North Tyneside Council

Audit Committee

Monday 16 March 2020

Wednesday, 25 March 2020 0.01 Chamber - Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY **commencing at 6.00 pm**.

Agenda Item		Page
1.	**Apologies for Absence** To receive apologies for absence from the meeting.	
2.	**Declarations of Interest and Dispensations** 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.	
3.	**Minutes** To confirm the minutes of the meeting held on 20 November 2019	**5 - 10**
4.	**Audit Planning Report Year Ending 31 March 2020** To give consideration to a report which summarises the initial assessment of the risks driving the development of an effective audit of the Authority and outlines the planned audit strategy in response to those risks.	**11 - 50**
5.	**Certification of Claims and Returns Annual Report 2018.19** To give consideration to a report which summarises the results of the work of the external auditor in relation to the Authority's claims and returns for 2018/19.	**51 - 60**

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.

To give consideration to a report which sets out the strategic audit plan for 2020/21

Circulation overleaf …

Members of the Audit Committee

Malcolm Wilkinson (Deputy Chair)

Audit Committee

Wednesday, 20 November 2019

Present: K Robinson (Chair)
M Wilkinson
Councillors D Cox, N Craven, A McMullen, M Rankin, P Richardson and J Wallace

AC16/19 Apologies for Absence

An apology for absence was submitted on behalf of Councillor J Mole.

AC17/19 Declarations of Interest and Dispensations

There were no declarations of interest reported.

AC18/19 Minutes

Resolved that subject to the following amendment in respect of minute AC14/19 the minutes of the meeting held on the 24 July 2019 be confirmed as a correct record and be signed by the Chair:

AC14/19 - 2018/19 Annual Financial Report – it be recorded that Councillor Wallace voted against the recommendations contained in the report.

AC19/19 Annual Audit Letter

The Committee was presented with the Annual Audit Letter which had been prepared by the Authority's external auditors for the year ending 31 March 2019 and which had been presented to the Council in September 2019.

Resolved that the report be noted.

AC20/19 Annual Governance Statement Update

The Committee was advised of the outcome of a mid-year review of the Annual Governance Statement (AGS) action plan. The AGS explained how the Authority delivered good governance and how it reviewed the effectiveness of its arrangements.

At its meeting held on 29 May 2019 (minute AC4/19 refers) the Committee had noted that no significant governance issues had been identified and that the arrangements in place had been considered to be adequate by the Senior Leadership Team.

Whilst there had been no specific recommendations made, a range of issues had been highlighted which required continuous monitoring to ensure that they did not become significant governance issues in the future. Details of the controls in place were also outlined.

The Committee was also presented with details of the proposed method for compiling the evidence for, and preparing, the 2019/20 Annual Governance Statement. It was explained that this was similar to the process which had been used to complete the previous year's AGS. The completed AGS would be submitted to the May 2020 meeting of the Committee for its consideration and approval.

Resolved that (1) the outcome of the mid-year review of the Authority's action plan agreed as part of the 2018/19 Annual Governance Statement be noted; and
(2) the proposed method for compiling evidence for the 2019/20 Annual Governance Statement be noted.

AC21/19 Annual Statement of Accounts 2019/20

Consideration was given to a report which set out the process for the closure of the 2019/20 accounts. It was explained that a detailed timetable had been prepared which outlined the key tasks required to be taken to meet the deadline for the closure of the accounts. Progress against each of the tasks was regularly reviewed so that appropriate action could be taken in relation to any slippage. An internal review had taken place to address the specific issues which had occurred during the closure of last years accounts. This included a session with the external auditors to ensure that any issues raised could be dealt with quickly and a good working relationship established.

It was explained that the good working practices which had been established for the closedown of the 2018/19 accounts would be continued including regular meetings with Valuation, the involvement of all areas of the Authority and the continued improvements made to the working papers to ensure that they were all of an appropriate high standard. Regular meetings would also be held with the Chief Finance Officer to ensure that any issues, risks or concerns were raised and dealt with in a timely manner.

It was also noted that an update on progress would be reported to the March 2020 meeting of the Committee. It was suggested that the current timetable that the Authority was working to be brought to this meeting. It was also suggested that members would meet at 5.45pm on the day of the meeting to receive the full accounts. It was also suggested that changing the day of the meeting be considered in consultation with the Head of Resources.

Resolved that the work outlined in the plan for the closure of the 2019/20 accounts be noted.

AC22/19 Internal Audit Plan 2019/20 Interim Monitoring Statement

Consideration was given to a report which provided an interim monitoring statement in respect of the Strategic Audit Plan for 2019/20. At the mid-point of the year 25 of the original 39 assignments had either been completed or were in progress. In addition work had been undertaken to finalise three assignments from 2018/19. It was also reported that internal audit had undertaken special investigations or additional management requests which had not been included within the Audit Plan. It was also explained that the Strategic Audit Plan for 2018/19 would be kept under review and progress reported to future meetings of the Audit Committee.

There had been delays in starting some of the planned assignments due to resourcing issues during the year and these would be monitored closely during the remainder of the year to ensure that sufficient audit coverage was delivered. Various options for filling any vacancies within the team were considered.

The Committee was advised that a full outturn on the 2019/20 Annual Audit Plan would be presented to the May 2020 meeting.

Resolved that the progress detailed in the report and the levels of coverage achieved by internal audit at this stage of the year be noted.

AC23/19 Key Outcomes from Internal Audit Reports issued between May 2019 and October 2019

Consideration was given to a report which set out the key outcomes of internal audit reports issued between May and October 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 any concerns. The report also provided examples of good practice.

Reference was made to the Deprivation of Liberty Safeguards and it was explained that the courts had recently issued clarification of the rules. It was also explained that there had been an increase in applications and this was a national issue rather than specific to North Tyneside.

Clarification was sought in relation to the debts in respect of school meals. It was explained that the Authority was looking at the introduction of a new school meals system to address the issue.

It was also suggested that the report could be amended to make it clearer to identify recommendations in relation to specific items in the body of the appendix and to include the date when a recommendation was made. It was also explained that it was intended to review the definitions used.

Clarification was also sought on the processes in place for those departments which missed the deadlines set out in the reports. It was explained that reports were agreed with management and the audit section followed up on the implementation of the recommendations and if appropriate they would agree an amended target. Audit would then follow up on the amended target. It was explained that the Authority operated 3 lines of defence. The first being that managers of the services managed risks within their own areas, the second that there were management and compliance systems in place within the

Authority to provide a further level of assurance and Internal Audit provided the third line of defence.

Clarification was also sought on the reason that the issues around the lack of a seamless back up of internet connections and whether this could result in a potential loss of data was only classed as a medium risk. It was suggested that managers of the service be invited to the March meeting of the Committee to provide a response to members questions.

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

AC24/19 Review of Audit Committee Arrangements

Consideration was given to a report which provided an update on the review of the Audit Committee arrangements which had taken place since the last meeting of the Committee in July 2019 (minute AC15/19 refers). It was noted that the first tranche of the review had been completed and reported to members. The second tranche of the review involved the Chair, along with the Group Assurance Manager, who had met with individual members of the Committee and examined the current arrangements and identified a number of suggestions to develop the Committee including:

- Developing onward reporting arrangements to those charged with governance within the Authority;
- Ensuring that the terms of reference of the Committee reflect the latest CIPFA (Chartered Institute of Public Finance and Accountancy) Position Statement on Audit Committees in Local Government;
- Working with Committee members to assess whether they feel that they have the required knowledge and skills necessary to carry out their role on the Committee and to develop a structured induction and training programme to address those areas where more knowledge was welcomed;
- Assisting the Committee to engage with a wide range of leaders and managers including the discussion of audit findings, risks and action plans with the responsible officers for the implementation of audit recommendations.

It was suggested that consultation take place with senior officers and cabinet members to prepare a programme of actions which would be presented to the March 2020 meeting of the Committee.

Reference was also made to the national review of the quality and effectiveness of audit and financial reporting of local authorities in England currently being carried out by Sir Tony Redmond, the former president of the Chartered Institute of Public Finance and Accountancy, which was expected to report in March 2020. It was explained that the outcomes of the report would be monitored and where appropriate any developments reported to a future meeting of the Audit Committee.

Resolved that (1) the final tranche of the review be undertaken prior to the March 2020 meeting of the Committee; and

(2) the Head of Resources provide a report to the March 2020 meeting of the Committee on the action which has been implemented to ensure that the Audit Committee arrangements reflect, as far as practicable, CIPFA's good practice guidance.

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North Tyneside Council

Audit Planning Report
Year ending 31 March 2020

March 2020

Building a better working world

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

March 2020

Dear Audit Committee Members

We are pleased to attach our Audit Planning Report which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the committee's service expectations.

This Audit Planning Report summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

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

We welcome the opportunity to discuss this report with you on 25 March 2020, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Stephen Reid, Partner
For and on behalf of Ernst & Young LLP
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The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement contract of 2 October 2017.
This report is made solely to the Audit Committee and management of North Tyneside Council in accordance with our engagement contract. Our work has been undertaken so that we might state to the Audit Committee and management of North Tyneside Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of North Tyneside Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2019/20 audit strategy

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year when compared to those identified in 2018/19.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	No change in risk or focus	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.
Misstatements due to fraud or error	Fraud risk/ Significant risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Valuation of land and buildings	Inherent risk	Reduced risk	The fair value of Property, Plant and Equipment (PPE) 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 judgemental inputs and apply estimation techniques to calculate the year-end balance recorded in the balance sheet. There were no findings in the prior year in relation to these inputs and as such the risk has been reduced to an inherent level as opposed to significant.
Pension liability valuation	Inherent risk	No change in risk or focus	The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions can have a material impact on the balance sheet.
IFRS 16 – Leases	Inherent risk	New risk for 2019/20	Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but disclosure of the anticipated impact of the new standard will be required within the 2019/20 financial statements.
Group financial statements	Inherent risk	No change in risk or focus	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 believe that it is important the Council reassess their group boundary and consider the need to produce group financial statements in 2019/20.

Overview of our 2019/20 audit strategy

Value for money risks and areas of focus			
Risk / area of focus	**Risk identified**	**Change from PY**	**Details**
Financial sustainability	Value for money risk	No change in risk or focus	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. These circumstances have resulted in the Council forecasting a pressure against budget of £3.5 million at the end of November 2019.

Materiality

Planning materiality
£11.6m

Materiality has been set at £11.6 million, which represents 1.8% of the prior year's gross expenditure on provision of services.

Performance materiality
£8.7m

Performance materiality has been set at £8.7 million, which represents 75% of materiality.

Audit differences
£0.58m

We will report all uncorrected misstatements relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and the collection fund greater than £0.58 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2019/20 audit strategy

Audit scope

This Audit Planning Report covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit, we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition*

Financial statement impact

Misstatements that may occur in relation to the risk of fraud in revenue and expenditure recognition affect the income and expenditure accounts. These accounts had the following values in the 2018/19 financial statements:

- Gross income: £610.3 million
- Gross expenditure: £645.4 million

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.

Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, the potential improper capitalisation of revenue expenditure and the posting of year end accruals. We will therefore target our audit work in these areas.

What will we do?

We plan to perform the following procedures to address the risk:

- Review and test revenue and expenditure recognition policies, including consideration of the recognition of grant income;
- Review and discuss with management any accounting estimates relating to revenue or expenditure recognition, such as manual accruals, for evidence of bias;
- Test capital additions recognised in year to ensure that they are capital in nature and should not have instead been recognised as expenditure in the Comprehensive Income and Expenditure Statement; and
- Review a sample of expenditure transactions recorded in the ledger and payments made from bank accounts post year-end and confirm that the associated expenditure has been recorded in the correct period.

Our response to significant risks (continued)

Misstatements due to fraud or error*	What is the risk?	What will we do?
	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.	We plan to perform the following procedure to address the risk: • Identifying fraud risks during the planning stages; • Inquiry of management about risks of fraud and the controls put in place to address those risks; • Understanding the oversight given by those charged with governance of management's processes over fraud; • Consideration of the effectiveness of management's controls designed to address the risk of fraud; • Determining an appropriate strategy to address those identified risks of fraud; and • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Review of accounting estimates for evidence of management bias; and • Evaluating the business rationale for any significant unusual transactions.

Other areas of audit focus

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

What is the risk?	What will we do?
Valuation of land and buildings 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.	We plan to perform the following procedures to address the risk: • Consider 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; • Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); • Consider the annual cycle of valuations to ensure that land and buildings assets have been valued as part of a five-year rolling programme and investment properties have been valued on an annual basis as required by the CIPFA Code of Practice; • Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; • Consider changes to useful economic lives as a result of the most recent valuation; and • Test accounting entries have been correctly processed in the financial statements.
Pension liability valuation 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. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019, this totalled £492 million. The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt. Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We plan to perform the following procedures to address the risk: • Liaise with the audit team of Tyne and Wear Pension Fund, to obtain assurances over the information supplied to the actuary in relation to North Tyneside Council; • Assess the work of the Pension Fund actuary (AON Hewitt) including the assumptions they have used, by relying on the work of PwC, the consulting actuaries commissioned by the PSAA for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to the pension disclosures.

Other areas of audit focus (continued)

What is the risk/area of focus?

IFRS16 – leases

IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued ‘IFRS 16 leases and early guide for practitioners’.

This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including:

- the identification of leases
- the recognition of right-of-use assets and liabilities and their subsequent measurement
- treatment of gains and losses
- derecognition and presentation and disclosure in the financial statements,
- the management of leases within the Prudential Framework.

The guidance also covers the transitional arrangements for moving to these new requirements, such as:

- the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees; and
- the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).

What will we do?

IFRS 16 – leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases.

The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet.

Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.

In particular, full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify:

- all leases which need to be accounted for
- the costs and lease term which apply to the lease
- the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease.

We will discuss progress made in preparing for the implementation of IFRS 16 – leases with the finance team over the course of our 2019/20 audit.

Other areas of audit focus (continued)

What is the risk?	What will we do?
Group financial statements 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 consider that it is important the Council reassess their group boundary and the need to produce group financial statements in 2019/20.	We plan to perform the following procedures to address the risk: • Review the Council's group boundary assessment to ensure that it is complete and all group entities have been identified; • Review the Council's assessment of qualitative factors, such as whether the Council is exposed to any commercial risk through its involvement with the group entity, in order to ensure the assessment is appropriate; and • Test the Council's quantitative assessment by agreeing all values included in the assessment to audited financial statements for each of the group entities.

03 Value for money risks

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 2019/20, 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.

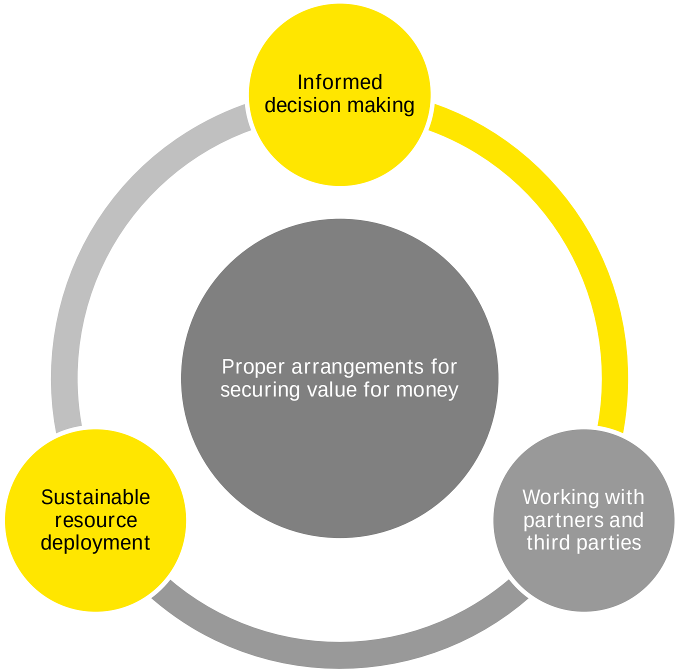
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your Annual Governance Statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines 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 sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money, and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks, there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion.



Value for money risks

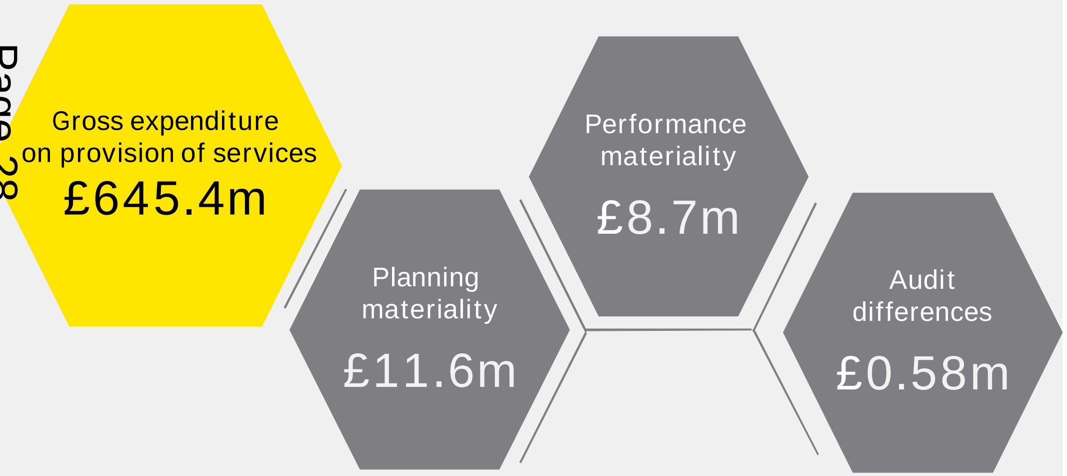
Financial sustainability	What is the risk?	What will we do?
	The Council continues to operate in a challenging financial environment. The main risks to the Council's finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and demand for services. At the end of November 2019, the Council was forecasting a pressure against budget of £3.5 million. This pressure is largely due to significant overspends in Health, Education, Care and Safeguarding, with Children's services forecasting a year end pressure of £4.6 million. In addition, the Council is required to make total savings of £10.5 million in 2019/20. There is therefore significant pressure on the Council's finances over the coming years.	We plan to perform the following procedures to address the risk identified: • Select a sample of savings plans and assess their reasonableness, including testing of the assumptions used; • Review the specific plans in place for Health, Education, Care and Safeguarding to understand how the Council plans to control the overspends in this area; • Review 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 • Review the Medium Term Financial Plan and test the reasonableness of a sample of the assumptions used.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £11.6 million. This represents 1.8% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



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We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £8.7 million which represents 75% of planning materiality. We have used a threshold of 75% as this is he second year we have audited the Council and we did not encounter any significant control weaknesses in the prior year. As a result, we have increased our threshold to 75% from the previous 50% level.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and the collection fund greater than £0.58 million.

Other uncorrected misstatements, such as reclassifications and corrected misstatements, will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of nil for remuneration disclosures, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these.

05 Scope of our audit

Scope of our audit

Our audit process and strategy

Objective and scope of our audit

Under the Code of Audit Practice, our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statements audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading the other information contained in the financial statements, and reporting whether it is inconsistent with our understanding and/or the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

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.

Our audit process and strategy (continued)

Audit process overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20, we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

We will meet with internal audit review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

The engagement team continues to be led by Stephen Reid (Partner), who will have responsibility for ensuring that our audit is high quality and delivers value to the Council. He will continue to be supported by Stuart Kenny (Senior Manager), who will be responsible for the day-to-day direction of audit work and are the key points of contact for the finance team.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists will provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Capita (management's valuation specialist)
Pensions disclosure	AON Hewitt (management's actuarial specialist) EY Actuaries

In accordance with auditing standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time, matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit Committee timetable	Deliverables
Planning - Risk assessment and setting of scopes	December		
Walkthrough of key systems and processes	January		
	February		
Interim audit testing	March	Audit Committee	Audit Planning Report
	April		
	May		
Year end audit testing	June		
Year end audit testing (continues) Audit completion procedures	July	Audit Committee	Audit Results Report Audit opinions and completion certificates
	August		Annual Audit Letter

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08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance” require us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence; and ► Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Written confirmation that all covered persons are independent; ► Details of any inconsistencies between the FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non–audit services if the service has been pre-approved in accordance with your policy.

Overall assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Reid, your audit engagement leader and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you.

At the time of writing, there are no long outstanding fees, there are no non-audit fees other than those relating to certification of claims and returns, and there are no business relationships. Therefore no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Independence

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2019

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2018 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2019

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New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

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Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

09 Appendices

Appendix A

Fees

	Planned fee 2019/20	Scale Fee 2019/20	Final fee 2018/19
	£	£	£
Total Fee – Code work (Scale Fee)	TBC	85,200	85,200
Total Fee – Code work (Variation)	TBC	-	26,250*
Total Audit fee	TBC	85,200	111,450
Non-audit work – Housing Benefit certification work	TBC	6,550	6,550
Non-audit work – Other certification work	TBC	4,926	4,926
Total other non-audit services	TBC	11,426	11,426
Total fees	TBC	96,676	122,876

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our financial statement opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

All fees exclude VAT

* In our 2018/19 Audit Results Report, which we presented in July 2019 to the Audit Committee, we highlighted that a fee variation was necessary due to a number of one off factors. These included the implementation of new accounting standards IFRS 9 and IFRS 15, the revaluation of the Council's shares in Newcastle International Airport Limited, our review of the Council's Group Accounts Assessment, the additional procedures required as a result of identifying two prior period adjustments and the additional procedures required in relation to the accounting for the McCloud judgement. We have agreed the additional fee included in the table above with management for these procedures.

Given the ongoing reviews into corporate reporting including the responsibilities of directors and the audit profession, there are a significant number of factors that continue to impact audit fees. We have discussed the impact on our audit fees of the changing audit environment with management and bring these to the attention of the Audit Committee. In summary:

- Recent high profile corporate failures have weakened public trust and confidence in both the auditing profession and business at large. Multiple ongoing regulatory reviews continue to reshape the corporate reporting environment and raise fundamental questions about the purpose, product and role of an external audit, as well as the accountability of auditors and those charged with governance.
- Financial reporting and decision making continues to become increasingly complex. Additionally, there has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address stakeholder understanding and regulatory expectations on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

In continuing to respond to these factors we seek higher levels of corroborative evidence, including increasing sample sizes and engage with our internal specialists more extensively and on a wider array of matters. Additionally, we continue to increase our investment in data analytics tools to allow us to test more transactions to a greater level of detail and enhance audit quality. To support the increasing regulatory focus, we invest in our audit quality infrastructure. As a firm our compliance costs have doubled over the past five years.

Furthermore, on 10 February 2020, EY issued a letter to all Local Government clients who opted in to the Public Sector Audit Appointments Limited (PSAA) contract setting out our concerns regarding the future sustainability of the UK public audit profession. Although, the Council is not part of the PSAA contract the concerns included in the letter equally apply to the Council. We have shared this letter with management and will be having further discussions regarding the scale fee set for 2019/20 and potential variations as a result of this letter. We will report all variations that are agreed with management back to the Audit Committee.

Fees

Summary of key factors

1. Status of sector: Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability/going concern of bodies given the current status of the sector.

2. Audit of estimates: There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

3. Regulatory environment: Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice, are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

Resourcing: As a result of the above, public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality. We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

To respond to these factors we have to:

- Increase our sample sizes, seek higher levels of corroborative evidence and engage with our internal specialists on a wider array of matters;
- Increase our investment in data analytics tools to allow us to test more transactions to a greater level of detail and enhance audit quality; and
- Invest in our audit quality infrastructure, as a firm our compliance costs have doubled as a proportion of revenue over the past five years.

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

		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 Contract
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	Engagement Contract
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified	Audit Planning Report – July 2020
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – March 2020

Appendix B

Required communications with the Audit Committee (continued)

		Our reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit Results Report – July 2020
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit Results Report – July 2020
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit Results Report – July 2020
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – July 2020

Appendix B

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our reporting to you: When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement associate partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report – March 2020 Audit Results Report – July 2020
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – July 2020
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • 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	Audit Results Report – July 2020
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit Results Report – July 2020 Annual Audit Letter – August 2020

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Appendix B

Required communications with the Audit Committee (continued)

		Our reporting to you
Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report – July 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – July 2020
Auditor's report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – July 2020
Fee reporting	• Breakdown of fee information when the Audit Planning Report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit Planning Report – March 2020 Audit Results Report – July 2020
Certification work	Summary of certification work undertaken	Certification Report – March 2021

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in Section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Reading other information contained in the financial statements, including the statement that the annual report is fair, balanced and understandable, and that the Audit Committee's reporting appropriately addresses matters communicated by us to the Audit Committee, and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit, we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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Agenda Item 5

Certification of Claims and Returns Annual Report 2018/19

North Tyneside Council

March 2020

March 2020

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

Dear Audit Committee Members

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies, and must complete returns providing financial information to government departments. In some cases, these grant-paying bodies and government departments require appropriately qualified reporting accountants to certify the claims and returns submitted to them.

This report summarises the results of our work performed on North Tyneside Council's claims and returns for 2018/19.

We carried out our work in respect of the Council's Housing Benefit claim in accordance with the Housing Benefit Assurance Process ("HBAP") Module 1 2018/19, issued by the Department for Work and Pensions ("DWP").

We also carried out our work in respect of the Council's Teachers' Pensions End of Year Certificate in accordance with the Reporting Accountants Guidance TP05 (FY 18/19 Version 3), published on the Teachers' Pensions website.

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

We welcome the opportunity to discuss this report with you at the Audit Committee meeting on 25 March 2020.

Yours faithfully

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

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The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letters dated 15 November 2019.

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

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 associate partner 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 Housing benefits subsidy claim

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£63,150,578
Amended/Not amended	Not amended
Audit findings	Yes
Fee – 2018/19	£6,550
Fee – 2017/18	£16,970 (predecessor auditor)

Findings from 2017/18

We set out below the one finding from the 2017/18 certification work that was identified by the predecessor auditor, along with information as to whether this issue was also identified in 2018/19.

1. Exclusion of State Retirement Pension (Rent Allowances)

Testing in 2017/18 identified one case where State Retirement Pension was incorrectly excluded when determining benefit entitlement. Further work by the Council identified that this error occurred due to the 'information only' marker in the Northgate system being incorrectly applied.

In 2018/19 we identified 19 cases where the 'information only' marker had been applied. Our testing of all 19 cases did not identify any instances where State Retirement Pension was incorrectly excluded.

Findings from 2018/19

We set out below the findings from the 2018/19 certification work.

1. War Pensions

Testing of our initial sample identified three instances where the total award of War Disablement Pension had been incorrectly applied. This had no impact upon the total of the housing benefit award provided to each claimant however, as the Council operates a full disregard policy.

2. Incorrect calculation of earnings (Rent Rebates)

Testing of our initial sample identified one instance where the claimant's earnings had been incorrectly assessed. This has no impact upon the subsidy claimed. However, as this error could result in an overpayment of benefit we were required to extend our sample by 40 cases. From this additional testing, we identified one further case where the calculation of the claimant's earnings was incorrect. The total value of these errors was an underpayment of £1. We have not extrapolated these errors as the Council has no eligibility to subsidy from DWP for benefits not paid, therefore they have no impact on the subsidy claim submitted to DWP.

02 Other assurance work

Other assurance work

Certification of Teachers' Pensions Return

During 2018/19, we acted as reporting accountants in relation to the Council's Teachers' Pensions return.

During our review of the Council's End Of Year Certificate ("EOYC") form, we identified the following matters which were reported to Teachers' Pensions:

1. Signed Claim Form

The original claim form was not signed by the Section 151 officer as required by the Reporting Accountants Guidance TP05 (FY 18/19 Version 3). This was amended in the revised EOYC form that was submitted to Teachers' Pensions.

2. Individuals included in the incorrect band

We noted seven instances where individuals were included in the incorrect contributions banding. This was due to an issue with the software used, that generates the contributions by tier, where the banding percentages were not updated. As a result, a total error of approximately £60,000 was identified by the Council, which is refundable to employees of the Council due to overpayments in 2018/19. This was amended in the revised EOYC form that was submitted to Teachers' Pensions.

3. Number of arithmetical differences

A number of arithmetical differences were identified when we recalculated the contribution values disclosed in the EOYC form. Teacher contributions were understated by £0.50 and Employer contributions were overstated by £11.92.

03 2018/19 certification fees

2018/19 certification fees

In previous years, the review of the Housing Benefit subsidy claim was covered by the Public Sector Audit Appointments Limited ("PSAA") contract. Fees for this work were determined by PSAA and made available on their website (www.psaa.co.uk). For 2018/19, management were required to appoint their own reporting accountants in relation to the Housing Benefit assurance process.

The certification of the Council's Teachers' Pensions return was already outside of the PSAA contract, therefore there has been no change in respect of this assurance work.

Our fees for the 2018/19 work are detailed below.

Claim or return	2018/19	2017/18
	£	£
Housing Benefits subsidy claim	6,550	16,970
Teachers' Pension return	2,463	2,767
Total	9,013	19,737

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ED None

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Audit market reform and revised auditing standards and guidance

Audit Committee update

January 2020

Building a better working world

Next steps regarding the key regulatory and independent reviews – January 2020

Brydon Review

Effectiveness review of audit

- Responses to a Call for Views were due in June 2019
- EY was represented on the Auditor Advisory Board
- A final report was published in December 2019, comprising 64 main recommendations
- Proposed changes include corporate reporting, the audit process and product

CMA Market Study/BEIS Consultation

Increasing competition in the audit market

- The CMA published its final report in April 2019, setting out four recommendations and citing a need for legislation
- The Government consulted on the recommendations in July 2019; the consultation closed in September 2019
- A policy paper is expected in early 2020 with a further consultation to follow; Autumn 2020 is the earliest date for legislation

Kingman Review/BEIS Consultation

Strengthening the audit regulator

- The Kingman Review's final report was issued in December 2018, yielding 83 recommendations
- The Government consulted on the recommendations in March 2019; the consultation closed in June 2019
- A consultation on a Sarbanes-Oxley (SOX) regime for the UK, the PIE definition and corporate failure is expected in early 2020

2016 Ethical Standard Review

Enhancing auditor independence

- In July 2019 the FRC issued an exposure draft for consultation on the Revised Ethical and Auditing Standards; the consultation closed in September 2019
- The Revised Ethical Standard was published in December 2019, changes include an extension of prohibitions on non-audit services

FRC Future of Corporate Reporting

Evolving corporate reporting

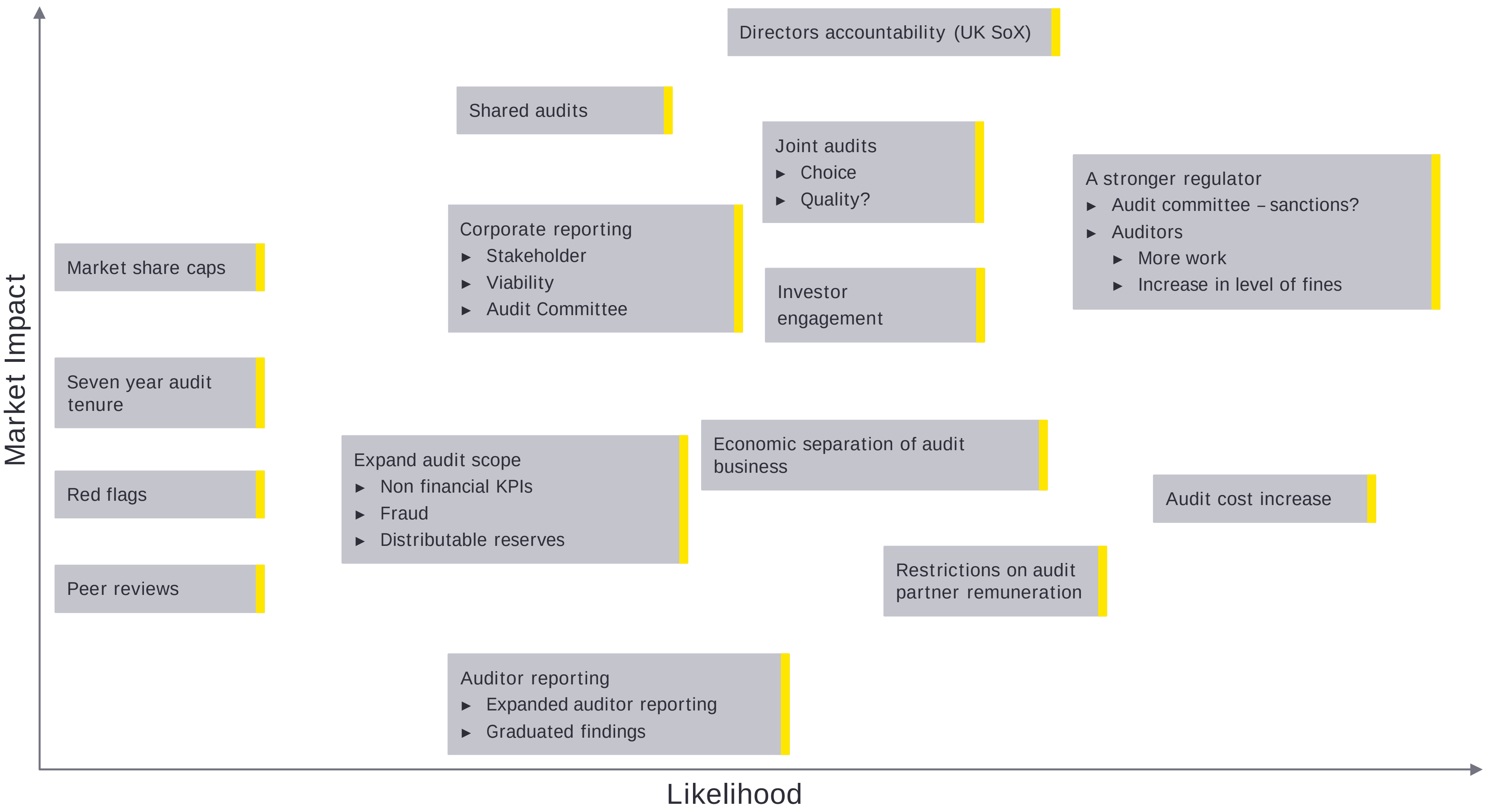
- In October 2018 the FRC launched a review of the future of corporate reporting, led by Paul Druckman
- In October 2019 the FRC opened a survey on stakeholder views of corporate reporting
- The review is set to conclude in 2020 with the FRC's publication of thought leadership
- EY is the only Big Four firm represented on the Review's Advisory Board

BEIS Select Committee Review

Overseeing audit reform

- Following evidence hearings, a final report setting out bold recommendations was issued in April 2019; the Government responded by indicating that many of the issues raised are the subject of consultations or under consideration by ongoing reviews
- In November 2019 the Select Committee issued a letter urging the Government to act on its recommendations, stating that reform of the sector is "urgently needed"

Potential outcomes of regulatory reviews – January 2020



CMA four key recommendations: potential implications

Impact	Greater scrutiny of audit committees	Mandatory joint audit or peer review for FTSE 350	Operational split between Big Four audit and non-audit	A five-year implementation review, inc changes to tendering period and independent appointment of auditors
Business process	► Introduction of mandatory minimum standards for auditor appointment and oversight ► Audit committee time required to produce reports to regulator during tendering and throughout the audit ► Potential observer from Regulator at audit committee meetings	► More board, audit committee and management time required to appoint, oversee and coordinate two auditors ► New audit committee reporting requirements doubled ► Greater pressure for audit committees and finance functions in meeting already challenging reporting cycles	► Greater pressure on audit committees and finance functions due to restricted or delayed access to specialists	► Continued uncertainty created by more reviews and changes ► Further audit committee and management time
Quality and choice	► Greater accountability and transparency potentially leading to enhancements in auditor selection and oversight ► Opportunity for increased engagement with shareholders	► Audit quality reduction due to capability/ capacity gap and joint audit programme complexities ► Management's ability to "opinion shop" between firms ► Reduces choice, esp. when coupled with mandatory rotation and non-audit services ban ► Resource scarcity	► Access to specialists may be restricted or delayed ► Profession's attractiveness to recruit and retain high calibre talent and people with required skills/experience will likely diminish ► Reduced financial resilience may impact on acceptance and continuation	► Reduced choice due to some audit firms declining to participate in frequent, costly tenders and/or loss of control of which auditors to appoint ► Benefit of 'fresh eyes' outweighed by loss of deep auditor understanding derived from longer term tenure
Cost	► Increased internal costs, including senior management time, to meet regulatory requirements	► Increase in audit fees has been estimated at between 10-70% without a clear benefit	► Transfer pricing for internal specialists at market rates will increase cost of audit ► Costs of separation will increase the cost of audit ► Wage inflation	► Increased internal costs, including senior management time ► Increased audit cost if rotation period shortened

Brydon recommendations

The main recommendations are directed towards different, and in some cases multiple stakeholders including boards, audit committees, auditors, the regulator and investors. EY suggests that for now boards focus on the recommendations most relevant to companies – in particular the readiness of the organisation for a potential internal control attestation regime.

Potential impact on directors

- If implemented directors, for example, would be required to publish statements on public interest and resilience, with a mid-year risk report issued for shareholder comment to allow input to the subsequent year's external audit plan.
- In particular, the CEO and CFO would be required to provide an annual attestation to the board on the effectiveness of the company's internal controls over financial reporting. The disclosure of a material failure would trigger an external audit of these controls for three subsequent years.

Potential impact on auditors

- Auditors would also be required, amongst other things, to extend the scope of their audit beyond the financial statements and would be more explicitly required to find material fraud. They would also exercise suspicion as well as scepticism and apply a new descriptor for financial reporting statements (to be enshrined in UK company law), replacing 'true and fair' with the term 'present fairly, in all material respects', to reflect the use of estimates and judgements more effectively.
- A statement would also be included in the audit report as to whether the directors' s172 stakeholder engagement disclosure is 'based on observed reality, on the basis of the auditor's knowledge of the company and its processes'. The report also recommends the establishment of a corporate auditing profession, to follow a set of principles within a new regulatory framework that includes but is not limited to the statutory audit of financial statements.

The challenge for the Government

- The Government now has the task of reviewing the recommendations alongside reports from other reviews into the audit market and regulatory regime. It committed to do this before making any decisions on which changes should be taken forward, and to what extent legislation may be required.
- The combination of all this with a full parliamentary timetable and impending challenge of Brexit, makes it difficult to predict an implementation timetable. What is certain is that they will require a combination of regulatory and voluntary measures, with a pragmatic approach towards implementation by all concerned.

Board considerations

Board accountability

- The new regulator will focus on increased accountability for all directors
- The implementation of a strengthened framework around internal controls – benefit vs cost
- Expanded Audit Committee reporting and regulatory oversight
- Increased investor engagement, possibly similar to that with the Remuneration Committee
- ‘Red flag’ reporting by the auditor to the regulator

Cost

- Expanded finance functions to meet regulatory expectations
- The introduction of additional regulation, joint audits, and operational separation, for the Big Four, will materially increase the cost of audit. Access to specialists may be restricted
- Management time is increased by coordinating two auditors on mandatory joint audits, management of peer reviews and increased requirements on regulatory compliance

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Quality

- Consideration of whether challenger firms have the capacity and capability, in terms of resource, technology and global coverage and willingness to invest to undertake joint audits
- Management ability to play one firm off against the other in joint audit

Corporate Reporting

- The Brydon and Druckman Reviews, as well as the Review of the 2016 Ethical and Auditing Standards, may change both corporate reporting and the scope of audit
- There may be an extension from shareholder to stakeholder responsibility

Choice

- Joint audit will require a challenger firm to be selected – scaling issues
- If market becomes more attractive new entrants should appear
- The Revised Ethical Standard result in further restrictions on the provision of non-audit services

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ED None

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North Tyneside Council
Report to Audit Committee
Date: 25 March 2020

Agenda Item 7
Accounting Policies to be used in the compilation of 2019/20 Annual Statement of Accounts

Report from Service:	**Finance**	
Responsible officer:	**Janice Gillespie, Head of Resources**	**Tel: 643 5701**
Wards affected:	**All**	

PART 1

1.1 Executive Summary:

1.1.1 In the Annual Statement of Accounts, the Authority is required to disclose how the accounting statements have been prepared. The preparation of the statements should be in accordance with the accounting concepts and policies as per the 'Code of Practice on Local Authority Accounting in the UK 2019/20' (The Code).

1.1.2 Under the terms of reference of the Audit Committee, the Committee has the responsibility to review the Accounting Policies that will be used to compile the Annual Statement of Accounts.

1.1.3 The purpose of this report is to provide the Audit Committee with details of the proposed Accounting Policies that will be used in the compilation of the 2019/20 Annual Statement of Accounts.

1.2 Recommendations:

1.2.1 It is recommended that the Audit Committee endorse the Accounting Policies to be adopted by the Authority and used to compile the Authority's Annual Statement of Accounts for the financial year 1 April 2019 to 31 March 2020.

1.3 Council plan and policy framework.

1.3.1 The Accounting Policies cover all the service responsibilities as identified within the Council Plan.

1.4 Information - Executive Summary

1.4.1 The purpose of the Accounting Policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts of the Authority. The Code defines Accounting Policies as "the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements". The Accounting Policies disclosed are those material policies that are significant to the understanding of the Authority's Annual Statement of Accounts.

1.4.2 The Code requires that a change in Accounting Policies should only be made if the change:

(a) is required by The Code; or

(b) will result in financial statements providing reliable and more relevant financial information about the effects of transactions, other events or conditions on an authority's financial position, financial performance and cash flows.

Significant changes in Accounting Policies, other than those specified in The Code, will be relatively rare.

1.4.3 The proposed draft Accounting Policies for 2019/20 are attached as **Appendix A**. There is one change recommended to the accounting policies for 2019/20. As transactions with the North Tyneside Trading Company and it's subsidiaries are now considered to be material there will be a requirement to produce Group Accounts. The Accounting Policy relating to Interests in Companies and Other Entities (Accounting Policy 14) has been amended accordingly.

1.5 Decision options:

1.5.1 Audit Committee can agree to endorse the recommendations as set out in Section 1.2 of this report. Alternatively, the Audit Committee can decline to endorse the proposals and require further details and amendment.

1.6 Reasons for recommended option:

1.6.1 Audit Committee is recommended to endorse the proposals set out in section 1.2 of this report as the production of the Accounting Policies is a requirement of the Accounts and Audit Regulations 2015.

1.7 Appendices:

Appendix A	Draft Accounting Policies
Appendix B	Glossary of Terms

1.8 Contact officers:

Janice Gillespie, Head of Resources, Tel 643 5701
Claire Emmerson, Senior Manager, Financial Strategy and Planning, Tel 643 8109
Cathy Davison, Principal Accountant Investment (Capital) and Revenue, Tel 643 5727

1.9 Background information:

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

(a) Code of Practice on Local Authority Accounting in the UK 2019/20.

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

2.1.1 There are no financial implications arising from this report.

2.2 Legal

2.2.1 The Authority has a duty to ensure that it produces an Annual Statement of Accounts by 31 May 2020 in accordance with the Accounts and Audit Regulations 2015. Part of this process is the approving of the Accounting Policies by the Audit Committee.

2.3 Consultation/community engagement

Internal consultation

2.3.1 Internal consultation has taken place with the Cabinet Member for Finance, Head of Resources, relevant Finance staff and the External Auditor.

2.4 Community engagement

2.4.1 There are no community engagement implications arising from this report.

2.5 Human rights

2.5.1 There are no human rights implications arising from this report.

2.6 Equalities and diversity

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

2.7 Risk management

2.7.1 There are no risk management implications arising from this report.

2.8 Crime and disorder

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

2.9 Environment and sustainability

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

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Accounting Policies

1. General Principles

Accounting Policies explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts. They are the principles, bases, conventions, rules and practices applied by the Authority that specify how the effects of transactions and other events are to be reflected in the financial statements through recognising, selecting measurement bases for and presenting assets, liabilities, gains, losses and changes in reserves. The Accounting Policies cover material transactions within the Statement of Accounts.

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Authority is required to prepare an annual Statement of Accounts in accordance with proper accounting practices by the Accounts and Audit Regulations 2015.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the 2015 Regulations.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. Generally, the majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions in the year in which they are identified, and are accounted for accordingly.

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3. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract unless the difference is immaterial; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- The Authority has an accruals de minimis level of £1,000

4. Overheads and Support Services

The costs of overheads and support services are shown within the Central Costs line on the Comprehensive Income and Expenditure Statement in accordance with the Authority's arrangements for accountability and financial performance.

5. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until there is reasonable assurance that the conditions attached to the grant or contribution will be satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied or for which there is not reasonable assurance that they will be satisfied are carried in the Balance Sheet as creditors (revenue grants) or capital grants receipts in advance (capital grants). When conditions are satisfied or reasonable assurance is achieved, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

6. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- Amortisation of intangible assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations to General Fund assets. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance, the Minimum Revenue Provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by MRP in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. The Minimum Revenue Provision policy is approved annually by Council as part of the budget setting process.
Under the Item 8 debit and credit determination from April 2017 depreciation for Housing Revenue Accounts assets is calculated in accordance with proper accounting practice and charged to the Housing Revenue Account. Impairment and revaluation adjustments are reversed out the Housing Revenue Account and will not impact on housing rents.

7. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Operating Leases
Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant service (Other Operating Expenditure) line in the Comprehensive Income and Expenditure Statement. Rental income is recognised on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

8. Employee Benefits

Benefits Payable during Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu, flexi balances) earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or where applicable, to the Central costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises the costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits (Retirement Benefits)

Employees of the Authority are primarily members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE); and

- The Local Government Pensions Scheme (Tyne and Wear Pension Fund), administered by South Tyneside Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees of the Authority/Schools.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Commissioning & Asset Management line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pensions Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Tyne and Wear Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees; and

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- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.

The assets of the Tyne and Wear Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price;
- Unquoted securities – professional estimate;
- Unitised securities – current bid price; and
- Property – market value.

The change in the net pensions liability is analysed into the following components:

Service cost

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement; and

- Net Interest on the net defined benefit liability (asset) i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;

- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; and

- Contributions paid to the Tyne and Wear Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The notes to the Core Financial Statements provide further details on contributions made.

<u>Discretionary Benefits</u>
The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

9. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

10. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

The freehold and leasehold properties which comprise the Council's portfolio are valued by Capita acting as the Authority's internal Chartered Surveyors.

<u>Recognition</u>

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price; and
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure and community assets– depreciated historical cost;
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective; and,
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets under the course of construction are recorded at cost during the construction period. Once the asset becomes operational a valuation is undertaken as relevant to the asset's type.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. However, where the increase reverses a revaluation decrease on the same asset that was previously charged to the Surplus or Deficit on Provision of Services, all or part of the revaluation gain is credited to the Surplus or Deficit on Provision of Services up to the amount of the previously recognised loss, net of depreciation that would have been charged had the loss not been recognised.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

<u>De-Minimis Levels</u>
The Authority has set a de-minimis level for the recognition of capital assets of £0.010m for land, buildings and infrastructure and £0.006m for equipment.

Assets below the de-minimis level are charged to the revenue account i.e. the asset is not included in the balance sheet unless it is part of an overall project costing more than the de-minimis level.

The Authority may capitalise particular items of expenditure that are below its de-minimis limit (e.g. because the terms of a grant require it to be applied to capital expenditure), as this brings the Authority back in line with proper practices for the particular item. The treatment of items below the limit in this way has no material impact on the accounts.

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Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for in the following ways:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, Heritage Assets and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

- Council Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer (generally 30-60 years);
- Vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset (generally 3-10 years); and
- Infrastructure – straight-line allocation over the useful life of the asset (generally 10-120 years).

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. For buildings valued over £0.500m consideration will be given as to whether or not there is any significant part which requires a separate component, such as the roof or any specialist item of plant or equipment.

The land element will continue to be considered as a separate asset with its own valuation which, except in very unusual circumstances, will not be subject to depreciation.

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Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Assets Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £0.010m are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. Capital Receipts may also be used under the Flexible Use of Capital Receipts which allows local authorities to fund revenue expenditure incurred to generate ongoing savings.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing.

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Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

11. Heritage Assets

Heritage Assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

Recognition and Measurement

Assets have been valued at cost or insurance valuation if this information is readily available. Where neither is obtainable at a cost commensurate with the benefits of doing so the assets are not recognised on the Balance Sheet.

Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment. Any impairment is recognised and measured in accordance with the Authority's general policy on impairment.

Disposals

Disposal proceeds are disclosed separately and accounted for in accordance with the statutory accounting requirements relating to capital receipts.

The Authority's museums are included and accounted for as operational assets within Property, Plant and Equipment.

12. Investment Property

Investment Properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment Properties are measured initially at cost and subsequently at fair value, based on the price that would be received from the sale of the property in an orderly transaction between market participants at the measurement date. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The same treatment is applied to gains and losses on disposal. Rentals received in relation to Investment Properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.010m) the Capital Receipts Reserve.

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13. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant services in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant services in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.010m) the Capital Receipts Reserve.

14. Interests in Companies and Other Entities

The Authority's has a material interest in the North Tyneside Trading Company Limited and it's subsidiary companies. As a result of this the financial statements of the group will be consolidated with the Authority's accounts and group accounts will be prepared for 2019/20.

The Authority does not have any other material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities that require consolidation within the group accounts and so these are recorded as financial assets at cost, less any provision for losses.

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15. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

16. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will normally pass to the Authority at the end of the contracts, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment (See Note 19).

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment or revenue expenditure in the relevant service line of the Comprehensive Income and Expenditure Statement when the relevant works are eventually carried out.

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17. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable (maximum 10 years) when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

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Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.
Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Authority recognises expected credit losses on all of its financial assets held at amortised cost or where relevant FVOCI, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Authority can access at the measurement date.

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- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Authority has designated its investments in equity instruments to FVOCI for shares held in Newcastle International Airport Limited and North Tyneside Trading Company. This designation once made is irrevocable. The treatment of equity instruments measured at FVOCI is in line with that described in the accounting policy for FVPL.

18. Provisions and Contingent Liabilities

<u>Provisions</u>

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

<u>Contingent Liabilities</u>

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

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19. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. The nature of the Authority's main reserves and balances are shown in Note 32 to the Core Financial Statements. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent useable resources for the Authority – these reserves are explained in the relevant policies.

20. Estimation Techniques

Estimation techniques are the methods adopted to arrive at estimated monetary amounts for the values of assets, liabilities, gains and losses and changes in reserves in situations where there is uncertainty as to their exact value. Estimation techniques have been used to determine provisions (including redundancy payments and equal pay), reserves, pension liabilities and Business Rate Appeals, as there is uncertainty over the monetary amounts. Except where specified in the CIPFA Code, the Authority has determined the estimation techniques that most closely reflect the economic reality of the transactions.

21. Collection Fund Statement

Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. However, regulations determine the amount of Council Tax and Business Rates that must be included in the Authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund Balance Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of Council Tax and Business Rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and arrears.

22. Events after the Reporting Period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

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- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

23. Joint Arrangements

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

Where the Authority has entered into a pooled budget arrangement under Section 75 of the National Health Service Act 2006, the Authority accounts for its share of the assets, liabilities, income and expenditure arising from the activities of the pooled budget, identified in accordance with the pooled budget agreement. The Authority only accounts for its share of the assets, liabilities, revenue and expenses of the arrangement.

24. Value Added Tax (VAT)

Income and Expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

25. Fair Value measurement

The Authority measures some of its non-financial assets such as surplus assets, assets held for sale and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or

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- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date ;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or
- Level 3 – unobservable inputs for the asset or liability.

26. Schools

The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

<u>Trust Schools</u>
In accordance with accounting guidance land and buildings leased to the foundation trust are not included on the Authority's Balance Sheet.

<u>Voluntary Aided Schools</u>
Land and buildings owned by diocesan authorities are not included on the Authority's Balance Sheet.

<u>Academy Schools</u>
Land and buildings transferred to an Academy are removed from the Authority's Balance Sheet in the year that the transfer takes place.

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Glossary of Terms

A

Accounting period: the period of time covered by the accounts, normally twelve months commencing on 1 April. The end of the accounting period i.e. 31 March is the balance sheet date.

Accounting policies: are the specific principles, bases, conventions, rules and practices applied in preparing and presenting the accounts.

Accruals basis: the method of including amounts in accounts to cover income or expenditure attributable to an accounting period but for which payment has not been received or made by the end of the accounting period. This is based on the concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Actuarial Gains and Losses: for a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation; or
- the actuarial assumptions have changed.

Amortised: reducing the value of a balance in an accounting period. The reduction in value is transferred from the balance sheet to the Comprehensive Income and Expenditure Statement.

Amortised Cost: is the amount at which an asset or liability is measured (usually at cost) plus or minus accumulated interest.

Appropriations: transferring of an amount between specific reserves in the Comprehensive Income and Expenditure Statement.

Asset: something of value which is measurable in monetary terms.

Authorised Limit: this is the limit beyond which borrowing is prohibited.

Authority: this is the corporate body of North Tyneside Council.

Available for Sale financial assets: financial instruments that either do not have fixed or determinable payments or whose prices are quoted on an active market.

B

Bad (and doubtful) debts: debts which may be uneconomic to collect or unenforceable in law.

Balances: the reserves of the Authority, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.

Balance Sheet: a statement of the recorded assets, liabilities and other balances at the end of an accounting period.

Billing authority: a local authority empowered to collect Non - Domestic Rates and Council Tax i.e. metropolitan authorities, unitary authorities, London Boroughs, district authorities and the City of London. North Tyneside Council is a billing authority.

Business Rates: **(also known as Non-Domestic Rates (NDR)):** a tax levied on business properties and is a means by which local businesses or organisations contribute to the cost of local authority services. The levy on businesses being based on a notional rate in the pound set by the government multiplied by the rateable value of the premises occupied. This multiplier is set annually by central Government, and comprises of a standard rates multiplier and a small business multiplier. The Authority can now keep half of this revenue to invest in local services.

Budget: a statement of the Authority's expected level of service expressed as an amount of spending over a set period, usually one year.

C

Capital Adjustment Account: provides a balancing mechanism between the different rates at which assets are depreciated under The Code and are financed through the capital controls systems.

Capital expenditure: expenditure on the acquisition or enhancement of non current assets. Capital expenditure can be incurred in some instances (where no asset is created) if Secretary of State permission is granted (e.g. where grants are made to other organisations for capital projects).

Capital Financing Requirement: the capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the Authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.

Capital receipts: the proceeds from the sale of a fixed asset, or the repayment of some grants or loans made by the Authority.

Capitalised: transferred from revenue to capital.

Cash and cash equivalents: this comprises cash in hand, cash overdrawn and short term investments which are readily convertible into known amounts of cash.

Cashflow: movement in cash and cash equivalents by the Authority in the accounting period.

CIPFA: The Chartered Institute of Public Finance and Accountancy.

CIPFA Code of Practice on Local Authority Accounting (The Code): the code of practice applicable to preparing the accounts.

Collection Fund: this account reflects the statutory requirement contained in section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance

Act 1992) for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates (NDR).

Community assets: assets that the Authority intends to hold in perpetuity have no determinable finite useful life and in addition may have restrictions on their disposal. Examples of community assets are playing fields and parks.

Component: is a significant part of an asset (such as a roof or major item of plant or equipment), which has to be separately identified for the purposes of accounting and asset management.

Comprehensive Income & Expenditure Statement: the account, that sets out the Authority's income and expenditure for the year for non-capital spending. It is sometimes referred to as the Revenue Account.

Consistency: the concept that the accounting treatment of like items within an accounting period and from one period to the next should be the same.

Consolidated: added together with adjustments to avoid double counting of income, expenditure, or to avoid exaggeration, e.g. debtors, creditors as a result of trading between services within the Authority which are reported on as a whole in the section on consolidated financial accounts.

Consumer Price Index (CPI): the index has been designed as a macro-economic measure of consumer price inflation. The official measure is calculated each month by taking a sample of goods and services that a typical household might buy including food, heating, household goods and travel costs.

Contingent asset: a contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.

Contingent liabilities: arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingencies: sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

Council (or Full Council): the formal meeting of all Members of North Tyneside Council.

Creditors: amounts owed by the Authority for work done, goods received or services rendered to the Authority during the accounting period, but for which payment has not been made by the Balance Sheet date.

Council Tax: the main source of local taxation for local authorities. It is a banded property tax (using 1 April 1991 property values) which is levied on households within its area by the billing authority and is set annually for the properties in its area. Council Tax income is paid into the billing authority's Collection Fund for distribution to precepting authorities and for use by the billing authority's own General Fund.

Current assets: which will be consumed or cease to have value within the next accounting period, e.g. stock and debtors.

Current liabilities: amounts that the Authority owes to other bodies and due for payment within 12 months.

Current Service Cost (Pensions): the increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

Curtailment: for a defined benefit pension scheme this is an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service, examples being termination of employees service through redundancy or amendment of the terms affecting future benefits.

D

Debtors: amounts due to the Authority which relate to the accounting period and have not been received by the Balance Sheet date.

Deferred Credits including Deferred capital receipts: amounts derived from the asset sales which will be received in instalments over a period of a year (e.g. mortgages on the sale of Council houses).

Deferred Liabilities: these are liabilities which are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time, e.g. deferred purchase arrangements.

Depreciation: the reduction in value of an asset due to age, wear and tear, deterioration or obsolescence.

Defined Benefit Scheme: a defined contribution scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all the employees benefits relating to employee service in the current or prior periods. A defined benefit scheme is a pension or retirement benefit scheme other than a defined contribution scheme.

E

Earmarked reserves: these reserves represent the monies set aside that can only be used for a specific usage or purpose (see Reserves definition for more information).

Emoluments: all sums paid to or receivable by an employee and sums due by way of expenses or allowances (as far as those sums are chargeable to UK income tax) and the monetary value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Enterprise Zones: specific areas where a combination of financial incentives and reduced planning restrictions apply.

Equity instrument: a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Estimation Techniques: methods adopted by the Authority to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Events after the Balance Sheet Date: events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts are authorised for issue.

Exceptional items: are ones that are material in terms of the Authority's overall expenditure for example impairments and changes in accounting regulations.

Expenditure: costs incurred by the Authority for goods received, services rendered or other value consumables during the accounting period, irrespective of whether or not any movement of cash has taken place.

Extraordinary items: these are very rare. They are material items with a high degree of abnormality that arise outside the normal activities of the Authority and are not expected to recur.

F

Fair Value: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

Finance Lease: a lease that transfers substantially all the risk and rewards of ownership of a fixed asset to the body leasing the asset (see Leasing definition for more information).

Financial Asset: a right to future economic benefits controlled by the Authority that is represented by: cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity.

Financial Instruments: contracts that give rise to a financial asset of one entity and a financial liability of another entity.

Financial Liability: an obligation to transfer economic benefits controlled by the Authority that is represented by: a contractual obligation to deliver cash (or another financial asset) to another entity, or a contractual obligation to exchange financial assets/liabilities with another entity.

G

General Fund: the main revenue account of the Authority, which brings together all income and expenditure other than recorded in the Housing Revenue Account and the Collection Fund.

Government grants: grants made by the Government towards either revenue or capital expenditure to support the cost of the provision of local authority services. These grants may be specifically towards the cost of particular schemes or to support the general revenue spending of the Authority.

H

Historical cost: the actual cost of assets, goods or services, at the time of their acquisition.

Housing Benefits: a system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by central government.

Housing Revenue Account: a separate account that includes all income and expenditure arising from the provision of Council housing by the Authority.

I

Impairment: a reduction in the value of a fixed asset, measured by specific means, below its stated carrying amount in the Balance Sheet.

Income: amounts which the Authority receives or expects to receive from any source, including rents, fees, charges, sales and grants.

Infrastructure Assets: assets such as highways, bridges, street lights and footpaths.

Intangible Asset: identifiable non-monetary asset without physical substance e.g. computer licences.

Interest Cost (pensions): for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

International Accounting Standards (IAS): international accounting standards issued by the International Accounting Standards Board. They are authoritative statements of how particular types of transactions and other events should be reflected in financial statements.

Inventories: raw materials and consumable items which the Authority has procured to use on a continuing basis and have not been used by the end of the accounting period.

Investment Property: interests in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arm’s length.

Investments: items such as company shares, other securities and money deposited with financial institutions (other than bank current accounts).

L

Leasing: a method of acquiring the use of an asset by paying a rental for a specified period of time, rather than purchasing it outright. The two methods are:

- *Operating Leases* – may generally be described as those which do not provide for the property in the asset to transfer to the Authority, only the rental will be taken into account by the lessee; or
- *Finance Leases* – are leases that transfer substantially all of the risks and rewards of ownership of the asset to the lessee. The asset is recorded on the lessee's balance sheet.

Lender Option Borrower Option Loans (LOBO): borrowing whereby the lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty).

Levies: similar to precepts, these sums are paid to other bodies. However, these amounts are not collected through Council Tax as with precepting bodies; they are items of expenditure on the face of the Comprehensive Income and Expenditure Statement. The bodies that charge a levy on the Authority are the Tyne and Wear Integrated Transport Authority, the Environment Agency and the Tyne Port Health Authority and Northumberland Inshore Fisheries and Conservation Authority.

Liabilities: amounts due to individuals or organisations, which will have to be paid at some time in the future.

Long Term Assets: assets which have value to the Authority for more than one year, e.g. land, buildings, equipment (also known as non current assets).

M

Material: the concept that any omission from or inaccuracy in the statements of account should not be large enough to affect the understanding of those statements by a reader.

Minimum Revenue Provision (MRP): is the amount which must be charged to an authority's revenue account and set aside as a provision for credit liabilities (repayment of debt), as required by the Local Government Act 1989.

N

National Multiplier: the figure used to calculate a non-domestic rates bill from the rateable value.

Non-Domestic Rates (NDR) (also known as Business Rates): a tax levied on business properties and is a means by which local businesses or organisations contribute to the cost of local authority services. The levy on businesses being based on a notional rate in the pound set by the government multiplied by the rateable value of the premises occupied. This multiplier is set annually by central Government, and comprises of a standard rates multiplier and a small business multiplier. The Authority can now keep half of this revenue to invest in local services.

Net Book Value: the amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided by depreciation.

Net Realisable Value: the open market value of the asset in its existing use (or open market value in the case of investment Property), less the expenses to be incurred in realising the asset.

Non Current Asset: assets which have value to the Authority for more than one year eg land, buildings, equipment (also known as Long Term Assets).

O

Operating Lease: a type of lease where the ownership of the asset remains with the lessor, and rental payments are recorded against services in the Comprehensive Income & Expenditure Statement (see Leasing definition for more information).

P

Pooled Funds: established to support partnership working. A pooled fund will receive funds from a variety of sources and will be administrated by the host partner.

Precept: the charge determined by precepting authorities on billing authorities. It requires the billing authority to collect income from Council taxpayers on their behalf. In the case of North Tyneside Council, the precepting authorities are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.

Prior Year Adjustments: material adjustments to the accounts of earlier years arising from changes in accounting policies or from the correction of prior year errors. A prior year error may include the effect of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of fact, and fraud. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provisions: amounts set aside in the accounts for liabilities or losses which are certain or very likely to occur but where there is uncertainty as to the amounts involved or the dates on which they will arise.

Private Finance Initiative (PFI): public authority/private sector partnerships designed to procure new major capital investment resources for local authorities.

Prudential Code: The current system on financial controls for capital financing introduced on 1 April 2004 that local authorities are required to operate by.

Public Works Loan Board (PWLB): a central Government agency which lends money to local authorities at lower rates than those generally available from the private sector. Local authorities are able to borrow for their requirements to finance capital expenditure from this source.

R

Remuneration: defined as sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Replacement Cost: cost of replacement of the asset at the balance sheet date.

Reserves: amounts set aside in the accounts to meet expenditure which the Authority may decide to incur in future period, but not allocated to specific liabilities which are certain or very likely to occur. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves are often described as balances, and usually arise as unplanned surpluses of income over expenditure.

Retail Price Index (RPI): measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.

Revaluation Reserve: records unrealised revaluation gains arising (since 1 April 2007) from holding property, plant & equipment. This reserve is matched by fixed assets within the Balance sheet; therefore they are not resources available to the Authority.

Revenue Contributions: method of financing capital expenditure directly from revenue.

Revenue Expenditure Funded from Capital under Statute: expenditure classified as capital for funding purposes but does not result in the creation of an asset (previously called deferred charges).

Revenue Support Grant: a central Government grant paid to each local authority to help to finance its general expenditure, as opposed to specific grants.

Ring-fenced: this refers to the statutory requirement that certain accounts such as the Collection Fund and Housing Revenue Account must be maintained separately from the General Fund.

S

Section 151 Officer: the Council officer designated under Section 151 of the Local Government Act 1972 to take overall responsibility for the financial administration of the Council.

Service Concession: an arrangement whereby the Authority contracts with a private operator to develop (or upgrade), operate and maintain infrastructure assets (in this case Schools and Street Lighting). The Authority controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the contract.

Strain on the Fund: An early payment of retirement benefits for members aged 55 or over and under 65 generates a ‘Strain on the Fund’ cost. This results in the Authority reimbursing the Tyne & Wear Pension Fund for the loss of employer and employee contributions and investment income which results from the employee retiring early.

T

Tangible assets: physical assets owned by the Authority, which can be seen or touched e.g. buildings and equipment.

U

Unuseable Reserves: reserves earmarked for specific accounting treatments which are not available to fund general expenditure (see Reserves definition for more information).

Useable Reserves: reserves that can be applied to fund expenditure or reduce local taxation (see Reserves definition for more information).

ITEM 8.

Title: Annual Statement of Accounts 2019/20

North Tyneside Council
Report to Audit Committee
Date: 25 March 2020

Report from Service:	Finance	
Report Author:	Janice Gillespie, Head of Resources	(Tel: 643 5701)
Wards affected:	All	

PART 1

1.1 Executive Summary:

1.1.1 The purpose of this report is to provide the Audit Committee with an update in respect of the closure of the 2019/20 accounts.

1.2 Recommendation(s):

1.2.1 It is recommended that the:

(a) Audit Committee note the work outlined in respect of the closure of the 2019/20 accounts.

1.3 Council plan and policy framework:

1.3.1 The Annual Statement of Accounts covers all the service responsibilities as identified within the Council Plan.

1.4 Information:

1.4.1 The Chief Finance Officer is required, no later than 31 May 2020, to sign and certify that the Statement of Accounts present a true and fair view of the Authority's financial position for the year ended 31 March 2020. The audited set of accounts is required, no later than 31 July 2020, to be approved and subsequently published.

Update on the preparation of the 2019/20 Annual Statement of Accounts

1.4.2 Communication has gone to all members of the Senior Leadership Team detailing the process for the closure of the 2019/20 accounts. This took the form of a briefing note which outlined the main tasks and actions required to be taken by services and reiterated the responsibilities of senior management in ensuring that all staff are fully aware of the deadlines associated with the closure of the 2019/20 accounts.

1.4.3 Detailed guidance notes have been published on the Authority's Intranet site outlining the key dates for the closure of the accounts. In addition, an article has been published in

Teamwork from the Head of Resources reminding staff of the importance of meeting the final accounts deadlines.

1.4.4 Group accounts will be required for the first time this year as the anticipated balance sheet value of the North Tyneside Trading Company (NTTC) will be material on the Authority's statutory accounts. This arises as the Authority is the main equity holder in the Company. The impact of group accounts will mean that the Authority's 2018/19 accounts will have to be restated to include a comparator figure together with associated disclosures.

1.4.5 Guidance has been issued to schools on the areas that they need to focus on to ensure that they closedown on time. Training sessions with schools have also been held covering year-end requirements.

1.4.6 Regular meetings continue to be held with finance staff and valuation to address any issues that arise. The Head of Resources is updated on a regular basis on progress being made.

1.4.7 Work is progressing towards meeting the deadlines that are required in order for the Authority to be able to publish the Statement of Accounts by the statutory date of 31 May 2020. Currently we are not foreseeing any issues that will prevent the Authority achieving this date, however there is always the risk of unforeseen events that may impact on our ability to do so.

1.5 Decision options:

The options available are:

(a) To accept the recommendations made in section 1.2.1.

1.6 Reasons for recommended option:

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

1.7 Appendices:

None.

1.8 Contact officers:

Janice Gillespie – Head of Resources - Tel: 643 5701
Claire Emmerson – Senior Manager, Financial Strategy & Planning – Tel 643 8109
Peter Weir – Principal Accountant – Tel 643 8066

1.9 Background information:

The following background papers and 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

There are no financial implications as a result of the recommendations within this report.

2.2 Legal

The Annual Statement of Accounts is produced annually in accordance with the Accounts and Audit Regulations 2015.

2.3 Consultation/community engagement

Consultation will take place with the key personnel and interested parties involved in the closedown process.

2.4 Human rights

There are no Human Rights implications as a result of the recommendations in this report.

2.5 Equalities and diversity

There are no Equalities and Diversity implications as a result of the recommendations in this report.

2.6 Risk management

A risk log has been set up which identifies the key risks and issues associated with the closedown process. The management of these risks are part of the overall process.

2.7 Crime and disorder

There are no crime and disorder implications as a result of the recommendations in this report.

2.8 Environment and sustainability

There are no environment and sustainability implications as a result of the recommendations in this report.

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North Tyneside Council
Report to Audit Committee
Date: 25 March 2020

ITEM 9

Title: Proposed Audit Committee Work Programme 2020/21

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 propose a programme of core business, to be considered by the Audit Committee during 2020/21, in line with its Terms of Reference as set out in the Council's Constitution.

1.2 Recommendation(s):

It is recommended that the Audit Committee:

(a) agrees the proposed core business work programme set out within this report, for 2020/21,
(b) notes that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues, and to respond to emerging trends during the year, and
(c) notes that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference, in the usual way.

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 Council's Constitution, updated and agreed by Council each year, establishes the role and responsibilities of each full committee of Council. This includes the Audit Committee.

1.4.2 Having regard to the Audit Committee's responsibilities as set out in its Terms of Reference in the Constitution, a core programme of work has been developed. This is set out below and aims to ensure that the Committee is properly able to discharge its duties effectively and efficiently, strengthening the Council's governance arrangements, and to highlight when reports are planned for presentation to each meeting in 2020/21.

Some aspects of the Committee's work are time-bound in nature (e.g. relating to the Council's accounts or agreeing future plans of work), whilst other items can be considered at any point during the year allowing some flexibility in planning the work programme of the Committee.

1.4.3 The following programme of core business for the Audit Committee during 2020/21 is proposed. This sets out the suggested timing and frequency of reports in the coming year, allowing the responsibilities as set out in the Constitution to be met.

1.4.4 The proposed work programme has been prepared in consultation with officers in the Shared Internal Audit and Risk Management Service, Finance Service, Democratic Services Team and also with the external (local) auditor, Ernst and Young LLP.

Month	Item of Business
May 2020	<u>Internal Audit and Risk Management</u> • Annual Report from Chief Internal Auditor and Opinion on the Framework of Governance, Risk Management and Control • Final Outturn Report (showing performance in achieving the previous year's Strategic Audit Plan) • Key Outcomes from Internal Audit Reports (reporting the key outcomes of reports issued in the preceding six months and progress made with the implementation of audit recommendations) • Risk Management Update <u>Finance</u> • Draft Annual Governance Statement (and supporting information) • CIPFA Financial Management Code <u>External Audit</u> • External Audit Progress Report
July 2020	<u>External Audit</u> • Audit Results Report
November 2020	<u>Internal Audit and Risk Management</u> • Interim Outturn Report (showing profiled performance against the Strategic Audit Plan) • Key Outcomes from Internal Audit Reports (reporting the key outcomes of reports issued in the preceding six months and progress made with the implementation of audit recommendations) • Risk Management Update <u>Finance</u> • Annual Governance Statement Update (progress on previously identified actions and agreeing methodology for coming year) • Report on preparation of Annual Statement of Accounts 2020/21 <u>External Audit</u> • Annual Audit Letter • External Audit Progress Report

March 2021	Internal Audit and Risk Management • Strategic Audit Plan (for the forthcoming financial year) • Annual Audit Committee Work Programme • Annual Review of Audit Committee Effectiveness Finance • Report on accounting policies to be used in Compilation of Annual Statement of Accounts • Report on preparation of Annual Statement of Accounts 2020/21 External Audit • Audit Planning Report • Grants Report • Audit Market Reform Update Report

1.4.5 In addition to these core business items, it may also be necessary to update the Audit Committee on an ad-hoc basis, as relevant and topical areas arise during the year. Accordingly, the Audit Committee will receive additional reports on emerging issues and trends as appropriate.

1.4.6 The proposed work programme should be treated as a helpful guide, and it may be necessary to alter or amend the proposed timing of reports during the year as work progresses. Where this is the case, the relevant report author will be responsible for informing the Chair of the Audit Committee, and Democratic Services, of any changes to proposed reporting.

1.5 Decision options:

It is recommended that the Audit Committee agrees the proposed programme of core business set out at 1.4.3 above; and notes that it may be necessary to alter the proposed timing of reports, and to add extraordinary reports, in order to respond to emerging issues arising throughout the year.

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

1.6 Reason for recommended option:

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

1.7 Appendices:

There are no appendices to this report.

1.8 Contact officers:

Kevin McDonald (Group Assurance Manager) Tel 643 5738
Marc Oldham (Senior Auditor) Tel: 643 5711

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) North Tyneside Council Constitution, December 2019 (P)
(b) Financial Regulations, version 5a, September 2013 (P)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no direct financial implications arising from this report.

2.2 Legal

There are no direct legal implications arising from this report.

2.3 Consultation/community engagement

The proposed work programme of core business items has been proposed with reference to the Constitution, and discussion with lead report authors within the Council and the external (local) auditor.

As emerging issues or trends arise during the year, the core business items will be supplemented with additional reports agreed in association with the Chair of the 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

There are no specific risks associated with this report.

2.7 Crime and disorder

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

2.8 Environment and sustainability

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

Report authors Allison Mitchell
Kevin McDonald
Marc Oldham

ITEM 10
Title: Review of Audit Committee Arrangements

North Tyneside Council
Report to Audit Committee
Date: 25 March 2020

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 update Audit Committee on progress with the review of Audit Committee arrangements, following the report considered by Audit Committee in November 2019.

1.2 Recommendations:

It is recommended that Audit Committee:

(a) notes the review of Audit Committee arrangements has taken place in three tranches throughout 2019/20 (namely a self-assessment of current arrangements against the Chartered Institute of Public Finance and Accountancy's – CIPFA's – latest guidance on Audit Committees; individual interviews with Audit Committee members; and engagement with relevant senior officers);
(b) notes the action which may now be considered to ensure that our Audit Committee arrangements reflect, as far as practicable, CIPFA's good practice guidance;
(c) notes that CIPFA recommend that an annual review of Audit Committee effectiveness is undertaken, and that officers will consider how this can be achieved in an efficient manner in future years following the major review just undertaken in 2019/20 year.

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, was considered by Audit Committee in July 2019, in conjunction with a summary of the work previously performed by the Chair of Audit Committee in 2015/16 to review Audit Committee arrangements at that time. The assessment demonstrated that our Audit Committee arrangements already reflect a number of the good practice areas recommended by CIPFA, and there are some areas in which more development may be needed to ensure that the good practice recommended by CIPFA is fully reflected.

1.4.3 In November 2019, Audit Committee agreed that:

(a) the first two tranches of the review had been concluded; and
(b) the final tranche of the review was planned to take place ahead of the March 2020 meeting of Audit Committee, and that the Head of Resources would report to that meeting on action which will be implemented to ensure that our Audit Committee arrangements reflect, as far as practicable, CIPFA's good practice guidance.

1.4.4 The Chair of Audit Committee has engaged with serving elected members of Audit Committee on an individual basis, in addition to senior officers. Our current Audit Committee arrangements were examined, with several ideas to develop our Audit Committee discussed. Actions identified / implemented regarding these areas include:

Development area identified	**Action**
Developing arrangements for regular onward reporting from Audit Committee to 'those charged with governance' within the Authority	It is proposed that work is undertaken to develop the preparation of an annual report from Audit Committee each year, ready for presentation to Cabinet. It is proposed that the annual report will demonstrate how Audit Committee meets its Terms of Reference and also provide a summary of the work of the committee during the 2019/20 year.
Ensuring that the Terms of Reference for Audit Committee reflect CIPFA's latest Position Statement on Audit Committees in Local Government	Amendments to the Audit Committee's Terms of Reference, reflecting CIPFA's latest Position Statement on Audit Committees in Local Government, have been proposed for consideration as part of the review of the Authority's Constitution to be presented to the annual meeting of Council in May 2020.
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 induction and training programme to address any areas where more knowledge would be welcomed	Required knowledge and skills were discussed with Audit Committee members as part of the review undertaken, with no issues identified. Improvements have been made regarding a structured induction to Audit Committee as part of the Members' Development Programme, in addition to a training / briefing session scheduled prior to the Audit Committee meeting in May 2020. A specific briefing relating to the approval of the

	Authority's accounts / Accounting Policies has also been scheduled, with additional briefings / training to be developed as required throughout the remainder of the year in conjunction with Audit Committee.
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.	Possible methods of engagement, and Audit Committee's role regarding assurance on audit findings, risks and action plans, were discussed with Audit Committee members as part of the review undertaken. The Chief Executive will attend the March 2020 meeting of Audit Committee, to outline the work which he has commissioned during 2019/20 to ensure a full fundamental review of corporate risks was undertaken in-year. As Audit Committee receive reports on matters of governance, risk management and control throughout the course of the year, Audit Committee can then determine whether it would be beneficial to the Committee's work to invite appropriate Heads of Service to attend a meeting of the Committee.

1.4.5 The Authority is aware of a national independent review of the quality and effectiveness of the audit and financial reporting of local authorities in England. The review, led by the former President of the Chartered Institute of Public Finance Sir Tony Redmond, was launched to examine the effectiveness of local authority financial reporting and the audit regime. The scope of the review includes testing the assurance processes in place with regard to value for money arrangements together with the financial resilience in local councils, in addition to examining how councils publish their annual accounts and whether financial reporting systems are sufficiently transparent to be held to account. Similarly, there are other reviews of audit arrangements (not necessarily in the public services but which may nonetheless have an impact on the audit regime in local government in future, for example the Brydon Review). The Authority will maintain a close watch on developments and ensure that any relevant matters are reported to Audit Committee as a matter of course.

1.4.6 It is anticipated that the 'Redmond Review' will report early in the 2020/21 year. It is possible that this will include observations and recommended changes regarding the structure and function of Audit Committees in Local Government, which in turn may mean that CIPFA issues revised guidance in response. The Authority will monitor progress closely and report to the Audit Committee on any developments in due course.

1.5 Decision Options:

It is recommended that Audit Committee notes the contents of this report and actions taken / proposed following the review.

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:

There are no appendices to this report.

1.8 Contact officers:

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, 20 November 2019
(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

Consultation on the analysis against CIPFA's good practice guidance, taken from the 2018 publication "Audit Committees – Practical Guidance for Local Authorities and Police", was undertaken with Audit Committee during the July 2019 Audit Committee meeting. The Chair of Audit Committee has subsequently engaged with serving elected members of Audit Committee and senior officers on an individual basis.

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
Kevin McDonald

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