommendations.

The matters reported are evidence of a significant weakness in arrangements.

In June 2023, full Council received a third and final update report from the Challenge Board. As set out in the Council's 2023/24 Annual Governance Statement, *“The activities to improve and strengthen the governance have continued following conclusion of the Challenge Board's work and are embedded in ongoing programmes and workstreams, including BEST”.*

The final Challenge Board report of June 2023 set out progress made, commending the passion of staff and Members. It also highlighted that whilst good progress had been made on some of the Caller recommendations, there was limited evidence, at that point, of adjustments to culture, behaviour and ensuring those changes are embedded.

The report goes on to highlight, *“to a large extent this would be the case in any authority where change is needed, but the interventions undertaken will take time to have an impact. Your improvement journey is an ongoing and longer-term piece of work”.*

VFM arrangements – governance

Overall commentary on the governance reporting criteria - continued

How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency - continued

Exit packages

The Council's interim section 151 officer issued a s114 notice in May 2022 detailing irregular expenditure and setting out the planned investigation by Internal Audit of a small number of other payments and to review all exit packages with a value of over £0.100 million or more over the preceding two years.

A further report was taken to the July 2023 Audit Committee, setting out findings from an investigation to establish whether irregular payments had been made to any officers or former officers, including severance payments.

The following was disclosed in the financial statements for 2020/21 to 2022/23, "*The Executive Director of Transformation and Resources (Section 151 Officer) further investigated the lawfulness of exit payments to former senior officers and advised Audit Committee on 26 July 2023 that based on the legal advice available at the time, was of the view that up to seven of the eight exit payments to former officers identified were unlawful on the basis that the approvals required in the Council's Constitution were not observed and that the payments failed to take account of prevailing policy frameworks, statute and/or statutory guidance*".

The financial statements for each year set out the value of the seven exits referred to, by year:

- 2020/21: £546,421.37
- 2021/22: £376,776.95
- 2022/23: nil

The matters reported are evidence of a significant weakness in arrangements.

We note the report of the Director of Law and Governance of March 2024 to Members, concerning potentially unlawful payments to former staff and confirmed that all steps have been taken and adopted to ensure all identified issues in old pay policies have been addressed.

Other commentary

Membership of the Audit Committee includes Councillors and independent Members. We have attended all meeting held in the year and observed the Committee holding officers to account.

The Council publishes on its website notice of key decisions and all officer decisions made under the Officer Scheme of Delegation. The website also includes details on how decisions are made in the Council.

We note references throughout various reports, including the Caller review, to the common practice of 'informal' Cabinet meetings, which can lead to a lack of transparency in decision-making, underpinning some of the weaknesses identified.

Contract Procedure Rules are in place and require procurement decisions to comply with standard principles.

Contract Procedure Rules were updated alongside the redrafted Constitution and approved by full Council in May 2023. We note further revisions were made to these during 2023/24.

How the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Code of corporate governance

The Council has adopted a Local Code of Corporate Governance, which is contained within its publicly available Constitution.

VFM arrangements – governance

Overall commentary on the governance reporting criteria - continued

Annual Governance Statement

We considered the Council's Annual Governance Statements (AGS), including in light of the requirement for the AGS to be kept up to date and cover issues up to when the opinion on the financial statements is given for each year. We note the Council has, appropriately, included an update in each AGS to highlight the significant governance issues over the last four years.

The 2022/23 Annual Governance Statement (AGS), set out progress against the following areas for improvement identified in the previous year:

- consideration of the recommendations of the independent governance review (Caller report): partially complete.
- development of the 'place' function within the Integrated Care System: partially complete.
- implementation of external audit recommendations arising from the 2020/21 audit: this was reported as not complete pending the completion of the 2020/21 audit.
- cyber threats: partially complete.
- deliver service improvements set out in the Fire and Rescue Service Continuous Improvement Plan: partially complete.
- reporting progress on capital schemes: complete.
- contract procedure rules update: not complete.

We note the progress made by the Council since, as set out earlier in this report.

Risk management

The Council's corporate level risks, as reported in its 2023/24 Annual Governance Statement include:

- financial sustainability;
- organisational development / workforce;
- civil contingency and business continuity;

- corporate compliance;
- high-profile capital projects;
- response to climate change;
- wholly-owned companies;
- cyber security;
- adult Service Domiciliary Care national shortage;
- BEST (the Council's strategic change programme);
- strategic community safety; and
- Social Housing (Regulations) Act 2023.

A refreshed corporate risk register was formally agreed by Cabinet in December 2023. We note that work is on-going to update the Council's risk management policy and framework, as well as updating service risk registers.

Audit Committee

We confirmed the Audit Committee received regular updates on the Internal Audit Plan. Internal Audit reports highlight weaknesses and include recommendations when required to strengthen processes or procedures. The reports are regularly reported to the Audit Committee which holds management to account where weaknesses are identified.

We confirmed the Audit Committee monitors management actions in response to recommendations and this is reported on a regular basis. The Audit Committee challenges management if recommendations are not implemented within the agreed timeframe.

A summary of the results of inspectorates' work is presented regularly to the Audit Committee.

We note that the Audit Committee also now acts as the Group Audit Committee.

VFM arrangements – governance

Overall commentary on the governance reporting criteria - continued

Chief Internal Auditor - annual opinion

The Chief Internal Auditor provides an independent annual opinion on the adequacy and effectiveness of the system of internal control.

For the years 2020/21 and 2021/22, the Internal Audit annual opinion drew attention to: *“specific aspects of governance within the Council’s framework of governance, risk management and control where weaknesses exhibited require strengthening”*.

We further note the 2022/23 Internal Audit opinion was that of ‘limited’ assurance arising from the on-going governance review at that time and the section 114 report on unlawful expenditure and associated matters. The 2023/24 Internal Audit opinion was that of ‘reasonable’ assurance.

Internal Audit has also undertaken counter fraud work each year, which is reported to the Audit Committee.

How the Council approaches and carries out its annual budget setting process

The Council adopted and followed project timetables for setting financial plans. The arrangements have been in place for several years and have supported the delivery of spending priorities. We confirmed that appropriate arrangements were in place in respect of 2020/21 to 2022/23, including an appropriately updated Medium-Term Financial Plan.

Financial Procedure Rules provide the overall high-level framework for managing the Council’s financial affairs, from setting the budget to the security and control of assets; we note the update of these Financial Procedure Rules, alongside the redrafting of the Constitution.

We have reviewed the budget setting arrangements and have not identified any matters that indicate a significant weakness in arrangements. The Council recognises the financial pressures it faces.

How the Council ensures effective processes and systems are in place to ensure budgetary control

There is regular financial reporting. Quarterly forecasts of outturn reports are presented to Cabinet. The reports included details of movements in the budget between quarters and remedial measures taken. As set out earlier, the independent governance review highlighted the lack of explicit linkage between financial and performance data, which is being addressed as part of the Council’s response to the review.

There is regular reporting of treasury management activity that details the Council’s investments, cash and borrowing positions. The annual Treasury Management Strategy was approved ahead of each financial year, as required, and sets out the Council’s measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council’s finances and we identified no evidence to indicate a weakness in arrangements.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

International activities

The Council’s interim s151 officer issued a s114 notice in May 2022, highlighting unlawful expenditure from international activities and an international allowance paid to the Chief Executive at that time. The notice referred to the Council’s participation (alongside the Northumbria Healthcare NHS Foundation Trust) as a principal in the Northumbria International Alliance (NIA) which was an unincorporated partnership established to provide international consultancy services for a commercial purpose. NIA traded commercially from at least 2018 to 2021 and did so otherwise than through a company with all of the related income and expenditure being recorded in the Council’s accounts.

The Council appropriately disclosed the irregular expenditure including the allowance in its officers’ remuneration disclosure of the 2020/21 to 2022/23 financial statements.

VFM arrangements – governance

Overall commentary on the governance reporting criteria - continued

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests) - continued

International activities - continued

A 'lessons learnt' report was taken to the July 2023 Audit Committee. As set out in this report, from 2021 and beyond, the beginning of International activities started being discussed at formal Cabinet and was the precursor to the incorporation of two subsidiaries in 2020 and 2021, one of which has since been dissolved and the other being inactive.

The 'lessons learnt' report highlighted that, *"It is rare for the sort of issues that have been identified in International, to be the fault of just one or two individuals. It was clear that there was a wider organisational and negative operating culture in place.... The formal internal checks and balances that one would expect to see, which would have provided challenge and possibly prevented this situation from arising were either weak or wholly absent"*.

The matters reported are evidence of a significant weakness in arrangements in 2022/23.

Stability at the senior officer level

The Council has had a high turnover at a senior officer level, including the main statutory roles. For example, from 2017 to 2024 the Council had eight different Section 151 officers in post, (involving six different individuals); the Interim Section 151 officer was appointed on a permanent basis in 2023, and it is noted that a highly experienced Deputy Section 151 officer was in post. Nonetheless, the turnover is notably high.

A new Chief Executive has been in post since early 2023 and a new senior officer team has been embedded in 2023/24.

This matter is evidence of a significant weakness in arrangements.

Standards Committee

The Standards Committee is responsible for promoting and maintaining high standards of conduct by councillors, independent members and co-opted members. The Committee receives updates on compliance with the Code of Conduct including details of any complaints managed in the year as well as reporting upwards to full Council. The Standards Committee approved revised arrangements for dealing with Member Complaints and Hearing Procedures in October 2023, following a review earlier in 2023.

Ensuring appropriate standards are maintained

The Council approved a revised code of conduct for Members in May 2022.

The Caller review recommended the Council:

"review and redraft the codes of conduct which regulate Member and officer behaviours and working relationships with each other, to make it clear what the expectations of each party should be and how robust challenge can be handled, to ensure proper accountability can be achieved. This needs to recognise the legitimate rights of Councillors for information to enable them to do their role and for Councillors to recognise that policy is the preserve of the Council unless delegated and saying no is a legitimate outcome".

The Caller review also referenced, as detailed in the updated 2020/21 Annual Governance Statement, that, *"there are many hard-working staff in the Council providing good services for residents, but they look to the dysfunctionality in the senior levels of the Council with despair and embarrassment"*.

We also noted the Caller review refers to challenges in relationships between senior officers and Members and between Members themselves.

We observed the presentation and subsequent Member discussion of the independent governance review report to full Council in June 2022. In addition, we have held numerous meetings with senior officers and some Members over the last few years to discuss issues raised.

The matters reported are evidence of a significant weakness in arrangements.

VFM arrangements – governance

Overall commentary on the governance reporting criteria - continued

Summary: overall commentary on the governance reporting criteria

Our work identified significant weaknesses in governance arrangements, as set out in this section, and summarised below:

- **how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency:** weaknesses identified in respect of
 - the Council's Constitution which required redrafting to be fit for purpose;
 - how the Council delivered its 'best value' responsibilities; and
 - governance and approval processes for exit packages;
- **how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations / conflicts of interests):** weaknesses identified in relation to:
 - the lack of adequate governance and transparency underpinning international activities;
 - the lack of stability at the senior officer level; and
 - weaknesses in ensuring appropriate Member and officer standards were maintained.

VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



VFM arrangements – improving economy, efficiency and effectiveness

Risk of significant weaknesses in arrangements in relation to improving economy, efficiency and effectiveness

We identified a risk of significant weaknesses in arrangements, which is set out in the earlier section of this report.

Overall commentary on improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement

As detailed in the previous sections we confirmed there was regular financial reporting during each year. Reporting includes consideration of human resource implications and equality impact assessments. Cabinet also now receives regular updates on delivery of the savings.

Corporate plan and performance management framework

The Caller review described the Corporate Plan as being ‘incomplete’ and lacking a ‘golden thread’ which tied the corporate plan to the goals and aims of all employees, including the Chief Executive. It also identified the lack of a clear evidenced performance management framework.

This is evidence of a significant weakness in arrangements in 2022/23.

We note the progress made by the Council since the Caller review. A revised Corporate Plan was approved in May 2023 and a Planning and Performance Accountability Framework document was completed in March 2024.

The Council’s corporate plan has three corporate priorities:

- achieving value for money;
- tackling inequalities; and
- driving economic growth.

A recommendation of the Challenge Board, was that the Council should ensure that all Corporate Plan actions have clear success measures/targets to enable accountability to be monitored [and] that the Corporate Plan drives the Council and develops into a linked plan for the whole county. As set out in the 2023/24 Annual Governance Statement, a review of the Corporate Plan indicators

was started in 2023/24 and is due for completion in 2024/25.

How the Council evaluates the services it provides to assess performance and identify areas for improvement

The Council considers the output from regulators to evaluate performance and identify areas for improvement. The output from such regulators is reported regularly to the Audit Committee.

Children’s Services: the latest inspection of May 2024 by Ofsted resulted in a re-grading of Children’s Services from ‘good’ in March 2020 to ‘outstanding’.

SEND (Special Educational Needs and Disabilities): A re-inspection following on from the 2018 inspection was carried out in 2021, which found that the ‘area’ had made sufficient progress in addressing all significant recommendations, resulting in formal support and challenge visits ceasing. The 2018 inspection by Ofsted / CQC had highlighted areas for recommendations in relation to joint planning and commissioning, inconsistencies of the approach for children in mainstream education and poor outcomes for children with SEND.

HMICFRS: the November 2023 inspectorate’s report reported positive progress being made by the Council’s Fire Service against the 11 areas reported on in the previous inspection of 2021. The 2021 inspection gave an overall rating of ‘requires’ improvement; no overall rating has been given from the latest inspection of 2023 based on the way the inspection is now reported, however, each of the same 11 areas were rated as either ‘adequate’ or ‘good’.

HMIP: youth offending services run by the Council were inspected by His Majesty’s Inspectorate of Probation Services in July 2023 and assessed as ‘good’.

VFM arrangements – improving economy, efficiency and effectiveness

Overall commentary on the improving economy, efficiency and effectiveness reporting criteria - continued

How the Council evaluates the services it provides to assess performance and identify areas for improvement - *continued*

Adult Social Care Inspections: inspections of Adult Social Care have been re-introduced by CQC in the last few years, with pilots and initial inspections taking place. The Council was inspected in the summer of 2024; the results are not yet available.

How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council works alongside many partners, including health service providers, third sector organisations, local communities, businesses and education and learning institutions. There have been challenges in recent years, in respect of the Council's partnership arrangements with the local Foundation Trust, as well as with its own wholly owned Group, the Advance Northumberland Group.

Alongside those challenges, there is evidence of positive partnership working between the Council and partners, including with the Voluntary and Community Sector in Northumberland and the Council being a founding member of the North East Destination Development Partnership.

The Advance Northumberland Group

The Advance Northumberland Group (the Group) brings together services in housing, commercial property, regeneration and economic growth and investment. The Group consists of five wholly owned companies and one joint venture.

The Group owns and manages residential and commercial properties, with investment properties,

property, plant and equipment and stock totalling £331.5 million as at 31 March 2023. The Council has made loans to the Advance Group of £272.9 million as at 31 March 2024 (£276.5 million as at 31 March 2023). The net equity of the Advance Group, after taking into account the loans with the Council, was £29.6m as at 31 March 2023.

The Group was set-up in 2018/19, replacing the former Arch Group as a result of serious governance issues. However, the Caller review highlighted that these issues remained, including weaknesses in the Council's own stakeholder oversight role.

Internal Audit highlighted issues in respect of the Advance Group governance arrangements from 2018/19, noting that embedding new governance arrangements would take time.

This is evidence of a significant weakness in arrangements in 2022/23.

We note the progress made by the Council and the Advance Northumberland Group.

Internal Audit's 2023/24 opinion for the Advance Group highlighted a number of measures taken by the Group to strengthen governance arrangements. Following the restructuring of the Senior Management Team, the Board has been reconstituted with independent non-executive directors appointed, and the Group of Companies' Audit Committee has subsequently been reconstituted during 2023/24.

We note also the new Shareholder Committee that was set up by the Council in 2023, with the first meeting held in July 2023. This Committee's terms of reference include exercising responsibility for Cabinet functions in relation to the Council's approach to membership of companies, evaluating and monitoring interests in such companies, considering the business plan(s) and the financial performance of companies.

VFM arrangements – improving economy, efficiency and effectiveness

Overall commentary on the improving economy, efficiency and effectiveness reporting criteria - continued

How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve - *continued*

NHS commissioners and providers

Joint working between the Council and the Northumbria Healthcare Trust, started back in 2011 with integrated working and a partnership agreement specifically around health and social care. This remained in place up until September 2021. At the same time, a shared procurement arrangement was ended.

The Council was further linked closely with the Trust as the former Chief Executive was also an Executive Director both at the Trust and the international consultancy activity referred to earlier in this VFM commentary. This international activity has since ceased.

From 1 July 2022, responsibility for commissioning healthcare services transferred from the former Northumberland Clinical Commissioning Group (CCG) to the **North East and North Cumbria Integrated Care System (ICS)**. Engagement with the ICS is a key area of focus for the Council.

Summary: overall commentary on the improving economy, efficiency and effectiveness reporting criteria

Our work identified significant weaknesses in arrangements, as set out in this section and summarised below:

- **how financial and performance information has been used to assess performance to identify areas for improvement:** weaknesses identified in respect of:
 - a corporate plan which did not drive and link performance throughout the Council appropriately; and
 - an inconsistent and inadequate performance management framework.
- **how the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve:** weaknesses identified, arising from:
 - governance failings in the Council's subsidiary companies, the Advance Northumberland Group (the Group), as well as the Council's own oversight role of the Group.

Other reporting responsibilities and our fees

Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

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

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The National Audit Office (NAO), as group auditor, requires us to report to them whether the return that the Council has submitted is consistent with the audited financial statements.

The NAO has completed its audit of the 2020/21 and 2021/22 Whole of Government Accounts; therefore, we are no longer required to report any matters to them. We have reported to the NAO in respect of 2022/23, as set out on the summary page of this report.

Fees for work as the Council’s auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandums presented to the Audit Committee in October, November 2022 and September 2023 for 2020/21, 2021/22 and 2022/23 respectively.

The scale fee set by Public Sector Audit Appointments (PSAA) for 2019/20 included an agreed £20,000 for first year audit procedures. After that the scale fee for subsequent years dropped to £170,000 and then was further adjusted for inflation.

Additional fees are to be raised for 2019/20 to 2022/23 which are being discussed with management, therefore, the fees proposed are subject to confirmation and then also PSAA approval. Our fees are shown in the table overleaf.

Fees for other work

We carried out the external audit of the Council’s subsidiaries – the Advance Northumberland Group, for a fee of £34,000 in 2020/21 and £60,000 for 2021/22 (2019/20 £32,500). The Advance Group is audited by a different auditor from 2022/23 onwards.

We also carried out assurance work in the following areas:

Area of work	2022/23	2021/22	2020/21	2019/20
Housing Benefits Subsidy Return	£10,930	£10,610	£10,300	£10,000
Teachers’ Pensions Return	£4,380	£4,250	£4,120	£4,000
Pooling of Housing Capital Receipts Return	£3,380	£3,280	£3,190	£3,100

Other reporting responsibilities and our fees

Fees for work as the Council's auditor

Area of work	2019/20	2020/21	2021/22	2022/23	
Scale fee under the Code of Audit Practice	£190,000	£170,000	£170,000	£178,840	See overarching comments on the previous page.
Recurrent:					
Additional fees: VFM commentary	n/a	£15,682	£12,712	£12,712	New Code of Audit Practice.
Additional fees: ISA(UK) 540 & ISA 315	n/a	£1,500	n/a	£3,917	New auditing standards impact. Range set by PSAA.
Non-recurrent:					
Infrastructure (national)	n/a	£5,000	£10,261	n/a	Issue impacting on all Highways councils nationally.
Infrastructure (local)	£5,000	£5,000	n/a	n/a	Additional work required due to the write-out initially by the Council of infrastructure balances; further work was then done to evidence the balances, which were then written-back.
IAS19 pensions (local issues)	£10,000	£10,041	£10,178	£10,200	Revised IAS19 report required, in common with most Councils.
IAS19 pensions (triennial)	n/a	n/a	£8,000	n/a	Impact of triennial valuation requiring a further revised IAS19 report, in common with many Councils, given the national delays due to infrastructure.
PFI Energy from Waste facility work	£5,000	n/a	n/a	n/a	The Council engaged their own specialist external valuer for this asset; we also engaged our own specialist valuation input.
Mazars valuation team work on Investment Property	n/a	£5,000	£5,000	£5,000	Additional work required for us to gain sufficient, appropriate assurance at the Group level given the highly material Investment Property balances.
Property, plant and equipment (PPE) errors (local)	£7,500	£15,912	£15,000	£6,500	A number of errors requiring further work and testing.
Other errors requiring amendments to accounts	£5,000	£5,000	£5,000	£5,000	A number of presentational and other amendments impacting on all years, due to the elapsed time, an error identified in one year also impacted on multiple years.
VFM local risks	£30,000	£30,000	£30,000	£30,000	Including external legal advice in early 2022. Significant partner-level input.
CEX exit package	n/a	n/a	n/a	£20,000	Including external legal advice in late 2022/early 2023.
Total	£252,500	£263,135	£266,151	£272,169	

Appendices

A: Further information on our audit of the financial statements

Appendix A: Further information on our audit of the financial statements

Significant and enhanced risks and audit findings

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The following table summarises these risks, how we responded and our findings.

Significant risk	Our audit response and findings – year ended 31 March 2021	Our audit response and findings – year ended 31 March 2022	Our audit response and findings – year ended 31 March 2023
Management override of controls	<p>Audit response: procedures included ;-critical review of accounting estimates, journals entries testing and significant transactions outside the normal course of business or otherwise unusual.</p> <p>Audit findings: sufficient, appropriate assurance obtained, other than the following issues were reported and associated significant internal control recommendations raised: i) insufficient evidence to show authorisation by Members of significant senior officers' exit packages; and ii) Insufficient evidence to show appropriate approval of the Chief Executive's 'international allowance'.</p>	<p>Audit response: procedures included critical review of accounting estimates, journals entries and significant transactions outside the normal course of business or that appear unusual.</p> <p>Audit findings: sufficient, appropriate assurance obtained, with no significant issues arising.</p>	<p>Audit response: as set out to the left</p> <p>Audit findings: sufficient, appropriate assurance obtained, with no significant issues arising.</p>
Property, plant and equipment (PPE) and investment property valuations	<p>Audit response: procedures included critically assessing the Council's arrangement in place for PPE and Investment Property valuations, considering the competence, skills and experience of the valuers, substantively testing revaluations and critically considering any material uncertainties expressed by valuers.</p> <p>Audit findings: we drew attention to the material uncertainty disclosed by the Council in respect of PPE valuations. Amendments were required to the valuation of schools.</p>	<p>Audit response: procedures included critically assessed the Councils arrangement in place for PPE and Investment Property valuations. Considered the competence, skills and experience of the valuers, substantively tested revaluations and critically considered any material uncertainties expressed by valuers.</p> <p>Audit findings: sufficient, appropriate assurance was obtained, subject to the non-material unadjusted amendments reported and the amendments to the valuation of PPE, including those valued on a 'depreciated replacement cost' basis.</p>	<p>Audit response: as set out to the left. <i>n.b. risk split into valuation of PPE and Investment Property (latter being in respect of the Group only) in 2022/23.</i></p> <p>Audit findings: . we topped up assurance in respect of investment properties, by carrying out testing at the Group level. Sufficient, appropriate assurance was obtained, subject to the amendments made to council dwelling valuations and the non-material unadjusted errors we reported.</p>

Appendix A: Further information on our audit of the financial statements

Significant and enhanced risks and audit findings - continued

Significant risk	Our audit response and findings – year ended 31 March 2021	Our audit response and findings – year ended 31 March 2022	Our audit response and findings – year ended 31 March 2023
Pensions: valuation of the net defined benefit obligation	<p>Audit response: procedures included critically evaluating the Council's arrangements including relevant controls, challenging the Actuary's assumptions, agreeing the data in the Actuary's report to the Council's financial statement and reviewing the component auditor's work in this area.</p> <p>Audit findings: sufficient, appropriate assurance obtained subject to:</p> <ul style="list-style-type: none"> - the amendment to reduce the net pensions liability by £44.810 million due to a revised Actuary's report being required; and - the non-material reported unadjusted potential misstatement of the Council's share of Pension Fund assets, based on our review of the letter from the Pension Fund auditor. 	<p>Audit response: as set out to the left.</p> <p>Audit findings: sufficient, appropriate assurance obtained subject to:</p> <ul style="list-style-type: none"> - the amendment to amend the net pensions liability assets by £41.870 million due to a revised Actuary's report being required; and - the non-material reported unadjusted potential misstatement of the Council's share of Pension Fund assets, based on our review of the letter from the Pension Fund auditor. 	<p>Audit response: as set out to the left.</p> <p>Audit findings: sufficient, appropriate assurance obtained subject to:</p> <ul style="list-style-type: none"> - the amendment to the amendment to amend the net pensions liability assets by £11.104 million due to a revised Actuary's report being required; and - the non-material reported unadjusted potential misstatement of the Council's share of Pension Fund assets, based on our review of the letter from the Pension Fund auditor.
Risk of fraud in revenue recognition (Council only Revenue recognition: COVID-19 grants)	<p>Audit response: procedures included critically reviewing the Council's approach in determining whether they have been acting as an agent or principal in relation to COVID 19 grants and substantively testing COVID 19 grant income recorded in the ledger to grant allocations and notifications.</p> <p>Audit findings: sufficient, appropriate assurance obtained with no significant issues arising which we are required to report to you.</p>	Not applicable	Not applicable

Appendix A: Further information on our audit of the financial statements

Significant and enhanced risks and audit findings - continued

Significant / enhanced risk	Our audit response and findings – year ended 31 March 2021	Our audit response and findings – year ended 31 March 2022	Our audit response and findings – year ended 31 March 2023
Valuation of current and non-current debtors (significant risk)	<p>Audit response: procedures included critically reviewing the basis of valuation of current and non-current debtors and reviewing the completeness and accuracy of the Council's allowance for expected credit losses.</p> <p>Audit findings: sufficient, appropriate assurance obtained.</p>	Not applicable	Not applicable
Long-term investments: valuation of Newcastle Airport shares (enhanced risk)	<p>Audit response: procedures included assessing the basis of valuation for the Council's shares in the Airport, critically reviewing the assumptions made by management and assessing whether disclosures are in line with the Code of Audit Practice.</p> <p>Audit findings: sufficient, appropriate assurance obtained with no significant issues arising which we are required to report to you.</p>	Not applicable	Not applicable
Accounting for Private Finance Initiative arrangements (enhanced risk)	Not applicable	<p>Audit response: procedures included review of the Council's adopted approach for accounting for its PFI arrangements, review of changes on the PFI model, critically reviewed assumptions made by management and assessed the completeness and accuracy of disclosures.</p> <p>Audit findings: sufficient, appropriate assurance obtained with no significant issues arising which we are required to report to you.</p>	<p>Audit response: as set out to the left.</p> <p>Audit findings: sufficient, appropriate assurance obtained with no significant issues arising which we are required to report to you.</p>

Appendix A: Further information on our audit of the financial statements

Summary of uncorrected misstatements – 2020/21

We set out below a summary of the misstatements we identified during our audit, above the trivial threshold for adjustment of £0.560m and £0.539m for the Group and Council respectively:

- unadjusted misstatements (current year and prior year): these are misstatements that were identified during course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not plan to adjust; and
- adjusted misstatements (current year and prior year).

Disclosure amendments: these are amendments impacting on disclosures only and are detailed in our Audit Completion Report and Follow-up Letter taken to the Audit Committee.

Our overall headline materiality and performance materiality for the Group was £18.660m and £13.062m respectively.

Our overall headline materiality and performance materiality for the Council was £17.957m and £12.570m respectively.

	Misstatements 2020/21	Assets £000s	Liabilities £000s	Reserves £000s	Income statement £000s
A	Unadjusted misstatements-current year	1,879	-3,054	-2,731	3,906
B	Unadjusted misstatements-prior year	4,273	-3,273	0	-1,000
A+B	Unadjusted misstatements- current year & prior year	6,152	-6,327	-2,731	2,906
C	Adjusted misstatements-current year	15,226	57,513	0	-72,739
D	Adjusted misstatements-prior year	-67,175	0	67,175	0

Appendix A: Further information on our audit of the financial statements

Summary of uncorrected misstatements – 2021/22

We set out below a summary of the misstatements we identified during our audit, above the trivial threshold for adjustment of £0.569m and £0.554m for the Group and Council respectively:

- unadjusted misstatements (current year and prior year): these are misstatements that were identified during course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not plan to adjust; and
- adjusted misstatements (current year and prior year).

Disclosure amendments: these are amendments impacting on disclosures only and are detailed in our Audit Completion Report and Follow-up Letter taken to the Audit Committee.

Our overall headline materiality and performance materiality for the Group was £18.963m and £13.267m respectively.

Our overall headline materiality and performance materiality for the Council was £18.450m and £12.915m respectively.

	Misstatements 2021/22	Assets £000s	Liabilities £000s	Reserves £000s	Income statement £000s
A	Unadjusted misstatements-current year	12,129	3,259	-2,869	-12,519
B	Unadjusted misstatements-prior year	-1,306	522	-522	1,306
A+B	Unadjusted misstatements- current year & prior year	10,283	3,781	-3,391	-11,213
C	Adjusted misstatements-current year	14,536	0	27,334	-41,870

Appendix A: Further information on our audit of the financial statements

Summary of uncorrected misstatements – 2022/23

We set out below a summary of the misstatements we identified during our audit, above the trivial threshold for adjustment of £0.639m and £0.619m for the Group and Trust respectively:

- unadjusted misstatements (current year and prior year): these are misstatements that were identified during course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not plan to adjust; and
- adjusted misstatements (current year and prior year).

Disclosure amendments: these are amendments impacting on disclosures only and are detailed in our Audit Completion Report and Follow-up Letters to the Audit Committee.

Our overall headline materiality and performance materiality for the Group was £21.311m and £14.918m respectively.

Our overall headline materiality and performance materiality for the Council was £20.624m and £14.437m respectively.

Restatement of comparators

When the 2022/23 financial statements were authorised for issue, the 2021/22 audit had not been finalised. There were further amendments required to the 2021/22 financial statements, relating to:

- property, plant and equipment (including national infrastructure issues including the application of the statutory override); and
- pensions – due to the impact of the triennial valuation.

Therefore, the comparators included in the 2022/23 financial statements were updated for these matters.

	Misstatements 2023/23	Assets £000s	Liabilities £000s	Reserves £000s	Income statement £000s
A	Unadjusted misstatements-current year	1,288	7,515	0	-8,803
B	Unadjusted misstatements-prior year	142	0	-1,312	1,170
A+B	Unadjusted misstatements- current year & prior year	1,430	7,515	-1,312	-7,633
C	Adjusted misstatements-current year	-5,913	4,959	18,557	-17,603

Appendix A: Further information on our audit of the financial statements

Internal control observations

The table below summarises our internal control observations raised in 2020/21 and to date. Full details can be found in our Audit Completion Reports presented to the Audit Committee, supplemented by the formal 'follow-up letters' issued when the audit report is signed.

Internal control recommendations shown in italics below are ones which have been completed and or actioned since being raised and have, therefore, since been 'closed'. Note the summary below excludes value for money recommendations.

*Our 2020/21 Audit Completion Report included follow-up of our 2019/20 internal control recommendations (11 medium priority and 5 low priority).

Priority	2020/21*	2021/22	2022/23
High priority	<ul style="list-style-type: none"> • <i>Ensuring there is appropriate approval of exit packages</i> • <i>Ensuring there is appropriate approval of senior officers' allowances (insufficient evidence to support authorisation of international allowance)</i> 	<ul style="list-style-type: none"> • Nil 	<ul style="list-style-type: none"> • Nil
Medium priority	<ul style="list-style-type: none"> • Ensuring payroll inputs are evidenced as checked by a second person • <i>Ensuring the prompt removal of users from the Active Directory</i> • <i>Ensuring signed agreements are in place for all loans from the Council to third parties</i> • <i>Ensuring signed tenancy agreements are in place for all leased assets</i> 	<ul style="list-style-type: none"> • Ensuring that New Starter Forms are authorised prior to the employee's formal Start Date. • Including land in the year-end indexation exercise using appropriate data/ indices including Valuer input. • Ensuring that three comparable are used for HRA valuations. 	<ul style="list-style-type: none"> • Continue to build upon arrangements for the valuation and audit of Property, Plant and Equipment, with a suggested weekly meeting between the Valuer and the Council and audit team during the 'core' audit period for 2023/24.

Appendix A: Further information on our audit of the financial statements

Internal control observations - continued

*Our 2020/21 Audit Completion Report included follow-up of our 2019/20 internal control recommendations (11 medium priority and 5 low priority).

Priority	2020/21*	2021/22	2022/23
Low priority	<ul style="list-style-type: none">n/a	<ul style="list-style-type: none">Ensuring that loan reconciliations are appropriately reviewed and that this review is formally documented.Ensuring that Direct Payments audits are completed on an annual basis.Maintaining a record of the individual inputting the key parameters/information into the CT / NNDR system, along with evidence of review and approval.ensuring the Council has an accounting policy on depreciation that is applied consistently for all assetsensuring Property, Plant and Equipment structures are depreciated in line with Highways Engineers' assessments.	<ul style="list-style-type: none">n/a

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