



Auditor's Annual Report

Northumberland County Council – year ended 31 March 2024

February 2025

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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 year ended 31 March 2024. 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 report on 27 February 2025. Our opinion on the financial statements was unqualified.



Value for money arrangements

We did not identify any significant weaknesses in the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 3 provides our commentary on the Council’s arrangements.



Wider reporting responsibilities

At the time of preparing this report the National Audit Office has not yet indicated which components (councils) it will select for further testing. As a result, our whole of government accounts work has not yet been concluded. We are, therefore, unable to issue our audit certificate which will formally close the audit for the 2023/2024 financial year until this work is complete.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We did not receive any questions or objections in respect of Value the Council’s financial statements.

Audit of the financial statements

Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit 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 and Group's financial position as at 31 March 2024 and of its financial performance for the year then ended. Our audit report, issued on 27 February 2025 gave an unqualified opinion on the financial statements for the year ended 31 March 2024.

A summary of the significant risks we identified when undertaking our audit 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 any internal control recommendations we made.

Qualitative aspects of the Council's accounting practices

We have reviewed the Council and Group's accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/2024 appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council by the deadline and were of a good quality.

Significant difficulties during the audit

During the course of the audit, we did not encounter any significant difficulties, and we have had the full co-operation of management.

Other reporting responsibilities

Reporting responsibility	Outcome
Narrative Report	We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Council.
Annual Governance Statement	We did not identify any 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.

Our work on value for money (VFM)
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:

- 

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.
- 

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:

- 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 with officers.

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.

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 outcome 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 weaknesses identified?	Other recommendations made?
 Financial sustainability	13-15	No	No	No
 Governance	16-19	Yes – follow-up of previous years significant weaknesses (page 11)	No	No
 Improving economy, efficiency and effectiveness	20-23	Yes – follow-up of previous years significant weaknesses (page 12)	No	No

Value for Money

Follow up of previously reported significant weaknesses in arrangements

In September 2024, we reported our follow-up of prior year significant weaknesses to the Council; these were weaknesses we had identified and reported in 2019/2020 to 2022/2023. As part of our work in 2023/2024, we followed up the progress made by the Council against the recommendations made and determined whether the significant weaknesses remained during the year.

Significant weaknesses in arrangements		Financial sustainability	Governance	Improving the 3Es	Work Undertaken and Conclusions Reached
1	<p>Significant weakness</p> <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>Recommendation</p> <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>				<p>Progress against the recommendation</p> <p>The Council's Constitution was reviewed and redrafted in 2022/2023; annual review of the Constitution now takes place, which is good practice.</p> <p>Work in respect of the Council delivering its 'Best Value' responsibilities continues, with significant work being carried out in this area. Further work is being carried out to develop the Council's approach and embed it.</p> <p>We identified no weaknesses in relation to exit packages from our 2023/2024 audit work.</p> <p>The matters reported in respect of international activities no longer apply.</p> <p>Stability at senior officer level has improved.</p> <p>There has been a significant reduction in Member complaints in respect of other Members. Work continues to promote constructive relationships between Members and between Members and Officers.</p> <p>Conclusions</p> <p>While there is scope for continued improvement, we identified no evidence of significant weaknesses in 2023/2024.</p>

Value for Money

Follow up of previously reported significant weaknesses in arrangements - continued

Significant weaknesses in arrangements		Financial sustainability	Governance	Improving the 3Es	Work Undertaken and Conclusions Reached
2	<p>Significant weakness</p> <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>Recommendation</p> <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>			●	<p>Progress against the recommendation</p> <p>A revised Corporate Plan was approved in May 2023 and a Planning and Performance Accountability Framework document was completed in March 2024. The Peer Review of 2024 highlighted further work required in order to translate the plan into delivery and performance monitoring.</p> <p>Progress continues to be made by the Advance Northumberland Group to address prior year recommendations, with Internal Audit reporting there were no longer any high priority recommendations outstanding.</p> <p>A stakeholder committee is in place to provide oversight.</p> <p>Conclusions</p> <p>While there is scope for continued improvement, we identified no evidence of significant weaknesses in 2023/2024.</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 financial sustainability

2023/2024 performance

We have completed our audit of the financial statements. Compared to the prior year, the Council's net assets increased from £904.471 million to £1,021.447 million for the year ended 31 March 2024.

The Council's Group balance sheet has similarly increased compared to the prior year, with net assets increasing from £958.061 million to £1,073.256 million for the year ended 31 March 2024.

The most significant change in the balance sheet relates to movements in the Council's share of the Local Government Pension Scheme (LGPS) pension fund assets; the balance was £50.250 million as at the year-end which had increased from a net pension liability in the prior year. It is not unusual to see material movements in the net pension assets or liabilities and this is consistent with our experience at other local authorities.

Earmarked reserves decreased from £178.175 million to £165.996 million for the year ended 31 March 2024. These reserves provide some mitigation against financial challenges; however, the Council will need to ensure that any use of reserves to manage the financial position over the next few years is properly planned. The use of reserves cannot be relied on to provide a long-term solution to funding gaps.

How the body ensures that it identifies all the 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. The latest budget report sets out the key assumptions underpinning the 2025/2026 budget, which include:

- pay award assumptions;
- inflation;
- interest rates; and
- known pressures, such as Children's and Adults services.

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.

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, as set out in the

following table. 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 2023/24 and to date, including consideration of the latest MTFP covering 2025/2026 to 2028/2029.

Table: Council under/overspends by year, with planned and actual savings

Year	Outturn: under / (over) spend £m	Savings planned £m	Savings achieved £m
2024/2025	Forecast (5.996)	10.85	8.68
2023/2024	0.35	17.05	15.96
2022/2023	5.92	9.70	5.58
2021/2022	(0.97)	8.17	6.60
2020/2021	7.01	9.80	7.37

Source: quarterly budget monitoring reports to Cabinet

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

Our review of the MTFP provides assurance that forecasts are based on prudent assumptions including the Council's latest understanding of future government funding arrangements, local revenue assumptions, service demand and other costs pressures. Arrangements for identifying and delivering savings include a timetable for consultation with stakeholders ahead of approval before each financial year. As in previous years, the Council is also forecasting the use of reserves to support the delivery of a balanced budget.

The MTFP sets out savings required to bridge funding gaps over the medium term. We are satisfied there are no significant weakness in arrangements, however, we recognise the continued challenges associated with delivering savings throughout the life of the MTFP.

VFM arrangements – financial sustainability

Overall commentary on the financial sustainability – continued

How the body plans to bridge its funding gaps and identifies achievable savings - continued

Savings of approximately £17.05 million were built into the budget for 2023/2024, not all of which were achieved; however, in the context of the net budget, the savings not delivered were not a significant amount. For 2024/2025 and 2025/2026, savings of £10.85 million and £15.82 million respectively are planned, of which £8.68 million has been achieved to date in 2024/2025.

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

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 body 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.

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.

As detailed in the MTFP, *“the Council's debt has historically been at a high level due to the level of lending to other organisations such as Advance Northumberland and its predecessor Arch and Northumbria Healthcare NHS Foundation Trust (at 31 March 2024 the Council lending to third parties was £392.973 million – prior year £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.

How the body identifies and manages risks to financial resilience

As part of the annual budget setting process, the Council's s151 officer sets out the 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 (including school reserves but excluding the General Fund balance):

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

Overall, earmarked reserves are currently projected to reduce to £120.522 million by 31 March 2025 and to £96.861 million by 31 March 2026.

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.

The Council's MTFP process is designed to reflect changes that affect the Council's financial plans. 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 evidence of 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

Overall commentary on governance

Overarching governance reviews

There have been several key governance reviews and reports feeding into improvement of the Council's arrangements, including statutory officer reports to the Council:

- independent review by Solace (Caller review) of 2022;
- resulting Challenge Board scrutiny, review and reporting to full Council, which concluded in June 2023;
- review of Advance / Arch
- 'lessons learnt' external review of international activities (Audit Committee July 2023)
- Corporate Peer Review of early 2024; and
- Corporate Peer Review progress report of late 2024.

Solace (Caller) review (2022)

This independent review was the catalyst for a period of significant change for the Council. The review report set out that the Council, *"needs to undergo a fundamental reset of its philosophy, processes, and relationships, starting with a clear understanding of what the council is about, the respective roles of members and officers, how decisions are formulated, taken, recorded, and challenged in a robust and appropriate way"*.

Following this independent review, the Council established a Challenge Board, which monitored the Council's response to the Caller review recommendations.

Challenge Board (2023)

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"*.

Lessons learnt review of international activities (2023)

This independent 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 Council has undergone significant change since then, with a senior management restructure, a redrafted Constitution, a new Corporate Plan and other changes since underpinning how the Council operates.

Corporate Peer Review (2024)

Carried out in early 2024, this independent review highlighted that: *"Northumberland has made improvements it can be proud of and should focus on further embedding these...it should celebrate and be proud of the significant progress made...Whilst at the same time remaining focused on embedding, driving, and monitoring the impact of further change...Lasting and sustained improvement inevitably takes time..."*

The **Corporate Peer Review progress report** was reported to full Council in January 2025; this report commended the Council for the action taken in response to the Corporate Peer Review of early 2024. It also highlighted the areas for continued improvement, set out against the themes of the review, namely:

- be clearer about what value for money means for Northumberland and fully develop the long-term capital programme;
- developing further the conditions for BEST to succeed;
- developing the use of data analytics to drive performance and service improvement;
- enabling local communities;
- continuing to grow the environment of openness and trust with all elected Members and find a way to draw a line under the past;
- ensuring there is a systematic on-going Member development programme;
- celebrate and recognise progress made on Northumberland's improvement journey, whilst remaining focused on embedding, driving, and monitoring impact of further change; and
- continue to be open to - and fully embrace learning from – internal and external challenge.

While there is scope for continued improvement, we identified no evidence of significant weaknesses in 2023/2024.

VFM arrangements – governance

Overall commentary on the governance reporting criteria - continued

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

The Council's governance framework is based on the 'three lines of defence' model, i.e.

- first line: business and operational management oversight (including operational management and project management, plus delivery of service plans);
- second line: oversight and support (including Scrutiny, risk management and financial management); and
- third line: independent assurance.

The Council's risk management policy is a fundamental part of its system of internal control. A refreshed corporate risk register was formally agreed by Cabinet in December 2023 and updated on a regular basis since. Following the senior management restructure during 2023, service strategic risk registers were aligned to the new structure as part of ensuring risks are consistently subject to review in accordance with the timescales established by the risk management framework.

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

The Council has a project timetable in place 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 2023/2024, 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 matters that indicate a significant weakness in arrangements. The Council recognises the financial pressures it faces.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

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.

The Council is working on linking financial and performance data as far as possible as part of its new Performance and Planning Framework. There is regular reporting of treasury management activity that details the Council's investments, cash and borrowing positions. The annual Treasury Management Strategy is 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 ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

Our prior year work identified significant weaknesses in this area, namely:

- the Council's Constitution required redrafting to be fit for purpose;
- how the Council delivered its 'best value' responsibilities; and
- governance and approval processes for exit packages.

We have set out our assessment of progress against the resulting recommendations earlier in this report (p11). Overall, while there is scope for continued improvement, we identified no evidence of significant weaknesses in 2023/2024.

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.

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 2023/2024. 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.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour

Our prior year work identified significant weaknesses in this area, namely:

- 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.

We have set out our assessment of progress against the resulting recommendations earlier in this report (p11). Overall, while there is scope for continued improvement, we identified no evidence of significant weaknesses in 2023/2024.

VFM arrangements – governance

Overall commentary on the governance reporting criteria - continued

Code of corporate governance

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

Annual Governance Statement

We considered the Council's Annual Governance Statement (AGS) and whether it was consistent with our knowledge of the Council. The 2023/2024 AGS set out six significant governance areas addressed in the year:

- completion of the Challenge Board's work;
- appointment of a new permanent, Monitoring Officer;
- divisional boundary review;
- new reports (including annual portfolio reports);
- corporate peer review; and
- report of the Director of Law and Governance (historical flaws in pay policies).

The AGS also summarised the progress made by the Council in addressing prior year significant governance areas for improvement:

- BEST (strategic change programme): work continues to embed and refresh the programme;
- independent review of governance: addressing the recommendations from the Caller review;
- external communications (corporate performance including development of a Planning and Performance Accountability Framework);
- disaster recovery/business continuity/cyber resilience testing;
- governance of Advance Northumberland (new stakeholder Committee established)
- review of Scrutiny; and
- a peer review (reported in early 2024 with a follow-up review in late 2024).

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

Risk management

The Council's corporate level risks, as reported in its 2023/2024 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.

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 also 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.

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. The 2023/2024 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.

Internal Audit's work has included reviews of cyber security, business continuity and disaster recovery and data storage; a number of high priority recommendations have been raised as a result. Follow-up of these recommendations has been partly deferred to allow the service sufficient time to make changes; it is important that the Council ensures sufficient resources are allocated to addressing these recommendations.

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.

Summary: overall commentary on the governance reporting criteria

Our work did not identify evidence of a significant weakness in arrangements.

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

Overall commentary on improving economy, efficiency and effectiveness

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

We note the progress made by the Council since the Caller review of 2022 and the subsequent Corporate Peer Review in 2024. A revised Corporate Plan was approved in May 2023 and a Planning, Performance and Accountability Framework document was completed in March 2024. The Peer Review of 2024 highlighted further work being required to translate the plan into delivery and performance monitoring.

Our prior year work identified significant weaknesses in this area, namely:

- a corporate plan which did not drive and link performance throughout the Council appropriately; and
- an inconsistent and inadequate performance management framework.

We have set out our assessment of progress against the resulting recommendations earlier in this report (p12). Overall, while there is scope for continued improvement, we identified no evidence of significant weaknesses in 2023/2024.

The Council's corporate plan has three corporate priorities:

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

The Annual Council Achievements Report, reported to full Council in March 2024, sets out overall progress against the three priorities, including examples of key achievements. Annual Portfolio reports have also been reported to the full Council as well over the course of the year.

Quarterly performance reporting against the Corporate Plan is reported to Cabinet. Performance indicators are being reviewed to ensure they are appropriate. The most recent quarterly performance reporting to Cabinet in December 2024 set out that the review of the Planning, Performance and Accountability Framework is on-going and will continue to be developed, alongside new ways of working, to ensure data and performance underpins all activity.

BEST

BEST is the Council's strategic change programme. As set out by the Council, *"it enables the Council to give residents the best experience through its services. It is the Council becoming more financially efficient and sustainable and ensuring value for money in the delivery of services. These changes not only focus on improving productivity and efficiency but also on managing demand and inflationary pressures. This includes the way the Council is run, how we utilise our resources, technology, assets, and people and how we deliver our services to customers"*.

The Corporate Peer Review progress report of late 2024 highlighted that the Council should continue to consolidate change and improvement activities, such as the BEST programme to embed it throughout all levels of the organisation.

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.

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; with a resulting overall rating of "Good", and the Council being assessed as 'good' in seven out of the nine areas inspected. The areas for improvement being:

- assessing people's needs; and
- equity in experience and outcomes.

The adult social care inspection report sets out: *"Northumberland built strong and meaningful relationships with partner organisations, including the voluntary and community sectors. This positively impacted people's experiences and outcomes including preventing delays in their care.*

The Authority needed to improve its understanding of the needs of different groups to ensure that people receive the specialist care they need. Overall, Northumberland should be pleased with the findings of this assessment, and the good practice we found."

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

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'.

More recently (early 2025), the Council has commissioned an independent review into the Fire and Rescue Service culture.

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

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'.

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.

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.

In addition, the Council leads on significant region-wise projects, such as the Northumberland Line project, a partnership between the Council, Network Rail and the Department for Transport, which saw the re-opening of the Northumberland Line in late 2024.

We note the Internal Audit report on the Council's capital project management arrangements, reported to the November 2024 Audit Committee; whilst no high priority recommendations were identified, specifically, medium priority recommendations were raised to improve arrangements and ensure they are consistently applied across all major capital projects.

Energy Central Campus Limited (ECC)

The Energy Central Campus Limited company was incorporated on 2 November 2021 to provide a vehicle through which all Energy Central Campus projects and activities will be delivered. It is a partnership between the Council, the Port of Blyth and the Offshore Renewable Energy Catapult, with a mission to create the pipeline of talent required for the expanding clean energy sector, at the same time, inspiring, training and delivering pathways to employment for the local community.

Phase I of the Energy Central Campus was the establishment of the Energy Central Learning Hub at South Harbour, Port of Blyth features a range of state-of-the-art industrial training, education and STEM-related skills facilities.

Phase II will see the establishment of an Energy Central Institute and is a key part of the Energising Blyth programme. This is a complex project being delivered in partnership with ECC Ltd., but also through the wider Blyth Town Board partnership arrangements and with funding partners – UK Government and NECA.

The Advance Northumberland Group

The Advance Northumberland Group (Advance) 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 Advance Northumberland Group results for the year ended 31 March 2024 were:

- gross profit of £14.4 million (prior year £21.4 million);
- fixed assets of £305.8 million (prior year £301.2 million); and
- net equity of £27.1 million (prior year £29.6 million).

The Council has made loans to the Advance Group of £272.9 million (prior year £276.5 million). We have considered the loan arrangements between the Council and Advance and our audit work confirmed they were operating as designed.

Our prior year work identified significant weaknesses in this area, namely:

- *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.*

We have set out our assessment of progress against the resulting recommendations earlier in this report (p12). Overall, while there is scope for continued improvement, we identified no evidence of significant weaknesses in 2023/2024.

We note the progress made by the Council and the Advance Northumberland Group. Internal Audit's 2023/2024 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 2023/2024. Internal Audit has reported there are no longer any high priority recommendations outstanding.

VFM arrangements – improving economy, efficiency and effectiveness

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

The Advance Northumberland Group – continued

A Shareholder Committee was set up by the Council in 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.

A report was taken to the July 2024 Shareholder Committee setting out the planned external independent review of review of governance and oversight arrangements of Council owned companies. We understand the report is now available and is being considered by the Council and sets out a number of recommendations to improve arrangements, building on the developments of the last few years.

Where the Council commissions or procures services, how the Council ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the Council assesses whether it is realising the expected benefits

NHS commissioners and providers

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.

As reported in the recent CQC adult social care inspection report of the Council, *“an outstanding feature of Northumberland was its strong and meaningful relationships with its statutory partners, and voluntary and community sectors. The local authority has established a sense of place in an ICB which is comprised of 14 local authorities. It has done this by being clear of its strategic ambitions, how partners were part of those ambitions, and how they can all work together with people to achieve them through strategic decision making, partnerships, commissioning and the delivery of services. Of note were Northumberland's arrangements in delivering Continuing Health Care (CHC), which held people at the center of decision making rather than organisational budgets. The function was delegated to the local authority by a section 75 agreement, where trust is exercised alongside frameworks providing accountability and oversight of decision making”*.

Leisure services

The Council retendered the provision of leisure services in December 2023 and Active Northumberland (Active) ceased providing leisure services on 31 March 2024. From 1 April 2024 the Council commissioned leisure services are provided by Places for People Leisure Management Limited.

As a result of this, the Council's guarantee of the pension fund obligations for former Active staff who are part of the Local Government Pension Scheme was triggered; this resulted in the Council subsuming the relevant

pension assets and liabilities. The Council obtained legal advice on this as part of the contract re-tendering exercise.

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

Our work did not identify evidence of a significant weakness in arrangements.

Other reporting responsibilities

Other reporting responsibilities

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 complete the WGA Assurance Statement in respect of its consolidation data. At the time of preparing this report the National Audit Office has not yet indicated which components (councils) it will select for further testing. As a result, our whole of government accounts work has not yet been concluded. We are, therefore, unable to issue our audit certificate which will formally close the audit for the 2023/2024 financial year until this work is complete.

Audit fees and other services

Audit fees and other services

Fees for our 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 Memorandum presented to the Audit Committee in November 2024, being the scale fee set by Public Sector Audit Appointments Limited (PSAA). Having completed our work for the 2023/2024 financial year, we can confirm that our fees are as follows:

Area of work	2023/2024 fees	2022/2023 fees
Planned fee in respect of our work under the Code of Audit Practice	£475,645	£178,840
Additional fees in respect of additional audit work and VFM	£15,690*	£93,329
Total fees	£491,335	£272,169

*The additional fee of £15,690 is because PSAA did not consolidate additional fees for these aspects into the 2023/24 scale fees, because at the time the 2023/24 scale fees were set PSAA had not reached a conclusion on what would be the appropriate fee for this. An explanation for this including that there would therefore be a need to treat this as an additional fee variation is set out on the PSAA website:

<https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/2023-24-auditor-appointments-and-audit-fee-scale/consultation-document-2023-24-audit-fee-scale/3/>

PSAA have subsequently determined the appropriate fees for these aspects as part of its 2024/25 scale fee process:

<https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/2024-25-auditor-appointments-and-audit-fee-scale/2024-25-audit-fee-scale/3/>

Fees for other work

In 2023/24, the Council engaged Forvis Mazars LLP for the following non-audit services:

- Teachers Pensions Assurance - £10,000 (plus VAT)
- Housing Benefits - £15,000 (plus VAT).
- Pooing of Housing Capital Receipts - £5,000 (plus VAT).

Appendices

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

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

Significant risks and audit findings

As part of our audit of the Council, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
Management override of controls (Council and Group)	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> accounting estimates impacting amounts included in the financial statements; consideration of identified significant transactions outside the normal course of business; and journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements. <p>Our work provided the assurance we sought in each of these areas and did not highlight any material matters.</p>
Valuation of property, plant and equipment (Council and Group)	<p>We:</p> <ul style="list-style-type: none"> critically assessed the Council’s arrangements for ensuring that the relevant valuations are reasonable and not materially misstated; critically assessed the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuers, including the PFI shared waste facility; considered the competence, skills and experience of the Valuers and the instructions issued to them; substantively tested revaluations, including critically reviewing the Council’s own consideration of assets not revalued in the year and why they are not materially misstated; where necessary, performed further audit procedures on individual assets to ensure the basis of valuations is appropriate. <p>Other land and buildings: testing identified several non-material errors, as detailed in the ‘misstatements’ section, which the Council has amended for in the revised accounts, giving a revised balance of £475.503m.</p> <p>Surplus assets: our initial testing of valuations identified non-material errors, resulting in an extrapolated £1.232m overstatement of surplus asset balances (included within ‘unadjusted misstatements’). We also challenged management over the increase in the valuation of surplus assets year on year and we obtained sufficient, appropriate assurance there was no material misstatement in the prior year balance.</p> <p>The Council also amended the surplus asset disclosures in the revised 2023/2024 accounts, to provide the required narrative disclosures.</p> <p>Property, Plant and Equipment disclosures: some amendments were required to disclosures as a result of testing, as detailed in the ‘misstatements’ section.</p> <p>Overall</p> <p>Subject to the amendments adjusted for and the non-material unadjusted errors we have reported, we have obtained sufficient, appropriate assurance.</p>

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

Significant risks and audit findings - continued

Risk	Our audit response and findings
Valuation of investment properties (Group)	<p>We:</p> <ul style="list-style-type: none"> critically assessed the Council’s arrangements for ensuring that investment property valuations included in the Group financial statements were reasonable and not materially misstated; reviewed the audit work carried out by the auditor of the Advance Northumberland Group; via review of the component auditor’s file, we considered the competence, skills and experience of the Advance Valuers; and obtained our own internal valuation team’s input to review a sample of the Advance Northumberland (Commercial) investment properties. <p>Rental income and direct operating expenses disclosure</p> <p>The Council has expanded its Group investment property note to disclosure the required rental income and direct operating expenses from investment properties. This amendment also required restatement of the current year (and prior year) Group Comprehensive Income and Expenditure Statement, to move the rental income and direct operating expenses from the line heading ‘Council subsidiaries’ to ‘Financing and Investment Income and Expenditure’. Rental income and direct operating expenses from Group investment properties totalled £22.560m and £7.701m respectively in 2023/2024 (prior year £22.341m and £6.661m). This amendment was adjusted for in the final revised 2022/23 financial statements, however, the draft 2023/2024 financial statements were produced prior to the finalisation of the 2022/2023 audit.</p> <p>Other disclosure amendments</p> <p>The Group investment property disclosures were also amended to:</p> <ul style="list-style-type: none"> provide additional narrative on the fair value hierarchy assumptions used when valuing the residential properties, including those which are ‘affordable properties’; and amend the value of investment properties categorised in the fair value ‘levels’ disclosed. <p>We challenged management on whether there was a clear description of the type of investment properties making up the total balance; as a result, the Council has included additional narrative setting out the split of investment properties between Advance Commercial and Advance Housing. We also recommended the rental income and expenses disclosure similarly provide this level of detail.</p> <p>We also reported an unadjusted non-material error in respect of the valuation of the Investment Properties, in relation to those rented out on an ‘affordable property’ basis.</p> <p>Overall</p> <p>Subject to the amendments adjusted for and the non-material unadjusted errors we have reported, we have obtained sufficient, appropriate assurance.</p>

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

Significant risks and audit findings - continued

Risk	Our audit response and findings
Local Government Pension Scheme net defined benefit asset / (liability) valuation (Council)	<p>We:</p> <ul style="list-style-type: none"> critically assessed the competency, objectivity and independence of the Tyne and Wear Pension Fund's Actuary, Aon Hewitt, and the Firefighters' Pension Scheme Actuary, who is also Aon Hewitt; liaised with the auditors of the Tyne and Wear Pension Fund to obtain confirmation that the controls are designed and implemented appropriately - this included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund is complete and accurate; reviewed the appropriateness of the gross pension asset and gross pension liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation - this included comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; agreed the data in the Actuary's valuation reports provided by the Fund's Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements; critically reviewed the subsumption by the Council of the Active Northumberland gross pension assets and liabilities as at 31 March 2024; and ensured all required disclosures are reflected in the financial statements and relevant notes. <p>Revised Actuary's report: similarly to prior years, the Council obtained a revised Actuary's report for its Local Government Pension Scheme obligations. This included updated calculations in respect of schools converting to Academy status as well as updated asset returns. There has been a resulting increase to the net pensions asset by £15.870m in the revised financial statements.</p> <p>Net pensions asset: we assessed the calculation of the asset ceiling, as compared to the net pensions asset recognised by the Council and discussed the Council's judgement in respect of surplus recognition.</p> <p>Pension Fund auditor assurance: we critically reviewed the assurance obtained from the Pension Fund auditor and as a result, we have reported a £4.853m unadjusted non-material potential understatement of the Council's share of Pension Fund assets.</p> <p>Active Northumberland: we carried out procedures to understand and test the transfer in of the gross pension assets and gross pensions liabilities of Active Northumberland staff who are part of the Local Government Pension Scheme as at 31 March 2024. This resulted in a net transfer in of £6.170m in 2023/24 (gross pension assets of £28.360m and gross pension liabilities of £22.190m). We obtained evidence of the subsumption of pension liabilities by the Council and sought to understand the timing of recognition of those liabilities, which linked to the award of the leisure services contract to a new provider in December 2023, with the new contract starting on 1 April 2024. Some amendments were made to disclosures in respect of this Active Northumberland 'transfer in' following our audit work.</p> <p>Pension disclosures: the Council has amended the pension disclosures to reference the following:</p> <ul style="list-style-type: none"> the Virgin Media legal case, following the High Court ruling of the summer of 2024; and the impact of the Matthews case (retained firefighter eligibility to join the pension scheme), relevant to its Firefighters' Pension Scheme obligations. <p>Overall</p> <p>Subject to the amendments set out above and our reporting of the impact of the unadjusted non-material adjustments, we have obtained sufficient, appropriate assurance.</p>

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

Unadjusted misstatements

Management assessed the misstatements in the table below as not being material, individually or in aggregate, to the financial statements and does not plan to adjust. We only report to you unadjusted misstatements that are either material by nature or which exceed our reporting threshold.

	Details of adjustment	Assets £000s	Liabilities £000s	Reserves £000s	Income & Expenditure Statement £000s
1	Dr: Revaluation Reserve / Capital Adjustment Account			1,232	
	Cr: Property, Plant and Equipment (surplus assets)	-1,232			
	Being the actual and extrapolated errors identified from our valuation testing for surplus assets.				
2	Dr: net pensions asset	4,853			
	Cr: remeasurement of the net defined benefit asset / (liability)				-4,853
	Being the estimated understatement of the Council's share of gross pension assets, arising from our review of the letter of assurance from the Pension Fund auditor.				
3	Dr: Debtors (Prepayments)	5,490			
	Cr: Transformation & Resources				-2,801
	Cr: Children, Education and Young People				-2,689
	Being the extrapolated errors from our testing of gross expenditure debited to the net cost of services. Errors due to expenditure relating to later years not being correctly accounted for.				
4	Dr: Debtors (NHS bodies)	3,137			
	Cr: Debtors (Other Entities & Individuals)	-3,137			
	Being the error identified from our cut-off testing: misclassification of accruals between lines of the debtors note – classified as "other entities & individuals" in the disclosure note, when it should have been classified as "NHS bodies".				
	Continued overleaf				

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

Unadjusted misstatements - continued

	Details of adjustment	Assets £000s	Liabilities £000s	Reserves £000s	Income & Expenditure Statement £000s
5	Dr: Debtors (Other Entities & Individuals)	1,654			
	Cr: Debtors (Central Government Bodies)	-413			
	Cr: Creditors (Other Entities & Individuals)		-1,241		
	Dr: Creditors (Central Government Bodies)		717		
	Cr: Debtors (Central Government Bodies)	-717			
	Being the extrapolation of errors arising from short term debtors testing: > error in respect of the Cyclescheme debtor: credit balances within the Cyclescheme debtor and misclassification of VAT: extrapolated error £1.654m; and > overaccrual of debtors and creditors based on estimated costs provided by a contractor: extrapolated error £0.717m.				
6	Dr: Gross Expenditure – Adults, Ageing & Wellbeing				3,465
	Cr: Creditors (Other Entities & Individuals)		-3,465		
	Being the extrapolation of an error of £0.058m arising from Creditor testing; extrapolated error £3.465m. Being the understatement of a year-end accrual.				
	Sub-total: unadjusted misstatements (Council only)	9,635	-3,989	1,232	-6,878
7	Dr: Group Creditors (Deferred income)		1,468		
	Dr: Group expenditure – subsidiaries				1,249
	Cr: Group income – subsidiaries				-1,468
	Cr: Group Work in Progress (Debtors)	-1,249			
	Being an unadjusted error arising from the audit of Advance.				
8	Dr: Group Long-term Borrowing		463		
	Cr: Group expenditure – subsidiaries				-463
	Being an outstanding historic loan balance in Advance's accounts, which needs to be released as it was previously repaid.				
	Continued overleaf				

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

Unadjusted misstatements - continued

	Details of adjustment	Assets £000s	Liabilities £000s	Reserves £000s	Income & Expenditure Statement £000s
9	Dr: Group Investment Properties (Advance Housing)	1,475			
	Cr: Group Usable Reserves – Subsidiaries			-1,475	
	Being the understatement of the valuation of some Investment Properties (IPs), which have been valued as affordable properties by Advance, but no restrictions on them exist (IPs have to be valued on the basis of 'highest and best use', not on the basis of current use - unless there are restrictions in place which a 'market participant' would have to adhere to).				
10	Dr: Group Taxation – subsidiaries				3,448
	Cr: Group Taxation and Non-specific grant income				-3,448
	Being the misclassification of the Group deferred tax adjustment.				
	Total: unadjusted misstatements (Council & Group)	9,861	-2,058	-243	-7,560
	PRIOR YEAR UNADJUSTED MISSTATEMENTS WITH A BROUGHT FORWARD IMPACT				
11	Dr: deficit / (surplus) from investments in equity instruments designated at fair value through other comprehensive income				1,170
	Cr: long-term investments	-1,170			
	Being the downward valuation of the Council's investment in Newcastle Airport shares.				
	Total: unadjusted misstatements (Council & Group) including prior year unadjusted misstatements	8,691	-2,058	-243	-6,390

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

Internal control recommendations

As part of our audit, we obtained an understanding of the Council's internal control environment and control activities relevant to the preparation of the financial statements, which was sufficient to plan our audit and determine the nature, timing, and extent of our audit procedures. Although our audit was not designed to express an opinion on the effectiveness of the Council's internal controls, we are required to communicate to the Audit Committee any significant deficiencies in internal controls that we identified in during our audit.

Significant deficiencies in internal control

A significant deficiency in internal control is one which, in our professional judgement, has the potential for financial loss, damage to reputation, or a loss of information which may have implications on the achievement of business strategic objectives. Our view is that observations categorised as a significant deficiency is of sufficient importance to merit the attention of the Audit Committee.

We did not identify any significant deficiencies in the Council's internal controls.

Other observations

We also record our observations on the Council's internal controls where, in our professional judgement, there is a need to strengthen internal control or enhance business efficiency that do not constitute significant deficiencies in internal control but which we view as being important for consideration by management. Our other internal control observations are set out in this section. These have been reported to management directly and have been included in this report for your information.

Current year internal control observations

We reported in our Audit Completion Report the following internal control observations. These have been reported to management directly and have been included in this report for your information. These are:

- **Property, Plant and Equipment - reliance on a manual excel fixed asset register;**
- **Property, Plant and Equipment - valuation component splits;**
- **Property, Plant and Equipment - accounting for assets under construction;**
- **impairment of debtors allowance – Advance Northumberland allowance;**
- **review of year-end debtor balances;**
- **compliance with the policy on earmarked reserves transfers;** and
- **analytical review of the accounts.**

We have also set out in our Audit Completion Report our follow-up of observations we previously raised, being:

- **Property, Plant and Equipment - ensuring council dwelling valuations are supported by three comparables** (remains an 'open' recommendation);
- **Property, Plant and Equipment - retention of evidence to support valuations of property, plant and equipment** (assessed as 'closed');
- **missing related party Member returns** (now assessed as 'closed'); and
- **journals controls** (now assessed as 'closed').

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