



North Tyneside Council

Audit Committee

Friday, 22 September 2023

Wednesday, 27 September 2023 0.01 Chamber – Quadrant, The Silverlink North,
Cobalt Business Park, North Tyneside, NE27 0BY commencing at 6.00 pm.

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To receive the provisional Audit Results Report prepared by the Authority's external auditors.

Circulation overleaf ...

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Members of the Audit Committee

Malcolm Wilkinson (Chair)

Councillor Liam Bones

Councillor Louise Marshall

Councillor Tricia Neira

Councillor Andrew Spowart

Dr Stuart Green (Deputy Chair)

Councillor Debbie Cox

Councillor Tommy Mulvenna

Councillor John O'Shea

North Tyneside Council Audit Results Report

Year ended 31 March 2022

20 September 2023

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
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Agenda Item 5

Private and Confidential

20 September 2023

Audit Committee
North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

Dear Audit Committee Members

2021/22 Audit Results Report

We are pleased to attach our Audit Results Report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for **27 September 2023** on further progress to that date and explain the remaining steps to the conclusion of the audit and issue of our opinion. **Updates to this report since the last version presented to the committee are highlighted in 'green'.**

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on North Tyneside Council's (the Council's) accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that our regulator and society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Audit Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

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

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The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement contract of 2 October 2017.

This report is made solely to the Audit Committee and management of North Tyneside Council in accordance with the engagement contract of 2 October 2017. Our work has been undertaken so that we might state to the Audit Committee, and management of North Tyneside Council, those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of North Tyneside Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary



Scope update

In our Audit Planning Report presented to the 23 March 2022 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- **Changes in materiality:** We updated our planning materiality assessment using the draft financial statements. Based on our materiality measure of gross expenditure on the provision of services, we updated our overall materiality assessment to £12.7 million for the Group (Audit Planning Report – £12.5 million). This results in updated performance materiality, at 50% of overall materiality, of £6.3 million, and an updated threshold for reporting misstatements of £0.63 million.
- **Additional significant risks:** We have continued to update our risk assessment process throughout the audit and identified the following additional risks of material misstatement since we presented our Audit Planning Report to the Audit Committee:
 - **Infrastructure assets:** An issue **was** raised through the National Audit Office's Local Government Technical Group that local authorities are not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part/component has been replaced or decommissioned. The Council's asset register does not tend to record infrastructure capital expenditure with sufficient detail to enable identification of prior cost of replaced parts/components and related accumulated depreciation. It is not possible to identify the cost and accumulated depreciation balances that needs to be derecognised following replacement of an asset and there is a risk that the gross book value and accumulated depreciation are materially misstated in the financial statements.

To address this issue, there **were** two proposals taken forward:

 1. CIPFA **issued** an update to the Code of Practice for Local Authority Accounting to allow reporting on a net basis for infrastructure assets
 2. The Department for Levelling Up, Housing and Communities **issued** a statutory instrument to allow derecognition on a nil residual value disposal.

Further information on this risk is included within section 2 of this report.
 - **Updates to other areas of audit focus:** In our audit planning report, we included an area of audit focus in relation the valuation of the local government pension scheme. In March 2023, the 2022 triennial valuation of the Tyne and Wear Pension Fund was issued. As the financial statements were still open while management worked through the new guidance for infrastructure assets referred to above, there was a requirement for management to consider the impact of the triennial valuation on the 2021/22 financial statements and whether it represented an adjusting post balance sheet event.



Executive Summary

Status of the audit

Our audit work in respect of the Council opinion *is substantially complete and regular updates on these matters have been provided to management through our weekly liaison calls*. The following items relating to the completion of our audit procedures were outstanding at the date of drafting of this report:

- Receipt of assurances required from the Tyne and Wear Pension Fund auditor to conclude on our work on the LGPS liability;
- Receipt of assurances from EY actuaries on the recalculation of the LGPS liability;
- Finalisation of the partner and engagement quality review of the audit file; and
- Audit completion procedures and receipt of signed financial statements.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the narrative report and financial statements which could influence our final audit opinion.

Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 (the 2020 Code), we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified 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; and
- **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.

Status of the audit – Value for Money

In our Audit Planning Report, we noted that our value for money (VFM) risk assessment was still underway. Our initial risk assessment did not identify any risk of significant weakness against the three reporting criteria we are required to consider under the 2020 Code. We *have revisited* our assessment *as we approach conclusion* of the audit of the financial statements *and confirm* that we have not identified a risk of significant weakness.



Audit differences

Management has corrected material misstatements in relation to:

- *Reclassification of short term deposits incorrectly disclosed as cash and cash equivalents*
- *Identification of the fact that the Dedicated Schools Grant deficit was incorrectly reported as a useable reserve*
- *The value of the Local Government Pension Scheme liability, following receipt of the 2022 triennial valuation of the scheme.*

A number of other, more minor adjustments, have been made to the disclosures in the initial draft of the financial statements received for audit.

Unadjusted misstatements with a cumulative impact on the Comprehensive Income and Expenditure Statement of £0.3m have been reported in Section 4 of the report.



Executive Summary

Areas of audit focus

In our Audit Planning Report we identified a number of key areas of focus for our audit of the financial statements. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Risk of fraud in revenue and expenditure recognition

We identified £1.4 million of grant income which was double counted in the financial statements which management has adjusted in the final draft of the financial statements. We also identified some cut-off errors in our sample testing and we have included projected errors in section 4 of this report. We also include some commentary on significant judgements and assumptions made in the production of the financial statements in section 3.

Misstatements due to fraud or error

As reported in our 2020/21 Audit Results Report, the Equans team continue to make significant adjustments outside of the general ledger as part of the financial statement preparation process which increases the risk of material misstatement due to fraud or error. We have provided more detail on this as part of our response to the risk on the financial statement close process.

Valuation of land and buildings held at open market value

We have concluded our work in this area and reported an unadjusted difference in section 4 to reflect the fact that, in the Group financial statements, no consolidation adjustment is made to record property held by the subsidiary companies at fair value as required by the CIPFA Code.

Valuation of land and buildings held at depreciated replacement cost

We have concluded our work in this area and have no material matters to report.

Valuation of Local Government Pension Scheme liability

At the time of preparing this report, we have not received all of the assurances that we require to conclude on our work on the valuation of the Local Government Pension Scheme liability.

Financial Statement Close Process

As part of the financial statement preparation process, the Equans team continued to process all recharges and transfers between account codes in their Microsoft excel working papers and not the general ledger as we would expect to see. As a consequence of the approach taken there has been a significant amount of additional audit work required to gain assurance over these transactions. The amount of manual intervention in the financial statement preparation process also means that we have been unable to adopt our leading edge digital audit methodology, as we have at other local authorities, which would provide greater assurance over full populations of data and focus the sample testing on those areas of greatest risk.

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee or management.



Executive Summary

Other reporting issues

We have not yet received the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We expect that the guidance will be provided later in the year and therefore our audit certificate will remain open until this element of our responsibilities are completed. If consistent with the agreed approach for 2020/21 then we expect that the Council will be below the reporting threshold for 2021/22.

Control observations

During the audit, we identified the following deficiency in internal control:

- As part of the financial statement preparation process, the Equans team have continued to post a significant volume of manual adjustments outside of the general ledger. As these adjustments are not subject to the same processes and controls as journals processed within the general ledger, the Council's financial statements are more susceptible to misstatement through either error or fraud.*

Independence

Please refer to Section 8 for our update on Independence.



02

Areas of Audit Risk



Areas of Audit Risk

Risk of fraud in revenue and expenditure recognition (Significant risk)

Risk of fraud in revenue and expenditure recognition – inappropriate recognition of grants with terms and conditions attached, inappropriate capitalisation of revenue expenditure and omission of expenditure from the financial statements*

* Fraud risk

What is the risk?

Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Local authorities have a statutory duty to balance their budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. During the course of the Covid-19 pandemic, the focus was on providing services in a challenging environment and progress in achieving efficiency targets slowed, which means that there are greater levels of efficiency to be achieved over the medium terms. Significant levels of additional Covid-19 grant funding were received in 2020/21 but, as this decreases as we exit the pandemic, there will be a great pressure on local authorities in managing the financial position.

What judgements are we focused on?

Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, the potential improper capitalisation of revenue expenditure and the omission of expenditure from the financial statements.

We reviewed the draft financial statements of the subsidiaries which were consolidated into the Group and identified that none of the accounts to which we had attached our risk are material to the Group.

We therefore focused our audit work on the Council single entity financial statements.

What did we do?

- We tested a sample of grant income with terms and conditions to ensure that where management judgements were made relating to the recognition of the income, all terms and conditions were satisfied.*
- We tested a sample of capital expenditure incurred to ensure that it was correctly classified as capital expenditure and should not instead have been included as revenue.*
- We reviewed a sample of transactions recorded in the ledger and payments made from the bank account post year-end and confirmed that the associated expenditure was recorded in the correct period.*

What are our conclusions?

We have completed our work in this area and our work did not identify any material misstatements as a result of fraud in revenue and expenditure. Management did make adjustments to the financial statements to correct the following errors identified during our testing of grant income:

- £1.49 million adjustment for the double counting of Covid-19 Schools Recovery grant and Covid-19 Schools Catch up Premium; and*
- A £3.5 million reclassification between debtors and creditors in relation to the housing benefit grant which had not been reallocated to the relevant subjective codes for the final two months of the year.*

We did not identify any errors from our review of post year-end payments and ledger transactions, but we did identify some cut-off errors during our in-year income and expenditure sampling. We projected the errors identified across the total income and expenditure population, and have included the projected errors in the summary of audit differences in section 4 for the committee to consider in the context of total differences identified.



Misstatements due to fraud or error (Significant risk)

Misstatements due to fraud or error*

* Fraud risk

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

Our work in this area is focussed on reviewing manual journal entries in the financial statements preparation process, as this is the way in management would most easily be able to manipulate accounting records.

What are our conclusions?

We have completed our work in this area and have not identified any material misstatements due to fraud or error. We have set out below some of the key judgements and assumptions that management have taken when preparing the financial statements, so that the Audit Committee can confirm that they are satisfied with the approach taken:

- When calculating the provision for successful appeals against non-domestic rates charges, which has a value of £3.3 million in the financial statements, management provide for 100% of the maximum value at risk. Management accept that they will not end up paying the full amount of the rateable value from the open appeals currently on the system, however, they considered the difference would be comparable to the risk. We have performed some benchmarking of the provision against other local authorities and are satisfied that there is unlikely to be a material misstatement arising; however, we do recommend that management develop a more precise method of calculation for future years.*

What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger of the Council.*
- We reviewed accounting estimates for evidence of management bias.*
- We evaluated the business rationale for any significant and / or unusual transactions.*
- To address the risk in the other components consolidated into the Group we designed a testing programme for all material balances and performed an overall analytical review at Group level, covering all components.*



Areas of Audit Risk

Misstatements due to fraud or error (Significant risk) (continued)

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

* Fraud risk

What are our conclusions?

The Council is required to set its Minimum Revenue Provision ('MRP') policy prior to the start of the financial year and on 18 February 2021 the Council approved a policy to calculate the level of MRP set aside based on asset lives. Management engaged with 'Link' as their treasury management advisors to perform a review of their MRP approach and, following this review, a decision was taken to calculate MRP on an annuity basis. Management took advice from their treasury management advisors and concluded that, as the annuity method of calculation is outlined within the statutory guidance as an appropriate calculation methodology for an asset life MRP policy, the change was considered to be a calculation change rather than a change to the MRP policy and whilst a report was presented to Council for information, formal approval for the calculation change was not obtained before preparing the 2021/22 financial statements. The impact of the new calculation methodology is that the time to pay the outstanding debt is reduced and, therefore it is considered a more prudent approach by management. There is no clear guidance on applying changes in calculation methodology for MRP; however, in our view the change in calculation method should also have been approved by Council before it was applied in the financial statements given the increased focus on MRP set aside across the sector. The financial impact of calculating MRP using the revised method in 2021/22 is £5.9 million, which is not material in the context of the audit but we ask the Audit Committee to confirm that they are comfortable with the judgement taken by management.



Areas of Audit Risk

Valuation of land and buildings held at existing use value (Significant risk)

Valuation of land and buildings held at existing use value

What is the risk?

The value of land and buildings held at existing use value is £60.9 million. These represent significant balances in the Council's financial statements and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Our experience from the audit of property valuations for the year ended 31 March 2021 is that there is a greater likelihood of uncertainty in valuations of land and buildings held at existing use value, and therefore we attach our significant risk to these assets.

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What judgements are we focused on?

Our work in this area focussed on:

- The basis of valuation and the valuation methodology applied by the Council's internal valuation specialist.*
- The robustness of data inputs into the valuation.*
- The accuracy of the valuation calculations and the subsequent accounting journals.*
- Accounting policies for consolidation of properties held by the subsidiary companies into the Group.*

What did we do?

- We considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.*
- We sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).*
- We reviewed the accounting journals processed by management to obtain assurance that the treatment of the revaluation is appropriate.*

What are our conclusions?

We have concluded our work in this area and have no matters to report to the Audit Committee.



Infrastructure Assets (Significant risk)

Infrastructure Assets

What is the risk?

An issue has been raised through the National Audit Office's Local Government Technical Group that local authorities are not writing out the gross cost and accumulated depreciation on infrastructure assets (e.g. roads, footways, streetlighting) when a major part / component has been replaced or decommissioned. The Council's asset register holds infrastructure assets with a net book value of £178.7 million at 31 March 2022 but does not tend to record infrastructure capital expenditure with sufficient detail to enable identification of prior cost of replaced parts / components and related accumulated depreciation. It is therefore not possible to identify the cost and accumulated depreciation balances that need to be derecognised following replacement of an asset and, as a consequence, there is a risk that the gross book value and accumulated depreciation are materially misstated in the financial statements.

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What judgements are we focused on?

As this issue impacts a large number of local authorities, not just the Council, temporary amendments have been made to the Council's reporting framework to enable authorities and auditors to finalise statements of account whilst a longer term solution is sought. These changes include:

- An amendment to the CIPFA Code to remove the requirement to separately disclose the gross cost and accumulated depreciation and impairment, leaving only a requirement to disclose the net carrying amount; and*
- A statutory override to allow local authorities to assume that net opening balances for infrastructure assets are correct.*

We therefore focused on management's implementation of these amendments to the reporting framework into the financial statement disclosures and the movements in net value during the current year.

What did we do?

- Reviewed the amended financial statement disclosures for consistency with the revised reporting framework;*
- Evaluated the useful lives applied to infrastructure assets in determining the depreciation applied during the current year.*

What are our conclusions?

The financial statement disclosures appropriately reflect the changes which have been made to the reporting framework.

We would like to draw to the Audit Committee's attention that the amendments to the reporting framework are temporary and will apply only until 2024/25. While these temporary amendments are in place, management should review how expenditure on infrastructure assets is recorded to allow separate identification of individual assets in the accounting records.

Other areas of audit focus

We identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Valuation of Land and Buildings – Land and buildings held at Depreciated Replacement Cost (£180.6 million)

The value of land and buildings held at Depreciated Replacement Cost represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Pension asset and liability valuation

The Local Authority Accounting Code of Practice and IAS 19 requires the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Tyne and Wear Pension Fund.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2022, the gross liability totalled £1,618 million. This is offset by asset investments held by the Tyne and Wear Pension Fund of £1,160 million at 31 March 2022. We note that the valuation of some of these assets is complex as they are classified as level three investments. This gives a net liability of £0.458m (£0.558m at 31 March 2021).

The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt. Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. We also note that in 2020/21 there were material adjustments made in the financial statements to account for update returns on asset investments received from the Tyne and Wear Pension Fund.

What were our Conclusions?

We have concluded our work in this area and have no misstatements to report to the Audit Committee. We did, however, note that when calculating the value of land accompanying the assets valued at depreciated replacement cost, management's valuation experts (Capita) used recent 2019 HCL Land Value Estimates. We made inquiries of the expert who confirmed that they view this data as the most reliable baseline; however we have also performed our own sensitivity analysis based on more recent market data to obtain assurance that the use of this data is unlikely to lead to a material misstatement in the financial statements. We do, however, recommend that management challenge their expert on whether there is a more recent data set that could be used in future valuations.

At the time of preparing this report we have not yet received the IAS 19 assurances from the auditor of the Tyne and Wear Pension Fund over the asset values reported.

We have engaged our EY actuarial experts to review the calculation of the liability for both the Tyne and Wear Pension Fund and Teachers Pension Unfunded Scheme and obtained assurance that the liability reported in the financial statements is materially accurate.

Our EY actuarial experts did, however, note that figures for the Teachers Pension Unfunded Scheme appeared wider than usual tolerances, with our recalculated liability being £2.4 million (6%) greater than that calculated by Aon. This does still fall within our acceptable materiality thresholds but we have included £1.5m (the element of the difference above the usual tolerance) as a judgemental difference in section.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Financial statement close process

As part of our 2020/21 audit we identified that there were a large volume of manual material adjustments made by management, outside of the general ledger, as part of the financial statement preparation process. As these adjustments are not subject to the same processes and controls as transactions posted in the general ledger, there is an increased risk of error.

We also note that the volume of these adjustments means that we are unable to apply our new digital audit approach which would allow us to analyse the financial statements, using whole populations of data, and focus our substantive testing on those areas with more judgement and risk.

What were our conclusions?

As part of the 2021/22 financial statement preparation process, the Equans team continued to process all recharges and transfers between account codes in their Microsoft excel working papers and not the general ledger as we would expect to see.

As a consequence of the approach taken there has been a significant amount of additional audit work required to gain assurance over these transactions. The amount of manual intervention in the financial statement preparation process also means that we have been unable to adopt our leading edge digital audit methodology, as we have at other local authorities, which would provide greater assurance over full populations of data and focus the sample testing on those areas of greatest risk.



03 Audit Report



Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH TYNESIDE COUNCIL

Opinion

We have audited the financial statements of North Tyneside Council ('the Council') and its subsidiaries (the 'Group') for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

- Council and Group Movement in Reserves Statement,
- Council and Group Comprehensive Income and Expenditure Statement,
- Council and Group Balance Sheet,
- Council and Group Cash Flow Statement
- the related notes 1 to 44
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, and the related notes 45 to 56
- Collection Fund and the related notes 57 to 62

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of North Tyneside Council and the Group as at 31 March 2022 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Draft audit report

Our opinion on the financial statements

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Council's ability to continue as a going concern for a period to March 2025.

Our responsibilities and the responsibilities of the Director of Resources with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Other information

The other information comprises the information included in the Annual Financial Report, other than the financial statements and our auditor's report thereon. The Director of Resources is responsible for the other information contained within the Annual Financial Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.



Draft audit report

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- *in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Council*
- *we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)*
- *we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)*
- *we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)*
- *we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)*
- *we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)*
- *we are not satisfied that the Group and the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.*

We have nothing to report in these respects

Responsibility of the Director of Resources

As explained more fully in the Statement of the Director of Resources' Responsibilities set out on page 31 , the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements], in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Draft audit report

Our opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- Local Government and Housing Act 1989 (England and Wales),
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Education Act 2002 and school Standards and Framework Act 1998 (England),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020, and 2022,
- National Health Service Act,
- Planning Act 2008
- The Local Government Finance Act 2012
- The Local Audit and Accountability Act 2014 (as amended), and
- The Accounts and Audit Regulations 2015.

In addition, the Group and the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.



Draft audit report

Our opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

We understood how North Tyneside Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Group and the Council's committee minutes, through enquiry of employees to confirm Group policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Group and the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance (through improper recognition of grant income with terms and conditions attached, inappropriate capitalisation of revenue expenditure and omission of expenditure from the financial statements) and management override of controls to be our fraud risks.

To address our fraud risk around the manipulation of reported financial performance, we performed the following procedures:

- Tested a sample of grant income with terms and conditions to check that all terms and conditions had been satisfied before recognition of revenue.
- Tested a sample of capitalised expenditure to check that the capitalisation criteria were properly met and the expenditure was genuine
- Tested a sample of transactions recorded in the ledger, and payments made from the bank account post year-end, to check that the associated expenditure was recorded in the correct period.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately. We reviewed significant estimates in the financial statements for evidence of management bias and did not identify any significant unusual transactions as part of our audit procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Draft audit report

Our opinion on the financial statements

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

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether North Tyneside Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether North Tyneside Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, North Tyneside Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We cannot formally conclude the audit and issue an audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of North Tyneside Council. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.



Draft audit report

Our opinion on the financial statements

Use of our report

This report is made solely to the members of North Tyneside Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Edinburgh



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £6.3 million which have been corrected by management that were identified during the course of our audit

- £7.5 million reclassification of short term deposit balances from cash and cash equivalents*
- £12.8 million reclassification from useable reserves to unusable reserves for the Dedicated Schools Grant deficit which was identified by management when working through the 2022/23 financial statement preparation process.*
- £61.3 million reduction in the net LGPS liability as a result of updates to the assumptions based on the triennial valuation.*

A number of other, more minor adjustments, have been made to the disclosures in the initial draft of the financial statements presented for audit.



Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2022(£'000)			Effect on the current period:		Net assets (Decrease)/Increase			
			OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Errors								
Judgemental differences:								
Element of unfunded teachers pension LGPS liability above our usual 2% tolerance			1,500					(1,500)
Estimate of consolidation adjustment to required to report properties held by cost in the subsidiary accounts at fair value as required by the CIPFA Code			(1,278)			1,278		
Projected differences:								
▶ Projection of errors in expenditure samples where expenditure relating to 2022/23 had been recorded in 2021/22				(1,295)			1,295	
▶ Projection of errors in income samples where income should have been deferred in to 2022/23				1,016			(1,016)	
Cumulative effect of uncorrected misstatements before turnaround effect			222	(279)		1,278	279	(1,500)
Turnaround effect. See Note 1 below.								
Projected overstatement of expenditure reported in 2020/21 audit				1,742				
Projection of items identified in 2021/22 expenditure samples which should have been recorded in 2020/21				(1,223)				
Cumulative effect of uncorrected misstatements, after turnaround effect				240				

Note 1: turnaround effect is the post-tax impact of uncorrected misstatements related to the prior period, on results of the current period.



05 Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

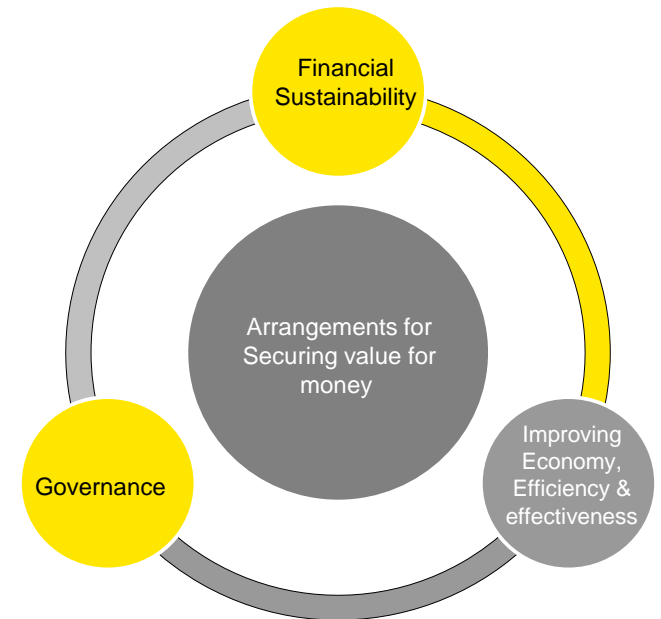
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA Code of Practice on Local Authority Accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

The outcome of our assessment of the risk of significant weaknesses in the Council's VFM arrangements is that we had not identified any risks.

We have revisited our risk assessment during the conclusion stage of our audit to confirm that we have not identified any additional risks of significant weaknesses in arrangements.

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06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Annual Financial Report 2021/22 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Annual Financial Report and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and, at the time of preparing this report, we have no other matters to report.

Whole of Government Accounts

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

We have not yet received the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We do not yet have a timeline for when we can expect to receive this guidance and therefore our audit certificate will remain open until our reporting is concluded in this respect.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control, including group-wide or at components.

The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

2021/22 control recommendations

Observation

As part of the financial statement preparation process, the Equans team continued to process all recharges and transfers between account codes in their Microsoft excel working papers and not the general ledger as we would expect to see. As a consequence of the approach taken there has been a significant amount of additional audit work required to gain assurance over these transactions

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Impact

The risk of material misstatement due to fraud or error is significantly increased due to the level of manual manipulation. The amount of manual intervention in the financial statement preparation process also means that we have been unable to adopt our leading edge digital audit methodology, as we have at other local authorities, which would provide greater assurance over full populations of data and focus the sample testing on those areas of greatest risk.

Management comment

The Authority is reviewing all of the transactions occurring outside of the General Ledger (GL) to see where these may be appropriately transacted. The aim will be for 2022/23 only where necessary would transactions occur outside of the GL. For clarity only certain recharges are currently processed outside of GL, where they are felt to confuse the management reporting.

Update on 2020/21 control recommendations

Observation

We recognise that the management continue to face challenges, including ongoing remote working, as a result of the Covid-19 pandemic but we have encountered longer than expected delays in receiving some of the evidence to support the disclosures made in the financial statements and responses to queries in some areas. We also note that, in some areas, the quality of the evidence was not always at the level required.

Observation

As a result of delays during the Covid-19 pandemic, a number of key Council policies, including whistleblowing and anti-bribery, have passed their date for review. We understand that plans are in pace to proceed with approval of updated policies in the medium term.

Impact

The delays encountered were a significant factor in our not being able to issue the audit opinion until February 2022. We held a full debrief on conclusion of the audit in preparation for 2021/22.

Impact

The formal written policies may not be in-line with best practice guidance or the actual operating procedures of the Council.

2021/22 update

We have continued to encounter delays in the timeliness and quality of evidence provided as part of our audit in 2021/22. Further work is required in advance of the 2022/23 audit to address these matters.

2021/22 update

An update of key policies is still under way.

Update on 2020/21 control recommendations

Observation

We recommend that management rebase the operator models for the schools and street-lighting PFIs and ensure that the accounting model reflects the changes to the operating model.

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Impact

Rebasing the models would allow for more accurate management accounting and monitoring of the processes surrounding the PFI assets and liabilities.

2021/22 update

Management rebased the models in 2021/22.



08

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

As at the date of this report, there are no future services which have been contracted, other than for the assurance reports on the Teachers Pension Return, Pooling of Housing Capital Receipts Return and Housing Benefit Subsidy Return which form part of our engagement contract. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

Our audit fees, as agreed with management, are included in the table below.

	Final fee 2021/22	Final fee 2020/21
	£	£
Total Fee - Code work (Base Fee) Note (1)	175,500	162,500
Total Fee - Code work (Variation) Note (2)	87,000	9,300
Total Audit fee	262,500	171,800
Total Fee - North Tyneside Trading Company and subsidiaries Note (2)	19,530	18,000
Total additional group fees	282,030	18,000
Non-audit work - Housing Benefit certification Note (1)	13,825	12,800
Non audit-work - Other certification work Note (1)	11,340	10,500
Total other non-audit services	25,165	23,300
Total fees	307,195	213,100

Notes

(1) In respect of inflationary costs factored into the above recurring increase, like all firms, the predominant element of our cost base is our staff costs, and we need to maintain a fair and sustainable fee in order to safeguard audit quality and the attractiveness of our business. Recent ONS Finance and Business Services seasonally adjusted regular pay data shows inflationary pay increases in the sector averaging at 7 to 10%. We have opted to include an inflationary increase at the mid-point of this range, recognising that the Council is also dealing with similar inflationary pressures across all areas of business.

(2) The 2020/21 the variation to the base fee related to impact of the Covid-19 pandemic and the additional audit procedures that we were required to undertake to issue our audit opinion including assessing the accounting treatment for the new Covid funding streams.

We note that in 2021/22 we have had to undertake additional audit work as a result of the following factors. We have agreed the total additional fees with management as a result of:

- Data integrity issues and manual adjustments made outside of the ledger to prepare the Council's Comprehensive Income statement
- Additional time due to delays in providing information / poor quality of evidence in some areas, resulting in three rounds of queries on some sample items and some matters are still not resolved
- Additional time on the valuation of land and buildings as a result of the decision to revalue the full portfolio, rather than following the usual four yearly valuation cycle
- Additional time was also be required to resolve the reporting of infrastructure assets and the impact of the triennial pensions valuation.

(3) We note that the activity of the subsidiary entities is increasing and more complex judgements are required in the production of the financial statements, such as the valuation of work in progress for the properties under construction. In addition, the new auditing standards for going concern and estimates will also apply to these entities. We will discuss the impact of these factors on the fees with subsidiary management and seek approval from the subsidiary Boards.

Other communications

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

[EY UK 2021 Transparency Report | EY UK](#)



09

Appendices



Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.




Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- **Existence:** An asset, liability and equity interest exists at a given date
- **Rights and Obligations:** An asset, liability and equity interest pertains to the entity at a given date
- **Completeness:** There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- **Valuation:** An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- **Presentation and Disclosure:** Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

We have tested each of these assertions substantively for all material balances included in the Balance Sheet. This is the same as the approach we adopted in the prior year. The material Balance Sheet items we have tested are:

- Property, Plant and Equipment
- Long Term Investments
- Short Term Debtors
- Cash and Cash Equivalents
- Short Term Borrowing
- Short Term Creditors
- Finance Lease & PFI Creditors
- Provisions
- Long Term Borrowing
- Pension Liability
- Capital Grants Receipts in Advance
- Usable Reserves
- Unusable Reserves





Summary of communications

Date 	Nature 	Summary 
23 March 2022	Report	<i>The provisional audit planning report, including confirmation of independence, was presented to the Audit Committee.</i>
18 March 2022	Meeting	<i>The partner in charge of the engagement, along with other senior members of the audit team, met with the management team for an audit status update meeting to refine the audit risks.</i>
14 September 2022	Meeting	<i>The partner in charge of the engagement, along with other senior members of the audit team, met with the management team for an audit status update meeting.</i>
3 November 2022	Report	<i>The Audit Update Report, including confirmation of independence, will be presented to the Audit Committee.</i>

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings. In addition, there was attendance at audit committee meetings throughout the financial year, including periodic liaison with the chair of the committee, where appropriate.

Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:





 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The Audit Engagement letter serves as the formal terms of the engagement between the auditor and the audited body
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report - March 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. <i>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</i>	Audit Planning Report - March 2022
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process • Findings and issues regarding the opening balance on initial audits 	Audit Planning Report - March 2022

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Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements 	<p>Audit Update Report - November 2022 Audit Results Report - September 2023</p>
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	<p>Audit Update Report - November 2022 Audit Results Report - September 2023</p>
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	<p>Audit Update Report - November 2022 Audit Results Report - September 2023</p>

		Our Reporting to you
Required communications	What is reported?	When and where
<p>Fraud</p>	<ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>Audit Update Report - November 2022 Audit Results Report - September 2023</p>
<p>Related parties</p>	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	<p>Audit Update Report - November 2022 Audit Results Report - September 2023</p>
<p>Independence</p>	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Planning Report - March 2022 Audit Update Report - November 2022 Audit Results Report - September 2023</p>

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Page 50	<p><i>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</i></p> <p><i>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</i></p> <ul style="list-style-type: none"> • <i>Relationships between EY, the company and senior management, its affiliates and its connected parties</i> • <i>Services provided by EY that may reasonably bear on the auditors' objectivity and independence</i> • <i>Related safeguards</i> • <i>Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</i> • <i>A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</i> • <i>Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</i> • <i>Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</i> • <i>The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</i> 	
External confirmations	<ul style="list-style-type: none"> • <i>Management's refusal for us to request confirmations</i> • <i>Inability to obtain relevant and reliable audit evidence from other procedures.</i> 	<p><i>Audit Update Report - November 2022</i> <i>Audit Results Report - September 2023</i></p>
Consideration of laws and regulations	<ul style="list-style-type: none"> • <i>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</i> • <i>Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</i> 	<p><i>Audit Update Report - November 2022</i> <i>Audit Results Report - September 2023</i></p>

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit Update Report - November 2022 Audit Results Report - September 2023
Group Audits	<ul style="list-style-type: none"> An overview of the type of work to be performed on the financial information of the components An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit Planning Report - March 2022 Audit Update Report - November 2022 Audit Results Report - September 2023
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit Update Report - November 2022 Audit Results Report - September 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Update Report - November 2022 Audit Results Report - September 2023
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor's report Any circumstances identified that affect the form and content of our auditor's report 	Audit Update Report - November 2022 Audit Results Report - September 2023



Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

*Ernst & Young
Atria One,
144 Morrison Street,
Edinburgh
EH3 8EX*

This letter of representations is provided in connection with your audit of the consolidated and Council financial statements of North Tyneside Council ("the Group and Council") for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and Council financial statements give a true and fair view of the Group and Council financial position of North Tyneside Council as of 31 March 2022 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group, and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

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

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

A. Financial Statements and Financial Records

- 1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group, and Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).*



Management representation letter

Management Rep Letter

We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and Council financial statements. We believe the consolidated and Council/Authority financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group, and Council, in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) and are free of material misstatements, including omissions. We have approved the consolidated and Council financial statements.

The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) for the Group and Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic and the effects of the conflicts and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and Council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement]

We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

B. Non-compliance with law and regulations, including fraud

We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

Management representation letter

Management Rep Letter

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

- *involving financial statements;*
- *related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council’s financial statements;*
- *related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council’s activities, its ability to continue to operate, or to avoid material penalties;*
- *involving management, or employees who have significant roles in internal controls, or others; or*
- *in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.*

C. Information Provided and Completeness of Information and Transactions

We have provided you with:

- *Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;*
- *Additional information that you have requested from us for the purpose of the audit; and*
- *Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.*

All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and Council financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

We have made available to you all minutes of the meetings of the Board of our subsidiary entities consolidated into the Group (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date] and of the Council] and Cabinet (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date]

We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council/s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and Council financial statements.



Management representation letter

Management Rep Letter

We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

From 8 February 2022 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact on the Group and Council financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and Council financial statements.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 34 to the consolidated and Council financial statements all guarantees that we have given to third parties.

E. Going Concern

Note 43 to the consolidated and Council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

Other than Those events described in Note 44 to the consolidated and Council financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to year end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.



Management representation letter

Management Rep Letter

G. Group audits

There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst the Council, subsidiary undertakings and associated undertakings.

H. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Financial Report 2021/22.

We confirm that the content contained within the other information is consistent with the financial statements.

I. Climate-related matters

We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered, including the impact resulting from the commitments made by the Group and Council, and reflected in the consolidated and Council financial statements.

The key assumptions used in preparing the consolidated and Council financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), aligned with the statements we have made in the other information or other public communications made by us (see section H).

Reserves

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

Management representation letter

Management Rep Letter

Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings, valuation of local government pension scheme liability, valuation of insurance provision and the fair value of financial instruments and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Valuation of land and buildings and local government pension scheme liability

We confirm that the significant judgments made in making the assessment of the valuation land and buildings and the local government pension scheme liability have taken into account all relevant information of which we are aware.

We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the assessment of the valuation land and buildings and the local government pension scheme liability.

We confirm that the significant assumptions used in making the assessment of the valuation land and buildings appropriately reflect our intent and ability to carry out plans for delivery of services on behalf of the entity.

We confirm that the disclosures made in the consolidated and Council entity financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We confirm that appropriate specialized skills or expertise has been applied in making the assessment of the valuation of land and buildings and the local government pension scheme liability.

We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.



Management representation letter

Management Rep Letter

Retirement benefits

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

Yours faithfully,

Director of Resources

(Chairman of the Audit Committee)

ISA (UK) 315 (Revised July 2020) Identifying and Assessing the Risks of Material Misstatement

Summary of key measures

- The revised auditing standard is effective for audits of financial statements for periods beginning on or after 15 December 2021, and adopts ISA 315 (Revised 2019) as issued by the IAASB;
- The revised risk assessment standard sees enhancements and clarifications to: (i) Encourage a more robust risk assessment, thereby promoting more focused responses to the identified risks; (ii) Clarify current requirements to promote consistency in the application of procedures for risk identification; and (iii) Modernize the standard to keep up with the evolving environment in which entities operate, in particular in relation to the entity's use of information technology; The fundamentals of risk assessment have not changed, however, the changes will see additional audit procedures and considerations being made in the following areas to respond to the requirements of the revised standard:
 - How we identify and assess risks based on our understanding of the entity and other risk assessment procedures;
 - How we understand the components of the system of internal control, including new evaluations which apply to each component;
 - The type of controls and process for understanding controls that are relevant to our audit relating to the preparation and posting of journal entries;
 - **New requirement** Understanding the effect of the Group's use of IT, including relevant IT general controls, and the identification of IT-related risks; and
 - Evaluating, as an audit team, whether sufficient evidence has been obtained to support the identification and assessment of risks of material misstatement.

Impact on North Tyneside Council

- The revised standard is for auditors and does not put any additional responsibilities or requirements on management or the Audit Committee, however, management and/or the Audit Committee may experience different conversations, requests or simply have more focused discussions with members of the audit team, including about risk, internal controls, audit quality and our audit strategy;
- For North Tyneside Council the revised standard is effective for this audit of the financial statements for the period ended 31 March 2023;
- We will be required to perform new and additional procedures to understand the Group's use of IT, the IT processes related to those IT applications relevant to the audit used in the different accounting processes and, where relevant, the IT general controls (ITGCs) that address IT risks in the IT processes and evaluation of their design effectiveness and whether they have been implemented. The revised standard does not require an evaluation of the operating effectiveness of ITGCs; it continues to be a strategy decision for the auditor as to whether they intend to rely on IT processes.
- The new requirements relating to understanding IT may also facilitate a change in the audit strategy in subsequent audits as it relates to the reliance placed on IT processes as part of the audit;
- More control observations may be identified and communicated, and the additional evaluations of the components of the system of internal control may help identify deficiencies that are considered to be *significant deficiencies*; and
- The new requirement relating to understanding the effect of the use of IT by an audited entity has the greatest potential for additional audit effort, involvement of team members with specialised knowledge of auditing IT, and an upward impact on audit fees.

External resources

- [FRC Feedback statement and impact assessment](#)
- [IAASB Introduction to ISA 315 \(Revised 2019\) Fact Sheet](#)

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