

Northumberland County Council (incorporating  
Northumberland County Council Pension Fund)

Annual audit letter to the Members of the Council  
for the year ended 31 March 2015

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# The big picture

We are required to issue an annual audit letter to Northumberland County Council (the "Council") following completion of our audit procedures for the year ended 31 March 2015. The letter is to be published on the Council's website.

Below are the conclusions we have formed on the significant areas of the audit process.

<b>The Council's financial statements (including Group accounts, the County Council Pension Fund and Firefighters' Pension Fund)</b>	We issued an unqualified opinion on 30 September 2015 on the financial statements for the year ended 31 March 2015.
<b>The Council's local government pension scheme annual report</b>	We issued an unqualified opinion on 30 September 2015 confirming that the Council's pension scheme annual report for the year ended 31 March 2015 was consistent with the Council's financial statement.
<b>Value for money conclusion</b>	We issued an unmodified conclusion on 30 September 2015 on the Council's arrangements for securing value for money for the year ended 31 March 2015.
<b>Whole of Government Accounts return</b>	We met the National Audit Office reporting deadline, reporting on 2 October 2015 that the consolidated return is consistent with our audited statutory accounts and we have no errors in excess of the reporting threshold to report.

# 1. Purpose and responsibilities

## Purpose of this letter

The purpose of this Annual Audit Letter (“Letter”) is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the members of the Council as it is the responsibility of the members to ensure that proper arrangements are in place for the conduct of its business and that the Council has relevant safeguards and properly accounts for public money.

The Letter will be published on the Public Sector Audit Appointments Limited website at [www.psa.co.uk](http://www.psa.co.uk) and should also be published on the Council’s website.

## Responsibilities of the appointed auditor and the Council

### Responsibilities of the appointed auditor

We have been appointed as the Council’s independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities.

As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (the Code). Under the Code, we review and report on:

- the Council’s financial statements;
- the Council’s local government pension scheme annual report; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion) in respect of its local authority functions.

We also provide an assurance report to the National Audit Office on the financial information prepared by the Council for consolidation into the Whole of Government Accounts.

### Responsibilities of the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

As part of our procedures we have considered how the Council has fulfilled these responsibilities.

## 2. Financial reporting

### Key issues arising from the audit of the Council's financial statements

We have issued a separate report to the Audit Committee for the year ended 31 March 2015, which details the findings from our audit of the financial statements and the Council's value for money arrangements.

In that report we explained how we focused our work on areas which involve more complex accounting judgements and estimation. A summary of the significant risks identified as part of our audit is included below:

Significant audit risk	Conclusion
<b>Grant income recognition</b>	Grant income is a significant audit risk due to the requirement for management to consider each type of grant individually to consider appropriate treatment, and the associated judgement in relation to this. Our testing concluded that grant income recognition is appropriate.
<b>Management override of controls</b>	Management override of control is a risk that has potential to affect all organisations. We did not identify any material weaknesses in controls or any evidence of management override. We did not identify any improper use of accounting estimates or judgements however we did note that management have taken a prudent approach with regard to certain provisions.
<b>Valuation of fixed assets</b>	The Council values its fixed assets on a rolling basis over five years. The valuation of fixed assets is a significant audit risk due to the changes in market conditions and the level of judgement applied to revaluation assumptions. Our testing of fixed asset valuations concluded that the methodology and assumptions applied appear reasonable.
<b>Calculation of provisions</b>	Provisions are highly judgemental and must be recognised in line with the specific criteria as set out within the Code. A significant risk was identified in relation to the completeness and accuracy of three specific provisions; repairs and maintenance, land restoration and estates rationalisation. Our work in relation to provisions concluded that management adopted a prudent approach in identifying and calculating provisions.

We did not identify any significant issues or material weaknesses in internal controls however we identified control recommendations in five areas covering related parties, fixed assets, third party monies, redundancy provisions and IT policies.

### Key issues arising from the audit of the Pension Fund annual report

We reported our findings on the audit of the Pension Fund in a separate report to the Audit Committee. No significant issues were identified in relation to the audit. A summary of the significant risks identified as part of our audit is included below:

Significant audit risk	Conclusion
<b>Management override of controls</b>	We have not identified any material weaknesses in controls or any evidence of management override. We have not identified any improper use of accounting estimates or judgements.

## 2. Financial reporting (continued)

### Key issues arising from the audit of the Pension Fund annual report (continued)

Significant audit risk	Conclusion (continued)
<b>Contributions</b>	Contributions income is a significant audit risk due to complexity of tiered employee contribution rates, changes to what qualifies as pensionable service and a new schedule of rates coming in to force in the year. Our testing concluded that contribution income recognised is appropriate.
<b>Benefits</b>	Benefits paid is a significant audit risk due to complexity of benefits in retirement as they accrue under both historic scheme rules and the new career average section of the scheme, changes to revaluation and accrual rates and the complexity of calculation for ill health and death benefits. Our testing concluded that benefits paid are not materially misstated.
<b>Investments</b>	Investment valuations of certain investments (overseas unquoted pooled investment vehicles and quoted property funds) have been identified as a risk because the valuation is performed by the fund managers and prices for these investments are not publically available. Our testing has concluded that investments held by the pension fund are not materially misstated.

### Key issues arising from the work performed on the Whole of Government Accounts return

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the Council's whole of government accounts return. Our report is used by the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

We reported to the National Audit Office on the WGA ahead of the October deadline. We reported that we consider the consolidation return to be consistent with the audited statutory accounts and that there are no uncorrected errors above the NAO's reporting threshold of £1m.

### 3. Value for Money

#### Background

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

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2015
<b>The organisation has proper arrangements in place for securing financial resilience.</b>	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
<b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b>	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

#### Risk Assessment

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

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

We updated our risk assessment to take account of the financial and performance outturn information for 2014/15, and through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which came to our attention from our work carried out in relation to our other Code responsibilities. No changes were made to our VFM audit plan as a result of this update to our risk assessment.

#### Audit work completed to address the VFM Conclusion

We draw upon the following sources of assurance relating to our VFM responsibilities :

- the Council's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2015; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

### 3. Value for Money (continued)

VFM Risks	Conclusion
<b>Financial Resilience</b>	<p>The savings target for the next four years was quantified by the Council to be £95m. We identified that the budget development process for 2015/16 was consistent with prior years and budget reduction measures were identified to cover the £28.8m of the required savings in 2015/16 and £15.6m of the required target in 2016/17. The remaining target saving is profiled over 2017/18 and 2018/19.</p> <p>We completed our review of a sample of cost saving plans and noted that while there is some slippage in individual projects, overall the financial impact of cost reduction plans are being managed effectively within the Directorates.</p> <p>In addition to delivering budget reduction measures, the Authority has also increased the level of usable reserve in the year. This will be important in enabling the Authority to respond the significant financial pressures it faces.</p>

Locally Agreed Work	Conclusion
<b>Ofsted</b>	<p>The Council received a report from Ofsted in 2013 which contained a number of concerns and recommendations requiring actions. During 2014/15 we held meetings with key members of management in relation to the actions, reviewed meeting minutes and other documentation supporting this where available and considered the most recent GCSE performance of the Authority.</p> <p>We concluded that a number of measures were implemented in response to concerns raised by Ofsted although it is too early to fully assess the effectiveness of these measures as the Council estimates that it will take 3 years for them to be fully embedded and yield results. Going forward this should continue to be an area of focus for the Council.</p>
<b>Planning Services</b>	<p>We carried out a review of planning services in late 2013/14 and early 2014/15 which identified a number of recommendations for improvement to drive efficiency and improve performance. As part of our work we discussed progress with the Head of Planning and Housing and reviewed actions to progress the recommendations raised.</p> <p>We concluded that the planning service have taken steps to implement the recommendations accepted by the Council in May. While these changes will take time to be fully reflected in the performance results, management have noted that they have already begun to see an improvement in performance as a result of the measures taken.</p>
<b>Follow up: Estates Rationalisation</b>	<p>In 2013/14 we reported that progress was slow in progressing estates rationalisation since Local Government Reorganisation in 2009. Following discussions with key members of the management team and a review of the timetable an estates plans, we concluded that progress has been made in relation to strengthening arrangements for the rationalisation of the estate.</p>

#### Conclusion

We issued an unmodified value for money conclusion.



## 4. Purpose of our report and responsibility statement

### What we report

Our report is designed to help the Council discharge its governance duties and includes:

- Results of our work on key audit judgements and our observations on the quality of your Financial Statements.
- Our value for money conclusion, based on work undertaken in response to our risk assessment and guidance issued by the Audit Commission in October 2014.
- Results of any other work undertaken in relation to our responsibilities and duties in line with the Audit Commission Act 1998 and Code of Audit Practice 2010.
- Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors' report.

### What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by Officers or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### Other relevant communications

- The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and in this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.
- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you previously.

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



**Deloitte LLP**

Chartered Accountants

Newcastle

October 2015

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

# Appendix 1: Independence and fees

<b>Independence confirmation</b>	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
<b>Non-audit services</b>	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
<b>Relationships</b>	There are no other relationships with the Council and its known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

	Current year £'000	Prior year £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of the Council's annual accounts, assurance report on the Whole of Government accounts and the value of money conclusion	254	253
Fees payable for the audit of the Northumberland County Council's Pension Fund annual report	23	23
Fees payable for the certification of grant claims	13	15
<b>Total fees payable in respect of our role as Appointed Auditor</b>	<b>290</b>	<b>291</b>
<b>Non audit fees (Note 1)</b>	<b>18</b>	<b>12</b>

**Note 1:** The non audit services for 2013/14 relate to the audit of an ERDF grant. We do not note any independence issues in relation to this work as the audit was performed by a separate team.

The non audit services for 2014/15 include £15k for tax work performed in relation to the transfer of leisure services. The additional £3k is for the audit of the Teachers' Pension return. We do not note any independence issues in relation to this work as it was performed by separate teams.

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