



**North Tyneside Council**

15 July 2019

**Wednesday, 24 July 2019** 0.01 Chamber - Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY **commencing at 6.00 pm.**

<b>Agenda Item</b>	<b>Page</b>
<b>1. Apologies for Absence</b> To receive apologies for absence from the meeting.	
<b>2. Declarations of Interest and Dispensations</b> You are invited to declare any registerable or non-registerable interests in matters appearing on the agenda, and the nature of that interest.  You are also invited to disclose any dispensation in relation to any registerable or non-registerable interests that have been granted in respect of any matters appearing on the agenda.  You are requested to complete the Declarations of Interests card available at the meeting and return it to the Democratic Support Officer before leaving the meeting.	
<b>3. Minutes</b> To confirm the minutes of the meeting held on 29 May 2019	<b>5 - 10</b>
<b>4. Audit Completion Report</b> To give consideration to the outcome of the external audit of the 2018/19 financial statement.	<b>11 - 60</b>
<b>5. Review of Audit Committee Arrangements</b> To give consideration to a report which presents an assessment of the Audit Committee arrangements against the Chartered Institute of Public Finance and Accountancy (CIPFA) good practice, details the work previously undertaken to review the Audit Committee arrangements and highlights where work is needed to ensure that the Committee's	<b>61 - 88</b>

Members of the public are entitled to attend this meeting and receive information about it. North Tyneside Council wants to make it easier for you to get hold of the information you need. We are able to provide our documents in alternative formats including Braille, audiotape, large print and alternative languages.

arrangements reflect all parts of CIPFA good practice where appropriate.

**Circulation overleaf ...**

## **Members of the Audit Committee**

Kevin Robinson (Chair)  
Councillor Debbie Cox  
Councillor Anthony McMullen  
Councillor Martin Rankin  
Councillor Paul Richardson

Malcolm Wilkinson (Deputy Chair)  
Councillor Naomi Craven  
Councillor Judith Wallace  
Councillor Janice Mole

This page is intentionally left blank

## Audit Committee

**Wednesday, 29 May 2019**

Present: K Robinson (Chair)  
Councillors M Wilkinson, D Cox, N Craven, J Mole,  
M Rankin and J Wallace

### **AC1/19      Declarations of Interest and Dispensations**

There were no declarations of interest reported.

### **AC2/19      Minutes**

**Resolved** that, subject to the following amendment, the minutes of the meeting held on the 27 March 2019 be confirmed as a correct record and signed by the Chair:

“Minute AC38/03/19 Proposed Audit Committee Work Programme 2019/20

The final paragraph was amended to read:

“Reference was made to the proposals for the annual review of the effectiveness of the Committee which was scheduled to be reported to the Committee at its July meeting. It was suggested that it might be helpful for a system to be put in place which would allow members to privately feed their views on the authority and the controls in place to the external auditor. It was also suggested that further information be provided to members on the suggested process.”

### **AC3/19      Summary of the 2018/19 Accounts**

Consideration was given to a presentation which set out the current position in relation to the closedown of the authority’s accounts for the 2018/19 year. It was explained that although the process had been challenging and there were still some items to be finalised the Head of Resources expected to be in a position to publish the accounts on Friday.

The presentation provided details of the Income and Expenditure Statement along with the current Balance Sheet as they currently stood and a number of items were highlighted for members’ information.

**Resolved** that the presentation be noted.

### **AC4/19      Annual Governance Statement Update**

The Committee was presented with the Annual Governance Statement (AGS) which contained the outcome of the review of the Authority’s systems of internal control and explained how it delivered good governance and reviewed the effectiveness of those arrangements. The statement complied with the required regulations and was based on the

governance framework which had been produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in association with the Society of Local Authority Chief Executives (SOLACE). The Chief Executive, Director of Public Health and each Head of Service had been involved in populating the Annual Governance Statement with the evidence supporting how the principles had been met within the Authority. Having reviewed the evidence, the Senior Leadership Team had taken the view that, as a whole, the governance arrangements in operation during 2018/19 were adequate.

A number of areas had been identified which required continuous monitoring to ensure that they did not become significant governance issues in the future. These included:

- A risk that the Authority would not be able to protect its housing assets and services to tenants as a result of changes to government policy on welfare reform which had resulted in reduced income to the Housing Revenue Account;
- A risk that the roll out of Universal Credit could impact on residents' finances and also the Housing Revenue Account as a result of increased rent arrears;
- A risk that the Efficiency Savings Programme if not properly implemented could result in the Authority not being able to deliver improved services and meet the increased demand for the Authority's services;
- A risk that existing budget monitoring does not fully align with the efficiency programme
- A risk that the impact of the development of the Integrated Care System (ICS) across the North East and North Cumbria and the Integrated Care Partnerships (ICP's), which have replaced the former Sustainability and Transformation Plans, have on the Local Authority in relation to the financial implication of the plans and the ability to deliver services for residents;
- Changes to the business rates scheme which allowed local authorities to retain 100% of business rates in their area. Whilst this had the potential to give authorities greater ability to plan for the long term with more financial independence there were added risks including a lack of business growth, the closure of a major business and the cost of appeals. It was noted that measures were in place to provide timely support to businesses and to mitigate the risk;
- The risk that should the policies and procedures in place fail to ensure that sensitive data is secure and managed appropriately then the Authority could face fines under the Data Protection Act 2018 as well as compensation claims.
- A need to ensure that governance arrangements for the partnerships were in place to ensure that services were delivered to a satisfactory level whilst delivering value for money and taking account of changes to staffing in both the partners and the Authority;
- The decision to leave the European Union had resulted in a number of uncertainties for the Authority and businesses in both financial and economic growth terms. The full extent of the impact would not be clear until the precise trade terms were known. There was an opportunity to work closely with other local authorities, the North East Local Enterprise Partnership (NELEP) and the North of Tyne Combined Authority to exploit new areas of growth and financial streams. A watching brief would be kept to ensure that any changes could be identified and acted upon; and
- The risk that the Authority might not be able to maximise the opportunities of the devolution deal for the North of Tyne. It was explained that a North Tyneside Working Group continued to meet and there was North Tyneside representation on the North of Tyne Steering Group which ensured that there was involvement by Elected Members and Officers of the Authority.

Members expressed their concerns at the late circulation of the above report.

**Resolved** that (1) the outcome of the review of the Authority's systems of internal control be noted;  
(2) the Annual Governance Statement be approved to accompany the Statement of Accounts for 2018/19; and  
(3) the actions proposed in the Annual Governance Statement be noted.

**AC5/19 External Audit Progress Report**

Consideration was given to a report which set out the progress being made by the external auditor in relation to its work on the Authority's accounts. It was explained that EY had completed its interim audit and had confirmed that group accounts were not required.

**Resolved** that the report be noted

**AC6/19 Strategic Audit Plan 2018/19 – Final Monitoring Statement**

Consideration was given to a report which presented the final monitoring statement in respect of the Strategic Audit Plan for 2018/19. The original plan had been presented to the Audit Committee in March 2018.

It was reported that 82% of the audit assignments programmed during 2018/19 had been either completed or were significantly underway. The reasons for the variation in the planned coverage had been as a result of the deployment of a Senior Auditor on a non-audit roll for part of the year and the difficulties in recruiting to some new posts within the shared internal audit and risk management service. It was explained that the majority of the audits which had not yet commenced had been included in the 2019 Strategic Audit Plan.

**Resolved** that the Strategic Audit Plan 2018/19 monitoring statement be noted

**AC7/19 Key Outcomes from Internal Audit reports issued between November 2018 and April 2019**

Consideration was given to a report which set out the key outcomes of internal audit reports issued between November 2018 and March 2019. It was noted that, based on the outcomes of the audits undertaken, the Authority's framework of governance, risk management and control was considered to be satisfactory overall.

For each of the reports issued the main points of concern were outlined together with the progress made or action taken to address those concerns. In addition the report also outlined examples of good practice.

Clarification was sought in relation to the following:

- How often checks were made to confirm that the proposed management actions identified following the completion of an audit were actually completed? It was

explained that previously all actions were checked to ensure compliance but now the approach had been changed to concentrate only on medium and high risk items. It was also acknowledged that further work was required;

- A number of systems, such as the Ash Debtors System and Liquidlogic, were not supported by the Authority's disaster recovery site. It was explained that the Senior Leadership Team were currently looking at the Authority's systems for disaster recovery. It was suggested that a report be presented to a future meeting of the Committee which set out the plan for the removal of the risk;
- The risk associated with some members of the Engie Finance Team having end to end privileges in relation to several payment systems. It was explained that although it had been classed as a medium risk there was no evidence that anything untoward had occurred. It was also explained that the system was in the process of being amended to remove the potential risk;
- The systems in place to update access to ICT systems when people start working for or leave the Authority. Reference was made to the templates in place which set out what happened when someone leaves the Authority including for example in relation to IT security. It was explained that there were policies in place and if these were not followed the matter was referred to the appropriate Head of Service. It was also explained that there had been a lot of work undertaken in relation to starters and leavers. It was suggested that a review of previous reports might be helpful in identifying any patterns or trends.

It was suggested that managers be reminded that the Audit Committee regularly reviewed audit reports in relation to their service area. It was also suggested that a report be presented to the Authority's Senior Leadership Team which provided a picture of the frequency at which the same issues occurred following audit investigations.

The Chief Internal Auditor advised members that future reports would be amended to highlight where action had been taken.

**Resolved** that (1) the opinion of the Chief Internal Auditor, that the framework of governance, risk management and control was satisfactory overall, be noted; and (2) The key findings, good practice identified and the management action taken in response to Internal Audit Reports be noted.

#### **AC8/19            2018/19 Opinion on the Framework of Governance, Risk Management and Control**

Consideration was given to a report which set out the key outcomes of internal audit reports issued between November 2018 and March 2019. It was noted that, based on the outcomes of the audits undertaken, the Authority's framework of governance, risk management and control was considered to be satisfactory overall.

For each of the reports issued the main points of concern were outlined together with the progress made or action taken to address those concerns. In addition the report also outlined examples of good practice.

Clarification was sought in relation to the following:

- How often checks were made to confirm that the proposed management actions



identified following the completion of an audit were actually completed? It was explained that previously all actions were checked to ensure compliance but now the approach had been changed to concentrate only on medium and high risk items. It was also acknowledged that further work was required;

- A number of systems, such as the Ash Debtors System and Liquidlogic, were not supported by the Authority's disaster recovery site. It was explained that the Senior Leadership Team were currently looking at the Authority's systems for disaster recovery. It was suggested that a report be presented to a future meeting of the Committee which set out the plan for the removal of the risk;
- The risk associated with some members of the Engie Finance Team having end to end privileges in relation to several payment systems. It was explained that although it had been classed as a medium risk there was no evidence that anything untoward had occurred. It was also explained that the system was in the process of being amended to remove the potential risk;
- The systems in place to update access to ICT systems when people start working for or leave the Authority. Reference was made to the templates in place which set out what happened when someone leaves the Authority including for example in relation to IT security. It was explained that there were policies in place and if these were not followed the matter was referred to the appropriate Head of Service. It was also explained that there had been a lot of work undertaken in relation to starters and leavers. It was suggested that a review of previous reports might be helpful in identifying any patterns or trends.

It was suggested that managers be reminded that the Audit Committee regularly reviewed audit reports in relation to their service area. It was also suggested that a report be presented to the Authority's Senior Leadership Team which provided a picture of the frequency at which the same issues occurred following audit investigations.

The Chief Internal Auditor advised members that future reports would be amended to highlight where action had been taken.

**Resolved** that (1) the opinion of the Chief Internal Auditor, that the framework of governance, risk management and control was satisfactory overall, be noted; and (2) The key findings, good practice identified and the management action taken in response to Internal Audit Reports be noted.

#### **AC9/19 Exclusion Resolution**

**Resolved** that under Section 100A (4) of the Local Government Act 1972 (as amended) and having applied a public interest test as defined in Part 2 of Schedule 12A of the Act, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act.

#### **AC10/19 Corporate Risk Management Summary**

Consideration was given to a report which outlined the corporate risks that had been identified for monitoring and management by the Council's Senior Leadership Team, as of 17 April 2019. The report provided detailed information on each of the corporate risks

including the cause of the risk, the consequences if the risk were to materialise, the existing and new controls in place to address the risks and an assessment of their likelihood and potential impact.

**Resolved** that the report be noted

## North Tyneside Council Report to Audit Committee Date: 24 July 2019

**ITEM 4**  
2018/19 Annual Financial Report

**Report from:** Finance

**Responsible Officer:** Janice Gillespie, Head of Resources      **Tel:** 643 5701

**Wards affected:** All

---

### PART 1

#### **1.1 Executive summary:**

- 1.1.1 The Audit Committee is required to review the external auditor's opinion and reports on the Annual Financial Report.
- 1.1.2 The purpose of this report is to present the Audit Results Report which details the outcome of the external audit of our 2018/19 Financial Statements by Ernst and Young.

#### **1.2 Recommendation(s):**

- 1.2.1 The Audit Committee is recommended to:
  - (a) note the matters raised in the Audit Results Report;
  - (b) note the audit findings set out in the Audit Results Report;
  - (c) note the internal control recommendations and management responses set out in the Audit Results Report;
  - (d) note the adjustments set out in the Audit Results Report;
  - (e) note the Value for Money conclusion set out in the Audit Results Report; and,
  - (f) note the draft Letter of Representation.

#### **1.3 Forward plan:**

- 1.3.1 This report is contained in the forward plan of the Audit Committee.

#### **1.4 Council plan, policy framework:**

1.4.1 The Audit Results Report covers all financial aspects of the Authority's Plans.

#### **1.5 Information**

1.5.1 For 2018/19, the requirements and timeline for the approval of a local authority's Annual Financial Report are set out in the Accounts and Audit Regulations 2015. The legislation requires the Authority to produce draft accounts by 31 May and that following the conclusion of a 30 day period of public inspection the Council must submit the Statement of Accounts for consideration and approval by no later than 31 July.

1.5.2 This is the first year that the Council's audit has been undertaken by Ernst and Young, as would be expected, extensive testing has been conducted, including the examination of larger samples and more in-depth review of processes. The overall audit process, to date, has been positive and Officers have been working closely with the External Audit team to ensure all aspects of the audit are dealt with promptly.

1.5.3 The audit of the 2018/19 accounts is substantially complete and an unqualified audit opinion is expected to be issued. The Audit Results Report, produced by Ernst and Young, shows that no material errors have been identified in the financial statements. However, the audit has identified the following adjustments to the draft Annual Financial Report:

(a) Following discussion with Ernst and Young around the interpretation of the accounting requirements for trust schools these schools have now been removed from the Authority's balance sheet as a prior period adjustment in 2017/18;

(b) The recent McCloud judgement has resulted in a revaluation of the IAS19 pension liabilities for the Local Government Pension Scheme by our actuary and a restatement of costs shown in the Annual Financial Report; and,

(c) The valuation for Newcastle International Airport provided by an external valuer has been revised resulting in a restatement to the Annual Financial Report.

The adjustments for item (a) is still being worked through and a final version of the audited accounts will be circulated once the adjustments are completed and audited.

It should be noted that these adjustments do not impact on the Authority's reserves and balances.

1.5.4 A number of non-material disclosure errors identified during the audit have been corrected and are reflected in the Annual Financial Report. A number of Internal Control issues have been raised and discussed with Ernst and Young. Actions have been agreed to respond to those issues raised. A copy of the Audit Results Report is attached as Appendix A for consideration.

## **1.6 Decision options:**

The options available are:

- (a) To accept the recommendations made in section 1.2.1; or
- (b) To reject the recommendations made within this report.

## **1.7 Reasons for recommended option:**

The production of an Audited Annual Financial Report is a requirement of the Accounts and Audit Regulations 2015.

## **1.8 Appendices:**

Appendix A: Audit Results Report for 2018/19

## **1.9 Contact officers:**

Janice Gillespie, Head of Resources, Tel 643 5701  
Claire Emmerson, Senior Manager Financial Strategy & Planning, Tel 643 8109  
Cathy Davison, Principal Accountant, Tel 643 5727

## **1.10 Background information:**

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author:

- (a) Accounts and Audit Regulations 2015

## **PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING**

### **2.1 Finance and other resources**

As this is a financial report, implications are covered in the body of the report itself and the Audit Results Report attached as Appendix A to this report together with the 2018/19 Annual Financial Report attached as Appendix B to this report.

### **2.2 Legal**

The Authority is required under the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy's Code to prepare and approve its audited accounts for the financial year 2018/19 by 31 July 2019.

### **2.3 Consultation/community engagement**

In line with statutory requirements the draft Annual Financial report for the year ended 31 March 2019 was published by 31 May 2019 and was available on the Authority's website.

Members of the public were able to inspect the accounts under the statutory public inspection of accounts period from 3 June 2019 to 12 July 2019.

### **2.4 Human rights**

The proposals within this report do not have direct implications in respect of the Human Rights Act 1998.

### **2.5 Equalities and diversity**

There are no direct equalities and diversity implications arising from this report.

### **2.6 Risk management**

Potential future financial pressures against the Authority are covered in this report and registered through the Authority's risk management process.

### **2.7 Crime and disorder**

There are no direct crime and disorder implications arising from this report.

### **2.8 Environment and sustainability**

There are no direct environmental and sustainability implications arising from this report.

# North Tyneside Council Audit Results Report

Year ended 31 March 2019

July 2019

Page 15

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 top right corner of the page.

Building a better  
working world

July 2019

Dear Members of the Audit Committee and Council

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee and Council. This report summarises our conclusions in relation to the audit of North Tyneside Council ("the Council") for 2018/19.

We have substantially completed our audit of the Council for the year ended 31 March 2019, with only the areas highlighted in Section 1 still outstanding. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form included in Section 3, before the accounts publication date of 31 July 2019. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the members of the Council, Audit Committee, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

Yours faithfully



Partner  
For and on behalf of Ernst & Young LLP  
Encl



# Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences

05 Value for Money



06 Other Reporting Issues

07 Assessment of Control Environment

08 Independence

09 Appendices

As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive.

The Terms and Conditions of our appointment contained within the Engagement Letter sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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



01

# Executive Summary

## Scope update

In our Audit Planning Report, presented to the 27 March 2019 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements.

We updated our planning materiality assessment using the draft 2018/19 financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £6.2 million (Audit Planning Report £5.9 million). This results in updated performance materiality, at 50% of overall materiality, of £3.1 million, however our threshold for reporting audit differences to the Audit Committee has remained the same at £0.29 million.

## Status of the financial statements audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears in Section 3. However until work is complete, further amendments may arise.

### Outstanding Items

- Page 19
- Completion of exit packages testing;
  - Receipt of the expert review of the valuation of shares held in Newcastle International Airport Limited;
  - Receipt of the revised IAS 19 report from the Council's Actuary;
  - Review and testing of the Capital Expenditure and Capital Financing note;
  - Completion of substantive testing of the Housing Revenue Account;
  - Receipt of responses to outstanding queries on sample testing performed;
  - Completion of procedures required by the National Audit Office ("NAO") regarding the Whole of Government Accounts submission;
  - Review of the final financial statement, including all adjustments made; and
  - Final review of audit work completed and audit completion procedures.

## Audit differences

There are no unadjusted audit differences arising from our audit. However, we have identified a number of adjusted audit differences. The two most significant adjustments are:

- A prior period adjustment relating to the disclosure of Foundation Schools on the Council's Balance Sheet. Officers are currently working through the required adjustments for this difference. More detail is included in Sections 2 and 4 of this report; and
- The financial statements have been amended to take account of the potential impact of the McCloud / Sargeant judgements regarding unlawful age discrimination for members of the Local Government Pension Scheme. Further detail on this matter is included in Section 2 and 4 of this report.

# Executive Summary

---

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. Through our audit work, we have however identified one control observation that we wish to bring to your attention. This observations is:

- The Council's whistleblowing policy has not been formally updated since 2011.

Further detail on each of these control findings can be viewed in Section 7 of the report.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any matters identified, in Section 2 of this report.

We ask you to review these and any other matters in this report to ensure:

• There are no other considerations or matters that could have an impact on these issues;

- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

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

## Independence

Please refer to Section 8 for our update on Independence.

## Objections

We have received no objections to the 2018/19 financial statements from members of the public.



# Executive Summary

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report, we identified the following significant risk:

- Financial sustainability

We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

## Other reporting issues

We are required to perform procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This work remains ongoing at the time of this audit; we will issue our certificate of completion in respect of the 2018/19 audit once we have completed our procedures and reporting on the Council's Whole of Government Accounts submission.

We have no other matters to raise at the time of writing this report.



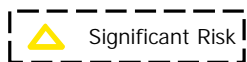
## 02 Areas of Audit Focus



# Areas of Audit Focus

## Significant risk

### Risk of fraud in revenue and expenditure recognition



#### 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 annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

Page 23

#### What judgements are we focused on?

The main judgements we focussed on were:

- The recognition of grant income that contains terms and conditions;
- Recognition of income and expenditure around year end, in particular focussing on expenditure accruals and manual debtors that require management judgement to be applied before they are recognised in the financial statements; and
- Management's judgement in capitalising expenditure as Property, Plant and Equipment.

#### What did we do?

- We reviewed and tested revenue and expenditure recognition policies, including consideration of the recognition of grant income;
- We reviewed, discussed with management, and tested (where appropriate) any accounting estimates on revenue or expenditure recognition, such as manual debtors and expenditure accruals, for evidence of bias;
- We tested grant income with terms and conditions attached to ensure that where management judgements had been made relating to the recognition of the income, all terms and conditions had been achieved;
- We tested capital expenditure incurred during the year to ensure that it was correctly classified as capital expenditure and should not instead have been included as revenue; and
- 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 income and expenditure has been recorded in the correct period.

#### What are our conclusions?

At the time of writing this report, our work in this area has not identified any material misstatements arising from fraud in revenue and expenditure recognition.



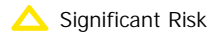
# Areas of Audit Focus

## Significant risk

### 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.



Page 24

#### What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

#### What did we do?

- We identified fraud risks during the planning stage of our audit;
- We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- We reviewed accounting estimates for evidence of management bias (as noted above relating to revenue and expenditure recognition); and
- We evaluated the business rationale for any significant unusual transactions.

#### What are our conclusions?

At the time of writing this report, our work in this area has not identified any transactions during our audit which appeared unusual or outside of the Council's normal course of business.

We have not identified any instances of inappropriate judgements being applied.





# Areas of Audit Focus

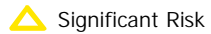
## Significant risk

### Valuation of land and buildings

#### What is the risk?

The value of land and buildings 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.



Page 25

#### What judgements are we focused on?

The main judgements we focussed on were:

- The assumptions underlying the management's valuation of property at year end; and
- The robustness of the data underlying the valuations and the overall methodology used by the Council's valuer, Capita.

#### What did we do?

- We have considered the work performed by the Council's valuer, Capita, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We have 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 have engaged our internal valuers to review the valuation of the Spanish City and Swan Hunter sites;
- We have considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code;
- We have reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- We have considered changes to useful economic lives as a result of the most recent valuation; and
- We have tested accounting entries to ensure they have been correctly processed in the financial statements.

#### What are our conclusions?

At the time of writing this report, our work in this area has not identified any material misstatements arising from the valuation of land and buildings.



# Areas of Audit Focus

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

What was the risk/area of focus?	What were our conclusions?
<p><b>Pension Liability Valuation</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require 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.</p> <p>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. The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt. The 2017/18 liability was £466,140k.</p> <p>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.</p>	<p>The Local Government Pension Scheme (England and Wales) (LGPS) introduced a new career average earnings benefit structure with effect from 1 April 2014 ('the 2014 scheme'). For members who were 10 years or less from Normal Retirement Age on 1 April 2012 (i.e. aged 55 or above), an underpin was provided based on the existing final salary scheme ('the 2008 scheme'). In December 2018, the Court of Appeal found that similar transitional provisions in the pension schemes for firefighters (Sargeant Judgement) and the judiciary (McCloud Judgement) resulted in unlawful age discrimination and given their similarity are also deemed to be applicable to the LGPS.</p> <p>The Government was seeking to appeal against this decision, however on 27 June 2019 they were denied the right to appeal. Due to the original judgements being in place before 31 March 2019, all scheduled and admitted bodies of the LGPS are being asked to consider the impact of the McCloud judgement on their pension valuations as at 31 March 2019.</p> <p>Since 27 June 2019, the Council has requested that the actuary, Aon Hewitt, re-run their year end pension valuation, taking into account the McCloud judgement. This revised report was received on 11 July 2019, and also takes into account updated asset values for the Council (asset values are usually based on an estimated position) and Guaranteed Minimum Pension provisions.</p> <p>At the time of writing this report, we have not yet reviewed the updated IAS19 report, but we will provide further commentary at the Audit Committee on 24 July 2019.</p>
<p><b>Group Financial Statements</b></p> <p>In previous years, the Council has not produced group financial statements on grounds of materiality. However, due to increasing activity in the Council's subsidiaries, we considered that it was important for the Council to reassess their group boundary and the need to potentially produce group financial statements in 2018/19.</p>	<p>We reviewed the detailed quantitative assessment, which focussed on the values that would be included in group financial statements if they were prepared, as well as the qualitative assessment, which focussed on the other factors, such as whether the Council is exposed to any commercial risk through its involvement with group entities. This review included:</p> <ul style="list-style-type: none"> <li>• Agreeing all values included in the quantitative assessment back to audited financial statements;</li> <li>• Assessing the qualitative assessment based on our knowledge of the Council and the wider sector; and</li> <li>• Detailed review of the CIPFA Group Accounting guidance to ensure that all required elements had been considered.</li> </ul> <p>Following our review we are satisfied that group financial statements are not required for the Council for 2018/19. However, this assessment will be required again in 2019/20.</p>

Page 26



# Areas of Audit Focus

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

What was the risk/area of focus?	What were our conclusions?
<p>IFRS 9 financial instruments</p> <p>This new accounting standard is applicable for local authority financial statements from the 2018/19 financial year and changes:</p> <ul style="list-style-type: none"> <li>• How financial assets are classified and measured;</li> <li>• How the impairment of financial assets are calculated; and</li> <li>• The disclosure requirements for financial assets.</li> </ul> <p>There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority accounting provides guidance on the application of IFRS 9 which required to be applied</p>	<p>We reviewed and challenged the approach taken by management in relation to key judgements.</p> <p>We note that a valuation of the shares in Newcastle International Airport Limited (NIAL) was commissioned as a result of the introduction of IFRS 9. Our EY valuations team are reviewing and challenging this assessment, and we will be able to update the Audit Committee of our findings on 24 July 2019.</p> <p>We also identified some minor improvements to disclosures through our completion of the CIPFA disclosure checklist that we have highlighted to management for updating in the final version of the financial statements.</p>
<p>IFRS 15 Revenue from contracts with customers</p> <p>This new accounting standard is applicable for local authority financial statements from the 2018/19 financial year.</p> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>The 2018/19 CIPFA Code of Practice on Local Authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of revenue and how they should be recognised.</p>	<p>We obtained the IFRS 15 impact assessment prepared by management and concurred with their view that the new standard was unlikely to have a material impact on the financial statements.</p> <p>We completed the CIPFA disclosure checklist and did not have any material matters to report.</p>

Page 27



# Areas of Audit Focus

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

## What was the risk/area of focus?

### Opening Balances

2018/19 is the first year that we have completed your audit, and as such the requirements of ISA (UK) 510 apply.

The basic objectives of an initial audit are similar to those of any audit engagement. However, when performing an initial audit, we report on the current period's assets, liabilities and reserves, which are dependent upon the appropriateness of the opening balances.

Therefore, we are required to perform additional procedures in order to gain assurance that the opening balances are free from material misstatement. These procedures cover all balance sheet items, including for example key judgement areas and Private Finance Initiative (PFI) assets and liabilities.

## What were our conclusions?

We performed the following procedures in this area:

- Reviewed the work of the predecessor auditor, to identify any issues identified that may impact upon the opening balances;
- Reviewed the work of the predecessor auditor to ensure the audit has been completed to an appropriate standard to allow us to place reliance on their audit opinion; and
- Substantively tested all opening balances to ensure that they agree both to the prior year audited financial statements and closing trial balance.

We also reviewed significant judgements that have been taken in preparing the financial statements in previous years. As part of this review we assessed how the Council are accounting for Schools on their Balance Sheet.

Following our review we identified that the Foundation Schools included on the Council's Balance Sheet had transferred legal ownership to the School Trustees' in previous years. However, under the CIPFA Code this does not automatically mean that the assets should be removed from the Council's Balance Sheet. Instead, if it can be demonstrated that the Council still has "control" over the assets then it may be acceptable to include them on the Council's Balance Sheet.

After detailed discussions with management it was identified that the School Trustees' now make all significant decisions regarding the School assets and as a result it was not possible for the Council to demonstrate that they have "control" over these assets.

It has therefore been agreed that these assets should be removed from the Council's Balance Sheet and a prior period adjustment should be made to reflect the fact that a similar situation was also in place in previous years. Officers are currently working through the required adjustments and we will update the Audit Committee on 24 July 2019 of the value of the required amendments.



# 03 Audit Report



# 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 for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement for the year ended 31 March 2019;
- Movement in Reserves Statement for the year ended 31 March 2019;
- Balance Sheet as at 31 March 2019;
- Cash Flow Statement for the year ended 31 March 2019;
- Notes to the Core Financial Statements A, 1 to 41;
- Housing Revenue Account - Income and Expenditure Statement for the year ended 31 March 2019, the Movement on the Housing Revenue Account Statement and the related notes 42 to 53; and
- Collection Fund Statement for the year ended 31 March 2019 and the related notes 54 to 59.

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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of North Tyneside Council as at 31 March 2019 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 2018/19.

##### 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 below. 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 (C&AG) 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.



# Audit Report

## Draft audit report

### Our opinion on the financial statements (continued)

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the Annual Financial Report set out on pages 2 to 20, other than the financial statements and our auditor's report thereon. The Head of Resources is responsible for the other information.

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.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. 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.

#### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

##### Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, North Tyneside Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.



# Audit Report

## Draft audit report

### Our opinion on the financial statements (continued)

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Head of Resources

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 24, the Head 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Resources is responsible for assessing 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 Council either intends to cease operations, or have no realistic alternative but to do so.

The Council 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.





# Audit Report

## Draft audit report

### Our opinion on the financial statements (continued)

#### 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.

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.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the 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 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



# Audit Report

## Draft audit report

### Our opinion on the financial statements (continued)

#### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

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 and the Code of Audit Practice issued by the National Audit Office.

#### 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 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 Council and the Council'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)

Newcastle upon Tyne

The maintenance and integrity of the North Tyneside Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions



# 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

#### Prior Period Adjustments

We highlight below the following prior period adjustment to the Council’s financial statements that is required. The basis of the adjustment has been agreed, however due to the size of the adjustment, officers are working through the financial impact of the adjustment and we will update the Audit Committee on 24 July 2019:

- Foundation Schools on Balance Sheet: As detailed in Section 2 of the report, as part of our first year procedures we reviewed the Council’s accounting treatment of School’s in detail. This review identified that the Foundation Schools included on the Council’s Balance Sheet had transferred legal ownership to the School Trustees’ in previous years. In addition, it was identified that the School Trustees’ now make all significant decisions regarding the School assets and as a result it was not possible for the Council to demonstrate that they have “control” over these assets. It has therefore been agreed that these assets should be removed from the Council’s Balance Sheet and a prior period adjustment should be made to reflect the fact that a similar situation was also in place in previous years.

#### Corrected misstatements and disclosure issues

We highlight the following misstatements in the disclosures identified during the audit. These have been corrected by management:

- Pension Valuation at 31 March 2019: Due to the Government’s appeal against the McCloud Judgement being refused on 27 June 2019, all LGPS scheduled and admitted bodies have been asked to consider the impact of the judgement on their pension valuations as at 31 March 2019. The Council has decided to obtain a new pension valuation, which will materially change the valuation included in the Council’s accounts. We have not yet completed our work in this area.
- Note 1 – Accounting Policies – The Council has an accruals de minimis level of £1,000, however this was not included in the draft accounting policies. This has now been added by management.
- Note 13 – Teachers pay grant – It was identified that the value of £1.2m included in the draft accounts included a duplicate entry of £592k. This has been discussed and it has been agreed with officers that this value will be amended to remove this duplicate entry.
- Note 14 - Officers’ Remuneration – £50,000 Banding note: A small number of banding errors were identified in the note. These have been agreed with management who have amended the financial statements.
- Note 14 – Officers’ Remuneration – Senior Officer Remuneration disclosure: A small number of presentational errors and differences between the payroll system and the note were identified. These have been agreed with management who have amended the financial statements.
- Note 17 – Audit Costs: The value disclosed in the draft financial statements was incorrect and has now been updated.
- There have been a small number of typographical and consistency errors identified in the draft financial statements. All differences have been amended by management.

No unadjusted misstatements have been identified.



05

# Value for Money Risks





## Background

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. This is known as our value for money conclusion.

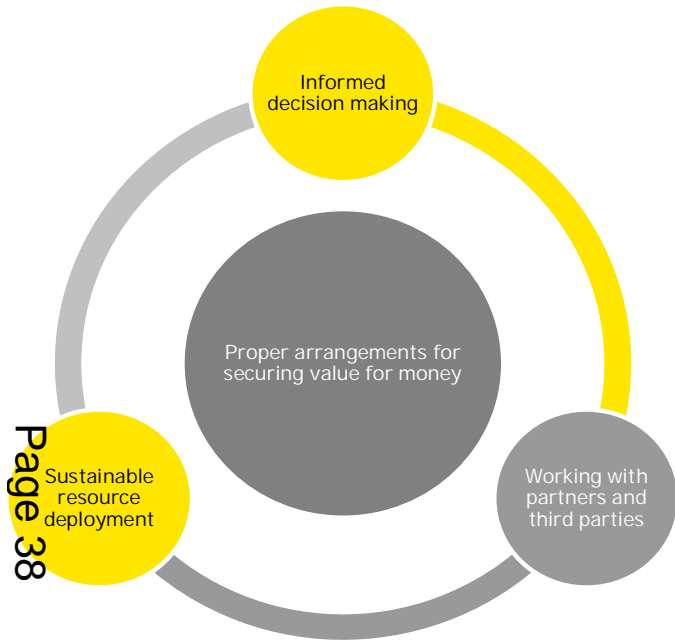
For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.



## Overall conclusion

We identified one significant risk in relation to value for money arrangements as part of our audit planning work. The table on the following page presents our findings in response to the risk in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

Based on the work performed we expect to have no matters to report about your arrangements in relation to the significant risk highlighted in our Audit Planning Report.



## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p><b>Financial Sustainability</b></p> <p>The Council continues to operate in a challenging financial environment. The main risks to the Council’s finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and demand for services.</p> <p>At the end of November 2018, the Council was forecasting a pressure against budget of £2.1 million. This pressure is largely due to significant overspends in Health, Education, Care and Safeguarding. In addition, over the next four years the Council estimates it is required to make £26.9 million of savings. There is therefore significant pressure on the Council’s finances over the coming years.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We have completed the following work in this area:</p> <ul style="list-style-type: none"> <li>• We have selected a sample of savings plans and assessed their reasonableness, including testing of the assumptions used;</li> <li>• We have discussed the specific plans in place for Health, Education, Care and Safeguarding to understand how the Council plans to control the overspends in this area;</li> <li>• We have reviewed the level of reserves to ensure they are sufficient to cover the Council’s assessment of the minimum required to provide its statutory services; and</li> <li>• We have reviewed the Medium Term Financial Plan (MTFP) and tested the reasonableness of a sample of the assumptions used.</li> </ul> <p>Our testing identified that the Council delivered an underspend of £1.03 million against budget in 2018/19. However, during the year the Council did not achieve all of its proposed in year savings of £18.338 million and has therefore rolled forward some of this savings target into 2019/20.</p> <p>The Council has created detailed savings plans for 2019/20 to ensure that they can achieve a balanced outturn. We have reviewed these savings plans to ensure that they are reasonable and we are satisfied that the assumptions used are appropriate and that the Council has a system for monitoring and challenging the savings delivery plan in 2019/20. We have also reviewed the MTFP and are satisfied that the Council has been prudent in its use of assumptions, in particular around income streams.</p> <p>During June 2019, the Council received a Corporate Peer Challenge Review. Although we are waiting for the final outcome of this review, initial indications are that no fundamental weaknesses in the Council’s financial sustainability were identified. However, some recommendations are likely to be made in relation to linking the strategy and the MTFP better in future years. Based on the testing performed there is no impact upon our VFM conclusion from this risk.</p>



# 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 Narrative Statement with the audited financial statements. We are satisfied that the Narrative Statement is consistent 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. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

In addition to 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.

Due to delays in the release of the relevant NAO guidance the deadline for the completion of WGA returns has been delayed until September 2019. We are currently undertaking our work in this area and will report any matters arising to the Audit Committee.

### 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.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. We have nothing to report to you in relation this.



07

# Assessment of Control Environment

# Assessment of Control Environment

## Assessment of Control Environment

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

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. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. 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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements. However, we have identified one area where controls can be further enhanced to support the robustness of the overall control environment at the Council:

Control observation	Recommendation
Whistleblowing policy – As part of our review of the policy has not been formally updated since 2011.	We recommend that the Council formalises its approach to review and approval of policies on a periodic basis, including arrangements to ensure that all policies remain up to date with changes in legal and regulatory requirements.

Page 43



08

# Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented in March 2019.

We complied with the FRC's Ethical Standards and the requirements of the terms and conditions in our engagement contract. In our professional judgement the firm is independent and the objectivity of the audit engagement associate partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 24 July 2019.

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees.

	Agreed fee 2018/19	Final fee 2017/18
	£	£
Total Fee - Code work (scale fee)	85,200	135,765
Total Fee - Code work (variation)	TBC*	-
Total Fee - Housing Benefit certification work	6,550	16,970
Total Audit fee	91,750	152,753
Non-audit work - Other certification work	7,387	8,300
Total other non-audit services	7,387	8,300
Total fees	99,137	161,035

\* In our Audit Planning Report, dated March 2019, we noted the planned fee in the table above may require variation to account for a number of one-off transactions in 2018/19, including the implementation of new accounting standards IFRS 9 and IFRS 15, the revaluation of the Council's shares in Newcastle International Airport Limited and our review of the Council's Group Accounts Assessment. In addition to the matters identified above and reported in this report, additional work was required in relation to the accounting for LGPS net liability following the judgements around McCloud and GMP and also the additional procedures required in relation to the Prior Period Adjustment relating to Foundation Schools. We will agree a fee variation with management after the completion of the audit and report this back to the Audit Committee.



# 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 are:

- 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 adopted in prior years by the predecessor auditors. The material Balance Sheet items we have tested are:

### Property, Plant and Equipment

- Intangible Assets
- 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



## Appendix B

# Summary of communications

Date 	Nature 	Summary 
14 June 2018	Meeting	Initial introductory meeting was held between Senior members of the audit team and management to discuss key issues at the Council and how the audit will be completed.
13 February 2019	Meeting	Senior members of the audit team, met with the management team to discuss key issues at the Council and plan the 2018/19 year end audit.
29 March 2019	Report	The Audit Planning Report, including confirmation of independence, was presented to the Audit Committee.
9 July 2019	Meeting	Audit close meeting with the management team to discuss the preliminary findings of the audit.
25 July 2019	Report	The Audit Results Report, including confirmation of independence, was presented to the Audit Committee.





Page 49

In addition to the above specific meetings and reporting, the audit team met with the management team multiple times throughout the 2018/19 audit year to discuss audit progress and the latest developments at the Council.

## Appendix C

# Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. 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.	Engagement signed contract
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – presented March 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – presented March 2019
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report – presented July 2019

# 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"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about North Tyneside Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit Results Report – July 2019
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Committee – July 2019
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	<p>Audit Committee – July 2019</p> <p>Audit Results Report – July 2019</p>

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Council</li> </ul>	Audit Results Report – July 2019
Independence	<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"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <ul style="list-style-type: none"> <li>• Details of any inconsistencies between the Ethical Standard and Council’s policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>• Details of any contingent fee arrangements for non-audit services</li> <li>• Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>• The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Audit Planning Report – March 2019</p> <p>Audit Results Report – July 2019</p>

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Audit Results Report – July 2019
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances of non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report – July 2019
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report – July 2019
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report – July 2019

Page 33

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Auditor's report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - July 2019
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit Planning Report - March 2019 Audit Results Report - July 2019
Certification work	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	Certification Report - later in 2019

# Management representation letter

## Management Rep Letter

Ernst & Young LLP  
Citygate  
St James' Boulevard  
Newcastle upon Tyne  
NE1 4JD

Dear Sirs

**Page 55**  
This letter of representations is provided in connection with your audit of the financial statements of North Tyneside Council ("the Council") for the year ended 31 March 2019. 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 financial statements give a true and fair view of the Council financial position of North Tyneside Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), 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 the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the 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 Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has 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 2018/19, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

# Management representation letter

## Management representation letter

### B. Non-Compliance with Law and Regulations, including Fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

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

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

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, 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 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 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

1. We have provided you with:

- a) 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;
- b) additional information that you have requested from us for the purpose of the audit; and
- c) unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions (above £6.2m) have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee held through the period to the most recent meeting on the following date: 25 July 2019.



# Management representation letter

## Management representation letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the 31 March 2019. These transactions have been appropriately accounted for and disclosed in the financial statements.

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

### D. Liabilities and Contingencies

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

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

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

### E. Subsequent Events

1. There have been no events subsequent to the period end which require adjustment of, or disclosure in, the financial statements or notes thereto.

### F. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.

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

### G. Comparative amounts

1. The comparative amounts have been correctly restated to reflect the removal of Foundation Schools from the Balance Sheet in the prior year.

2. The impact of the removal of the Foundation Schools can be viewed in Appendix A to this letter. (Please note that as the exact impact of the Prior Period Adjustment is currently being assessed by officers, this appendix has not yet been added but it will be included in the final Management Representation Letter).

3. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

# Management representation letter

## Management representation letter

### H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

### Use of the Work of a Specialist

1. We agree with the findings of the property valuers that we engaged to evaluate the valuation of Council Dwellings and Other Land and Buildings, the actuary that we engaged to evaluate the valuation of the pension liability and the valuers we engaged to evaluate the valuation of our shares in Newcastle International Airport Limited and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the 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.

### J. Estimates

#### Valuation of Council Dwellings and Other Land and Buildings

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We confirm that the significant assumptions used in making the valuation of Council Dwellings and Other Land and Buildings appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events.

#### Valuation of Pension Liability

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We confirm that the significant assumptions used in creating the valuation the pension liability appropriately reflects our intent and ability to carry out the valuation on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

# Management representation letter

## Management representation letter

Valuation of Newcastle International Airport Limited

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the valuation of Newcastle International Airport Limited appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events.

Yours faithfully,

\_\_\_\_\_  
Head of Resources

\_\_\_\_\_  
Chair of the Audit Committee

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2019 EYGM Limited.  
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

[ey.com](http://ey.com)

## North Tyneside Council Report to Audit Committee Date: 24 July 2019

### ITEM 5

Title: Review of Audit  
Committee Arrangements

Report from Service Area: Resources

Report Author: Allison Mitchell, Chief Internal Auditor (Tel: 643 5720)

Wards affected: All

### PART 1

#### 1.1 Purpose:

The purpose of this report is to:

- (a) Present an initial assessment of current Audit Committee arrangements for North Tyneside Council with reference to 2018 good practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA), for Audit Committee's consideration;
- (b) Summarise the work previously performed by the Chair of Audit Committee in 2015/16 on reviewing Audit Committee arrangements at that time, and the findings of the Chair from that review, as reported to Audit Committee on 30 March 2016; and
- (c) Highlight those areas where development work should be focused during 2019/20 to ensure that our Audit Committee arrangements reflect all parts of CIPFA's good practice (or that there is a clear rationale for departure from the guidance, if they do not); and to progress any outstanding recommendations made by the Chair of Audit Committee as part of the 2015/16 Review of Audit Committee arrangements, where these recommendations remain relevant and supported by CIPFA's latest guidance.

#### 1.2 Recommendations:

It is recommended that Audit Committee:

- (a) considers and endorses the initial self assessment of our Audit Committee arrangements against the latest good practice guidance recommended by CIPFA, attached as **Annex A**;
- (b) notes that CIPFA have published a revised Position Statement on Audit Committees in Local Authorities, attached as **Annex B**, and that some future changes are likely to be needed to the current Terms of Reference of Audit Committee as set out in the Constitution, to ensure that all aspects of CIPFA's good practice can be reflected;
- (c) notes the detailed review undertaken by the Chair of Audit Committee in 2015/16, and the findings from that review, attached as **Annex C**;
- (d) agrees that the Head of Resources, supported by the Chief Internal Auditor, works with the Chair of Audit Committee to prepare a 2019/20 plan of actions needed to ensure that our Audit Committee arrangements reflect, as far as practicable, CIPFA's good practice guidance and the relevant findings of the 2015/16 review led by the Chair of Audit Committee;

- (e) agrees that this report and the Action Plan recommended at (d) above will form the first phase of a 2019/20 review of the effectiveness of our Audit Committee, with a further report to be brought to Audit Committee in November 2019; and that the views of serving Audit Committee members on the operation of Audit Committee will be sought and included in the November 2019 report.

### 1.3 Council Plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

### 1.4 Information

- 1.4.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) periodically publishes good practice guidance covering the role, functions and operation of Audit Committees in Local Government. The latest such guidance ('Audit Committees – Practical Guidance for Local Authorities and Police') was published in 2018.
- 1.4.2 An initial assessment of our Audit Committee arrangements, against the good practice recommended by CIPFA, is included at **Annex A**. This self assessment demonstrates that:
- (a) our Audit Committee arrangements already reflect a number of the good practice areas recommended by CIPFA. For example:
- independent co-opted members have been recruited to the Audit Committee
  - the Committee has developed good working relationships with key stakeholders
  - a review of how the Committee is adding value has previously been undertaken
  - Committee meetings are effective and demonstrate a good level of discussion and engagement from all members (co-opted and elected)
- (b) there are a number of areas in which more development may be needed to ensure that the good practice recommended by CIPFA is reflected. This includes:
- developing arrangements for regular onward reporting from Audit Committee to 'those charged with governance' within the Authority
  - ensuring that the Terms of Reference for Audit Committee reflect CIPFA's latest Position Statement on Audit Committees in Local Government (this position Statement is included as **Annex B**)
  - working with Audit Committee members to assess whether members feel they have the required knowledge and skills necessary for their role on Audit Committee, and developing a structured training programme if required to address any areas where more knowledge would be welcomed
  - helping the Committee to engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers for implementation of audit recommendations.
- 1.4.3 It should be noted that this analysis reflects the findings of a detailed review of Audit Committee arrangements which was led by the co-opted Chair of Audit Committee in 2015/16. The results of this review were reported to Audit Committee in March 2016 and for completeness, the full report of this review is attached as **Annex C**. The report of the co-opted Chair of Audit Committee highlighted a number of recommended actions covering:

- Audit Committee and Senior Leadership Team interaction
- Audit Committee and Cabinet interaction
- An Audit Committee Member Development Programme
- Involvement of Audit Committee in development of the Audit Committee's work programme
- Attendance at Audit Committee meetings
- Merging of Audit Committee functions
- Time of Audit Committee meetings
- Terms of Reference

Progress has been made in some areas, but more work is likely to be needed to fully implement all recommendations from the earlier review led by the Chair of Audit Committee and to ensure that all good practice arrangements (from both the 2018 analysis and earlier review led by the Chair) become fully embedded.

- 1.4.4 It is therefore recommended that the outcomes of the analysis detailed above form the basis for development of an Action Plan for 2019/20, and that this work is progressed by the Head of Resources (supported by the Chief Internal Auditor) and co-opted Chair of Audit Committee with a further report brought before Audit Committee in November 2019.
- 1.4.5 It is also proposed that this work forms the basis of a review of Audit Committee effectiveness 2019/20, with wider engagement with Audit Committee members on their views being sought and included in the further report to be presented to Audit Committee in November 2019.

## **1.5 Decision Options:**

It is recommended that Audit Committee notes and endorses the initial assessment of current arrangements against CIPFA good practice guidance, and the outcomes from the earlier detailed review led by the co-opted Chair of Audit Committee; agrees that an Action Plan is developed to ensure that CIPFA's good practice guidance is reflected as far as possible, during the remainder of 2019/20; and that this work forms the basis for a review of Audit Committee effectiveness, with further views sought from Audit Committee members prior to November 2019, with a further progress report brought before Audit Committee in November 2019.

There are no other options available in relation to this report.

## **1.6 Reasons for recommended option:**

This recommendation will allow the Council to operate in line with legislation, good practice and professional guidance.

## **1.7 Appendices:**

- Annex A:** Initial Self Assessment of Good Practice (July 2019) – from CIPFA, Audit Committees, Practical Guidance for Local Authorities and Police, published 2018
- Annex B:** CIPFA Position Statement: Audit Committees in Local Authorities and Police
- Annex C:** Report to Audit Committee – Review of Audit Committee Arrangements, 30 March 2016

## **1.8 Contact officers:**

Allison Mitchell (Chief Internal Auditor) Tel 643 5720  
Kevin McDonald (Group Assurance Manager) Tel 643 5738

## **1.9 Background information:**

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

- (a) Audit Committees, Practical Guidance for Local Authorities and Police, CIPFA, 2018 (P)
- (b) North Tyneside Council Constitution (P)
- (c) Review of Audit Committee Arrangements, Report to Audit Committee, 30 March 2016
- (d) Audit Committee Annual Report 2016/17, Report to Cabinet 10 July 2017; and Appendix
- (e) The 'Our North Tyneside' Council Plan 2018/21,2018 (P)

## **PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING**

### **2.1 Finance and other resources**

The Audit Committee contributes to the Council's governance framework, including the review of financial governance as appropriate.

There are no financial implications arising from the recommendations set out in this report.

### **2.2 Legal**

The Public Sector Internal Audit Standards, and related Local Government Application Note, presume that local authorities will have an Audit Committee undertaking the mission identified by CIPFA in its 2018 publication "Audit Committees – Practical Guidance for Local Authorities and Police".

### **2.3 Consultation/community engagement**

The analysis against CIPFA's good practice guidance, taken from the 2018 publication "Audit Committees – Practical Guidance for Local Authorities and Police", is included in this report for consultation with current members of Audit Committee.

### **2.4 Human rights**

There are no human rights issues arising from this report.

### **2.5 Equalities and diversity**

There are no equality and diversity issues arising from this report.



## **2.6 Risk management**

Risks will be identified as progress is made on the implementation of the recommended actions included within the report. Risks and opportunities identified will be managed in accordance with the Authority's established risk management processes.

## **2.7 Crime and disorder**

There are no specific crime and disorder issues arising from this report. The work of Audit Committee is a key strand in the Authority's counter-fraud arrangements.

## **2.8 Environment and sustainability**

There are no environment and sustainability issues arising from this report.

**Report authors**     Allison Mitchell

**Audit Committee Arrangements: Initial Self Assessment of Good Practice (July 2019)**

(taken from CIPFA, *Audit Committees, Practical Guidance for Local Authorities and Police*, published 2018)

CIPFA states that this checklist provides a high level review that incorporates the key principles set out in CIPFA's Position Statement on Audit Committees in Local Authorities, and the wider *Practical Guidance* publication referred to above. CIPFA states:

*"Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee. A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report."*

Good practice questions		Yes	Partly	No	Comments
<b>Audit Committee purpose and governance</b>					
1 Page 06	Does the authority have a dedicated audit committee?	✓			Dedicated Audit Committee established as a full, politically balanced committee of Council. Agreed at meeting of Council on 21 January 2010 (Minute C109/01/10).
	Does the audit committee report directly to full council? (Applicable to local government only.)			✓	No. There is a general provision in the Constitution that allows any committee of the Council to report matters up to full Council. The work programme of the Audit Committee does not however currently include this as a routine report.  An initial report (covering 2016/17) from the Chair of Audit Committee to Cabinet was prepared and presented to Cabinet in July 2017. The Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that the Audit Committee should report regularly on its work to those charged with governance, and at least annually report an assessment of its performance. CIPFA comments that an annual public report should demonstrate how the Committee has discharged its responsibilities.

Good practice questions		Yes	Partly	No	Comments
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?		✓		<p>The Audit Committee's Terms of Reference, included in the Constitution, preceded CIPFA's updated guidance in 2018 on this matter. The Terms of Reference / Constitution therefore need to be updated to reflect CIPFA's latest guidance / wording on the purpose of the Audit Committee.</p> <p>It is proposed that officers work with Audit Committee during 2019/20 to compare existing Terms of Reference with CIPFA's Position Statement on Audit Committees in Local Authorities, and to develop a new Terms of Reference for suggested inclusion at the next review of the Authority's Constitution.</p>
4	Is the role and purpose of the audit committee understood and accepted across the authority?		✓		<p>This was examined in some detail by the Chair of Audit Committee as part of the review in 2015/16, when discussion with members and officers demonstrated that the understanding of role and purpose was variable across the Authority at that time. It is likely that the 2015/16 review, and reporting to Cabinet in July 2017, will have helped to address this. However a programme of communication and awareness raising with senior officers and appropriate elected members may be an option for the Authority to consider.</p>
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			<p>Members of Audit Committee are diligent in their reading of reports and this is reflected in debate within the Committee meeting itself. A range of appropriate and challenging questions are asked by Committee members to report authors. In addition the Annual Governance Statement is reviewed by the Committee each year.</p>

Good practice questions		Yes	Partly	No	Comments
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?		✓		See question 2 above. An initial, detailed review of Audit Committee effectiveness was led by the Chair of Audit Committee in 2015/16. The results of the review and recommendations were codified in a report to Audit Committee in March 2016. A report to Cabinet in July 2017 was the first Audit Committee Annual Report, covering the work performed by the Committee during 2016/17, but further annual reports have not been prepared. It is recommended that Audit Committee consider this as part of the review of effectiveness in 2019/20.

**Functions of the committee**

Page 68	7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				As set out above (question 3), the current Terms of Reference require some updating to ensure that these are wholly reflective of the most up to date CIPFA guidance. It is recommended that this work takes places during the 2019/20 year.
		<ul style="list-style-type: none"> <li>▪ good governance</li> </ul>		✓		
		<ul style="list-style-type: none"> <li>▪ assurance framework, including partnerships and collaboration arrangements</li> </ul>		✓		The current terms of reference make reference to the assurance framework or its component parts, but do not explicitly address partnerships and collaboration arrangements.
		<ul style="list-style-type: none"> <li>▪ internal audit</li> </ul>	✓			
		<ul style="list-style-type: none"> <li>▪ external audit</li> </ul>	✓			
		<ul style="list-style-type: none"> <li>▪ financial reporting</li> </ul>	✓			
		<ul style="list-style-type: none"> <li>▪ risk management</li> </ul>	✓			
		<ul style="list-style-type: none"> <li>▪ value for money or best value</li> </ul>			✓	
		<ul style="list-style-type: none"> <li>▪ counter-fraud and corruption.</li> </ul>		✓		
	<ul style="list-style-type: none"> <li>▪ supporting the ethical framework</li> </ul>			✓		

Good practice questions		Yes	Partly	No	Comments
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?		✓		See questions 2 and 6 above. A detailed review, led by the Chair of Audit Committee, was undertaken in 2015/16 and presented to Audit Committee in March 2016. This was followed by an Annual Report from Audit Committee to Cabinet in July 2017 (covering 2016/17). Annual evaluations have not subsequently taken place. It is recommended that this is reviewed by Audit Committee as part of this report and the 2019/20 review of Audit Committee effectiveness.
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?		✓		Again, these areas hint at a broader relationship with other committees and senior officers of the council, which the 2015/16 review suggested could be examined further with a view to establishing more effective links with Senior Leadership Team, Cabinet and potentially other committees. For example, one 'wider area' identified by CIPFA is 'considering governance, risk or control matters at the request of other committees or statutory officers'. The 2015/16 review suggested that awareness of the possible role of Audit Committee here is probably not well developed and this could form an area of focus in the effectiveness review of 2019/20.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?		✓		See questions 3 and 7 above. The current Terms of Reference require some updating to ensure that these are wholly reflective of the core areas identified in CIPFA's Position Statement. It is recommended that this work takes places during the 2019/20 year.
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓			

Good practice questions		Yes	Partly	No	Comments
<b>Membership and support</b>					
12	Has an effective audit committee structure and composition of the committee been selected? This should include:				
	▪ separation from the executive	✓			
	▪ an appropriate mix of knowledge and skills among the membership	✓			
	▪ a size of committee that is not unwieldy	✓			
	▪ Consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement).	✓			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or as appropriate for the organisation?	✓			Yes. The positions of co-opted Chair and Deputy Chair have a role definition, person specification, and qualifying criteria. The roles were advertised in local publications and on the internet in 2013. Appointments to the roles were made by means of competitive interview. The tenure of the postholders has been extended only with the express approval of full Council, as required by the Constitution.
14	Does the chair of the committee have appropriate knowledge and skills?	✓			The Chair of Audit Committee has extensive audit experience (as both a practitioner and recipient of audit services) and occupied a very senior role in the Financial Services sector before taking on the role of Chair of Audit Committee.
15	Are arrangements in place to support the committee with briefings and training?		✓		This was suggested as an area for further development as part of the previous 2015/16 review of effectiveness. Helen McMahon (Workforce Corporate Development Lead, HR) is co-ordinating an initial training session for Audit Committee early in 2019/20.  It may be beneficial to develop a suitable programme of training and to consider how this would best be delivered, and by whom.

Good practice questions		Yes	Partly	No	Comments
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			✓	The latest CIPFA guidance on Audit Committees in Local Authorities (2018) includes a 'core knowledge and skills' framework' for Audit Committee members. This can be used to guide members in assessing any training needs and to evaluate the overall knowledge and skills of the Committee.
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			
18	Is adequate secretariat and administrative support to the committee provided?	✓			

#### Effectiveness of the committee

19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		✓		Undertaken as part of the 2015/16 review of audit committee effectiveness, but not subsequently.
20	Are meetings effective with a good level of discussion and engagement from all the members?	✓			
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?			✓	Audit Committee is not routinely attended by a wide range of leaders and managers. This was a point raised by the Chair of Audit Committee in 2015/16 and it may be worthwhile to revisit this during the 2019/20 effectiveness review.

Good practice questions		Yes	Partly	No	Comments
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?			✓	No such recommendations made to date.
23	Has the committee evaluated whether and how it is adding value to the organisation?		✓		Undertaken as part of the 2015/16 review of audit committee effectiveness.
24	Does the committee have an action plan to improve any areas of weakness?		✓		Recommended actions were set out in the March 2016 report which documented the 2015/16 review.
25	Does the committee publish an annual report to account for its performance and explain its work?		✓		See above (question 6)



## CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3 Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
  - act as the principal non-executive, advisory function supporting those charged with governance
  - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
  - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
  - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
  - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4 The core functions of an audit committee are to:
  - be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
  - in relation to the authority's internal audit functions:
    - oversee its independence, objectivity, performance and professionalism
    - support the effectiveness of the internal audit process
    - promote the effective use of internal audit within the assurance framework
  - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
  - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
  - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
  - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.

- review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
  - working with local standards and ethics committees to support ethical values
  - reviewing and monitoring treasury management arrangements in accordance with Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA, 2017)
  - providing oversight of other public reports, such as the annual report.
- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
  - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
  - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are: promoting apolitical open discussion
  - managing meetings to cover all business and encouraging a candid approach from all participants
  - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
  - unbiased attitudes – treating auditors, the executive and management fairly
  - the ability to challenge the executive and senior managers when required.
- 7 To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
  - be able to meet privately and separately with the external auditor and with the head of internal audit
  - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
  - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
  - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities

# North Tyneside Council

## Report to Audit Committee

### Date: 30 March 2016

#### ITEM #

Title: Review of Audit  
Committee Arrangements

---

Report from Service Area:	Commissioning and Investment	
Report Author:	Allison Mitchell, Chief Internal Auditor	(Tel: 643 5720)
Wards affected:	All	

---

## PART 1

### 1.1 Purpose:

This report summarises the outcomes from engagement undertaken by the Chair of Audit Committee with a variety of stakeholders of the Audit Committee, and guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) regarding audit committees. The report evaluates our own Audit Committee arrangements in the context of CIPFA's published guidance; the views of elected members, Senior Leadership Team and the External Auditor; and also good practice identified elsewhere.

The report concludes that the Audit Committee is a valuable assurance resource for the organisation, but that more could be done to develop this and link the work of the committee to the wider organisation (in particular, the Senior Leadership Team and Cabinet). The report recommends that its findings are developed further into an action plan, involving members of Audit Committee and other key stakeholders, with the Head of Commissioning and Investment as sponsor for this work.

### 1.2 Recommendation(s):

It is recommended that Audit Committee:

- (a) considers and endorses the report of the Co-opted Chair of Audit Committee, attached as **Appendix A**;
- (b) agrees that the recommended actions set out by the Chair of Audit Committee in section 4 of the report are progressed, with Mark Longstaff (Head of Commissioning and Investment) as Senior Leadership team sponsor for this work; and
- (c) agrees that any changes to the Audit Committee's Terms of Reference necessary to reflect CIPFA's Audit Committee Position Statement are recommended for adoption to full Council, as part of the next review of the Constitution.

### 1.3 Council plan and policy framework

The work of the Audit Committee covers all service responsibilities as identified within the Council Plan.

## 1.4 Information

- 1.4.1 As has been discussed at meetings of Audit Committee previously in 2015/16, it is considered to be good practice for audit committees to regularly assess their own effectiveness. CIPFA has produced guidance which local authorities can use to structure such reviews of effectiveness.
- 1.4.2 A review of our current Audit Committee arrangements has been undertaken, led by the co-opted Chair of Audit Committee. As well as considering CIPFA's published guidance, the Chair of Audit Committee has taken the opportunity to engage widely with a number of stakeholders of the Audit Committee and its work. Examples of good practice within audit committees within local government and other sectors have also been sought, and the arrangements for our own Audit Committee compared.
- 1.4.3 The outcomes from the Chair of Audit Committee's initial review are summarised in the report attached as **Appendix A**. In summary, the report recognises the valuable contribution that the work of the Audit Committee makes to the effective running of the organisation, but highlights a number of areas where its effectiveness could be enhanced. In particular, the Chair of Audit Committee recommends that greater links between the Audit Committee, Senior Leadership Team and Cabinet are developed, alongside a range of additional improvements.

## 1.5 Decision Options:

It is recommended that the Audit Committee considers and endorses the report of the Chair of Audit Committee, attached as **Appendix A**, and agrees that the recommended actions contained therein are progressed with the Head of Commissioning and Investment.

## 1.6 Reasons for recommended option:

This recommendation will allow the Council to operate in line with legislation, good practice and professional guidance.

## 1.7 Appendices:

**Appendix A:** Review of Audit Committee Arrangements – Report of the Co-opted Chair of Audit Committee (March 2016)

## 1.8 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

- (a) Audit Committees, Practical Guidance for Local Authorities and Police, CIPFA, 2013 (P)
- (b) Public Sector Internal Audit Standards, CIPFA / Institute of Internal Auditors, December 2012 (P)
- (c) Local Government Application Note for the UK Public Sector Internal Audit Standards, CIPFA / Institute of Internal Auditors, April 2013 (P)
- (d) [North Tyneside Council Constitution \(P\)](#)
- (e) [Financial Regulations C24 - C35, version 5a, September 2013 \(P\)](#)
- (f) [The Accounts and Audit Regulations 2015, April 2015 \(P\)](#)
- (g) [The 'Our North Tyneside' Council Plan 2014/18, September 2013 \(P\)](#)

- (h) ['Creating a Brighter Future Programme', April 2014 \(P\)](#)
- (i) Target Operating Model, 2015 (C)

## **PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING**

### **2.1 Finance and other resources**

The Audit Committee contributes to the Council's governance framework, including the review of financial governance as appropriate.

### **2.2 Legal**

The Public Sector Internal Audit Standards, and related Local Government Application Note, presume that local authorities will have an Audit Committee undertaking the mission identified by CIPFA in its 2013 publication "Audit Committees – Practical Guidance for Local Authorities and Police".

### **2.3 Consultation/community engagement**

The Chair of Audit Committee has engaged extensively with a range of Audit Committee stakeholders. Consultation has included serving elected members of the committee, the Cabinet member for Finance and Resources, Chief Executive and Deputy Chief Executive, Heads of Service and Senior Leadership Team, senior managers, and the External Auditor. A complete list is included in Annex A of the Chair of Audit Committee's report attached.

### **2.4 Human rights**

There are no human rights issues arising from this report.

### **2.5 Equalities and diversity**

There are no equality and diversity issues arising from this report.

### **2.6 Risk management**

Risks will be identified as progress is made on the implementation of the recommended actions included within the report. Risks and opportunities identified will be managed in accordance with the Authority's established risk management processes.

### **2.7 Crime and disorder**

There are no specific crime and disorder issues arising from this report. The work of Audit Committee is a key strand in the Authority's counter-fraud arrangements.

### **2.8 Environment and sustainability**

There are no environment and sustainability issues arising from this report.

**Report authors** Allison Mitchell

# **Review of Audit Committee Arrangements**

**Report of the Co-opted Chair of Audit  
Committee**

**March 2016**



## **1 Introduction**

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that the Audit Committee should regularly assess its own effectiveness, and has produced guidance which local authority audit committees can utilise for this purpose. CIPFA outlines the aim of such a review to be so that the Audit Committee itself can:
- Assess the adequacy of its terms of reference, work plans, forums of discussion and communication; and
  - Identify areas where the committee and its processes might be more effective, or where there are skills and / or knowledge gaps.

## **2 Work Undertaken**

- 2.1 As discussed at the meeting of Audit Committee in November 2015, to initiate such a review, the Chair of Audit Committee and Chief Internal Auditor have sought to meet with a number of key stakeholders (including current Audit Committee members). A number of discussions have taken place (referenced in **Annex A**) with elected members, the Chief Executive, Deputy Chief Executive, Heads of Service / Senior Leadership Team, relevant senior managers and External Auditor. These conversations have been helpful in obtaining information and gauging views and perceptions on our current audit committee arrangements.
- 2.2 CIPFA has also prepared a guidance document, which includes a series of checklists in order to help local authority audit committees structure their reviews of effectiveness. These checklists centre around a position statement, contained within the guidance, which CIPFA recommends is the foundation for any Audit Committee arrangements. In addition to engaging with key stakeholders, as described above, for completeness CIPFA's main checklist has been completed and is attached as **Annex B**. Examples of good practice in Audit Committee arrangements in other organisations have also been sought and examined.
- 2.3 The main outcomes from the discussions held and work undertaken as part of the review are summarised below.

## **3 Summary of Key Outcomes**

- 3.1 The Audit Committee has the potential to be a real 'force for good' in North Tyneside Council. It is uniquely placed to provide an assurance overview, drawing from the whole range of activities that the Authority is engaged in, and all outcomes which the Council hopes to deliver for the people of North Tyneside. The Audit Committee is a source of constructive challenge on where the organisation is maximising opportunities, and where there is scope to manage risks more effectively.
- 3.2 However, at present the Committee seems to exist in isolation – it is not sufficiently connected to the Senior Leadership Team, as the management board of the organisation; nor does it have any links to Cabinet, or to other

committees. As such, the Audit Committee has inputs but no measurable outputs or outcomes, and this hampers both its effectiveness and its status / profile and influence within the Authority.

- 3.3 Attendance at the Committee, both from those elected members who serve on the Committee and senior officers, has been variable. Elected members attending the Audit Committee are clearly very knowledgeable and the Committee has engaged in intelligent debate on a number of key governance matters. It is to the credit of the members on the Committee that this debate has transcended any political discussion. However, quorum has been an issue and there are times when meetings have needed to be cancelled and rearranged, or cut short, as insufficient members have been in attendance (or unable to stay for the duration of the meeting). Currently no substitute members are allowed. Whilst some officers have attended the committee, it has not always been clear as to their role.
- 3.4 The reports prepared by Internal Audit, and support of the Committee by the Internal Audit team, have been the main source of information and support to the Audit Committee (and in particular, to the co-opted Chair and Deputy Chair) to date. The work is professional, of a consistently high standard and welcomed by the Committee; but the Committee would benefit from a greater variety of input from a range of other contributors throughout the year.
- 3.5 The Audit Committee's Terms of Reference broadly reflect the professional guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and it is positive that a work programme (reflecting the Terms of Reference) is prepared and agreed in advance of each municipal year. However, it is suggested that greater engagement could be effected if the Senior Leadership Team, Cabinet and Audit Committee members had more say in the topics to be considered at the commencement of, and during, each year; and if there was scope to commission work or studies by the Audit Committee. A sub-group of Audit Committee members, supported by officers as appropriate, would seem to be an effective way of managing the delivery of such commissioned studies.
- 3.6 There is also scope to widen the role of the Audit Committee – for example, to explore whether the committee could take on more of a role by becoming 'those charged with governance'. In the context of the accounts, this would allow the Audit Committee to discharge functions currently performed in what may be a more unwieldy environment of a full council meeting.

#### **4 Recommended Actions**

- 4.1 It is suggested that the following matters should form the basis for a development plan for the Audit Committee within North Tyneside.
  - Senior Leadership Team: Greater interaction between the Chair of Audit Committee, and wider Audit Committee, with the Senior Leadership Team.



- Cabinet: Greater interaction at the commencement of each municipal year between Audit Committee and Cabinet, regarding the Audit Committee's work programme; and an annual report from Audit Committee to Cabinet.
- Member Development Programme: A development programme for Audit Committee members, but also for non-members of Audit Committee to raise awareness on what the Committee's role is, and its remit. This should involve the Senior Leadership Team and both Internal and External Audit.
- Work Programme: Greater involvement of Audit Committee members in agreeing the work programme for the Committee. This should help to secure a greater level of engagement and make the subject matters covered by the Committee more 'live' to those involved in the debate.
- Attendance at Audit Committee Meetings: Attendance by appropriate Senior Leadership Team members at the Committee – for example, it would send a clear message on the importance of corporate governance if the Chief Executive was to attend the Audit Committee when the Annual Governance Statement is considered; and if there was appropriate attendance from Heads of Service at every Audit Committee meeting (for example, risk owners). It would also improve the scope for debate and challenge on key risk matters if the Cabinet member risk owner was present, on a rolling basis, for consideration of key risks.
- Merging of Audit Committee functions: Suggestions have been made regarding merging the functions of the Audit Committee with other bodies, such as the Finance Sub Committee, Standards Committee or Cabinet (as was the case with the forerunner to the Audit Committee, the Audit Panel). All suggestions are contrary to CIPFA's recommended practice. Any merging of the Audit Committee functions with those of other committees may impede on the independence which the Audit Committee is required to have to work effectively and fulfil its role. Any efficiencies to be gained are likely to be minimal and hence this is not a recommended way forward at the current time.
- Time of Audit Committee meetings: some consideration should be given as to whether the current timeslot (6pm) optimises the effectiveness of the Committee. It may be that a time during the day would allow both members and officers to contribute more effectively – though views on this matter were mixed when contributions from elected members were sought.
- Terms of Reference: The self-assessment against CIPFA's 'Audit Committee Checklist' (**Annex B**) demonstrates, overall, a good fit with the principles contained within CIPFA's published Position Statement on such matters. There are some areas where slight changes to the Committee's Terms of Reference would demonstrate a better fit with CIPFA's Audit Committee position statement. It is recommended that these are considered for proposal to full Council as part of the next review of the Constitution.

## **5 Conclusion**

- 5.1 The Audit Committee is a valuable resource to North Tyneside Council. Aspects of our current Audit Committee arrangements work well, and are helpful to the organisation. However, the views sought from stakeholders of the Committee, and comparison with good practice identified elsewhere, suggest that the Audit Committee can now be positioned to better support the organisation as it continues to deliver in a period of increasing austerity and delivering its services in very different ways.
- 5.2 The fundamental recommendation from this review is that the Audit Committee as a dedicated body should be better linked to the wider organisation – principally the Senior Leadership Team and Cabinet – as well as engaging more effectively with the elected members who serve on the committee. This will help us to focus the committee’s resources on providing a vital assurance link for the organisation. The Audit Committee is well placed to support North Tyneside Council by constructively, but comprehensively, challenging what it is that the authority is delivering for its residents, businesses and all those who live or work within the borough.
- 5.3 It is recommended that the ‘Recommended Actions’ outlined above are now taken forward, involving Audit Committee members and Heads of Service throughout the organisation as appropriate, with Mark Longstaff (Head of Commissioning and Investment) as Senior Leadership Team sponsor. This will help us to work with our stakeholders, including all Audit Committee members, to develop the Audit Committee further. In this way, it can become a more engaged and greater assurance resource for the Authority.

## Acknowledgments

All current Audit Committee elected members, a range of officers, our own external auditor and those of neighbouring organisations were invited to discuss our review of audit committee effectiveness and provide comment or suggestions as appropriate. The Chair of Audit Committee would like to thank the following who either met directly with him, or provided comments and views via the Chief Internal Auditor.

### **Current Audit Committee elected members:**

Cllr Gary Bell  
Cllr McGarr  
Cllr McMullen  
Cllr O'Shea  
Cllr Rankin

### **Cabinet:**

Cllr Ray Glindon, Cabinet Member for Finance and Resources

### **External Audit:**

Gareth Davies (Mazars)  
Diane Harold (Mazars)  
Caroline Mulley (Ernst and Young – through our shared service arrangement)  
Paul Thomson (Deloitte – through our shared service arrangement)

### **Officers:**

Patrick Melia, Chief Executive  
Paul Hanson, Deputy Chief Executive  
Lisa Clark, Head of Commercial and Business Redesign  
Janice Gillespie, Head of Finance (Section 151 Officer)  
Mark Longstaff, Head of Commissioning and Investment  
Phil Scott, Head of Environment, Housing and Leisure  
Dave Brown, Manager: Democratic Services  
Helen Davidson, Workforce Development Lead HR (Corporate)

### **Other organisations with whom we compared arrangements:**

Newcastle City Council  
Northumberland County Council  
Sunderland City Council  
Northumbria Police and Crime Commissioner  
Suffolk Police and Crime Commissioner  
Health and Care Professions Council  
NHS Newcastle Gateshead Clinical Commissioning Group (CCG)

### Reviewing the Effectiveness of the Audit Committee: Self-Assessment of Good Practice – February 2016

This checklist provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police. Where an audit committee has a high degree of performance against the good practice principles then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good practice questions		Yes	Partly	No	Comments
<b>Audit Committee purpose and governance</b>					
Page 84	1 Does the authority have a dedicated audit committee?	✓			Dedicated Audit Committee established as a full, politically balanced committee of Council. Agreed at meeting of Council on 21 January 2010 (Minute C109/01/10).
	2 Does the audit committee report directly to full council? (Applicable to local government only.)		✓		There is a general provision in the Constitution that allows any committee of the Council to report matters up to full Council. The work programme of the Audit Committee does not however currently include this as a routine report.
	3 Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?		✓		The Audit Committee's Terms of Reference, included in the Constitution, preceded CIPFA's updated guidance on this matter. The Terms of Reference / Constitution therefore need to be updated to reflect CIPFA's latest guidance / wording on the purpose of the Audit Committee.
	4 Is the role and purpose of the audit committee understood and accepted across the authority?		✓		Discussion with elected members and officers as part of this 2015/16 review, has demonstrated that the understanding of role and purpose is variable across the Authority.

Good practice questions		Yes	Partly	No	Comments
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?		✓		The recent review of Audit Committee effectiveness is the first stage in this process.

**Functions of the committee**

7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				As set out above, the current Terms of Reference require some updating to ensure that these are reflective of the most up to date CIPFA guidance; but the changes required are mostly cosmetic in the areas designated as 'partly' below.
	<ul style="list-style-type: none"> <li>▪ good governance</li> </ul>		✓		
Page 85	<ul style="list-style-type: none"> <li>▪ assurance framework</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ internal audit</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ external audit</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ financial reporting</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ risk management</li> </ul>	✓			
	<ul style="list-style-type: none"> <li>▪ value for money or best value</li> </ul>		✓		
	<ul style="list-style-type: none"> <li>▪ counter-fraud and corruption.</li> </ul>	✓			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?		✓		This has been undertaken for the first time as part of the 2015/16 review of effectiveness of the Audit Committee.

Good practice questions		Yes	Partly	No	Comments
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?		✓		Again, these areas hint at a broader relationship with other committees and senior officers of the council, which our review has suggested could be examined further with a view to establishing more effective links with Senior Leadership Team, Cabinet and potentially other committees. For example, one 'wider area' identified by CIPFA is 'considering governance, risk or control matters at the request of other committees or statutory officers', but the 2015/16 review suggests that awareness of the possible role of Audit Committee here is probably not well developed.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?		✓		All 'core areas' are already covered by the Audit Committee. One area in which we may wish to enhance the Audit Committee's role relates to it receiving reports from 'other inspection agencies', which does not currently happen.
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓			

### Membership and support

12	Has an effective audit committee structure and composition of the committee been selected? This should include:				
	▪ separation from the executive	✓			
	▪ an appropriate mix of knowledge and skills among the membership	✓			
	▪ a size of committee that is not unwieldy	✓			
	▪ where independent members are used, that they have been appointed using an appropriate process.	✓			

Good practice questions		Yes	Partly	No	Comments
13	Does the chair of the committee have appropriate knowledge and skills?	✓			
14	Are arrangements in place to support the committee with briefings and training?		✓		This has been suggested as an area for further development as part of the 2015/16 review of effectiveness, and has been broached with Helen Davidson (Workforce Corporate Development Lead, HR).
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		✓		See above – discussed with Helen Davidson – and suggest is progressed further following consideration of the outcomes of the 2015/16 review of audit committee effectiveness with Audit Committee.
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			
17	Is adequate secretariat and administrative support to the committee provided?	✓			

#### **Effectiveness of the committee**

18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	✓			Undertaken as part of the 2015/16 review of audit committee effectiveness.
19	Has the committee evaluated whether and how it is adding value to the organisation?	✓			Undertaken as part of the 2015/16 review of audit committee effectiveness.
20	Does the committee have an action plan to improve any areas of weakness?	✓			Recommended actions are set out in the report documenting the review.

This page is intentionally left blank