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North Tyneside Council

Audit Committee

16 March 2021

Wednesday, 24 March 2021 commencing at 6.00 pm.

The meeting will be held remotely and live streamed on the Authority's YouTube Channel

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 and/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 and/or non-registerable interests that have been granted in respect of any matters appearing on the agenda.	
3.	**Minutes** To confirm the minutes of the meeting held on 18 November 2020	**5 - 8**
4.	**Annual Audit Letter** To receive the Annual Audit Letter from the Authority's external auditor	**9 - 32**
5.	**Accounting Policies to be used in the compilation of the 2020/21 Annual Statement of Accounts** To give consideration to a report which provides details of the accounting policies used in the compilation of the 2020/21 Annual Statement of Accounts.	**33 - 68**

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.

Circulation overleaf …

Members of the Audit Committee

Kevin Robinson (Chair)
Councillor Debbie Cox
Councillor Anthony McMullen
Councillor Martin Rankin
Councillor Judith Wallace

Malcolm Wilkinson (Deputy Chair)
Councillor Naomi Craven
Councillor Janice Mole
Councillor Paul Richardson

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Audit Committee

Wednesday, 18 November 2020

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

AC/43/19 Declarations of Interest and Dispensations

There were no Declarations of Interest of Dispensations reported.

AC/44/19 Minutes

Resolved that the minutes of the meeting held on 29 July 2020 be confirmed as a correct record and be signed by the Chair.

AC/45/19 Audit Quality Inspection Report (Financial Reporting Council)

Consideration was given to a report which provided an update on the findings of the Financial Reporting Council's monitoring of the quality of Major Local Audits undertaken during 2019/20. It was explained that the reviews of individual Major Local Audits was intended to promote the overall quality of local auditing in the United Kingdom. As part of the process the authority's 2019/20 audit was chosen as part of the inspection. The representative of EY presented details of the outcome of the review and the actions that it proposed to take as a result of the findings.

Resolved that the outcome of the review be noted.

AC/46/19 2019/20 Annual Financial Report

Consideration was given to a report which sought approval of the 2019/20 Audited Financial Regulations Report in accordance with Section 9 (2) of the Accounts and Audit Regulations 2015.

It was explained that as a result of Covid-19 the Ministry of Housing, Communities and Local Government had amended the regulations to extend the time limit for Local Authorities to certify and publish their accounts. The deadline for the Chief Finance Officer to certify the draft accounts had been moved from 31 May to the 31 August and the deadline for the consideration and approval of the accounts had also been moved, from the 31 July to the 30 November 2020.

It was noted that this was the second year that EY had undertaken the Authority's audit and progress had been positive. It was anticipated that an unqualified audit opinion would be issued and the 2019/20 Audit Results Report had noted that no material errors had been identified. A number of disclosure errors had been identified during the audit, the majority of which had been corrected and were reflected in the report. Details of the significant adjustments required had been set out along with the action taken.

The report also provided an overview of the main elements of the Annual Financial Report and a summary of the main features of the 2019/20 statutory accounts.

Resolved that (1) the Audit Results Report be approved;
(2) the draft Letter of Management Representation be agreed; and
(3) the 2019/20 Audited Annual Financial Report be approved

AC/47/19 Annual Governance Statement

Consideration was given to a report on the outcome of the review of the Authority's system of internal control. The Annual Governance Statement provided the Committee with details of how the Authority demonstrated that it delivered good governance and reviewed the effectiveness of its arrangements including the management of risk and the systems of internal control in place.

Resolved that (1) the outcome of the review of the Authority's system of internal control be noted;
(2) the draft Annual Governance Statement be approved to accompany the Statement of Accounts 2019/20; and
(3) the actions proposed in the Annual Governance Statement in relation to any governance issues identified be noted.

AC/48/19 Key Outcomes from Internal Audit Reports issued between 2 July 2020 and 2 November 2020

Consideration was given to a report which set out the key outcomes of internal audit reports issued between July and November 2020. 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.

Resolved that the key findings, good practice identified and the management action taken in response to Internal Audit Reports be noted.

AC/49/19 Exclusion Resolution

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

AC/50/19 Corporate Risk Management Summary Report

Consideration was given to a report which outlined the corporate risks that had been identified for monitoring and management by the Council's Senior Leadership Team, as of 24 June 2020. The report provided detailed information on each of the corporate risks including the cause of the risk, the consequences if the risk were to materialise, the existing and new controls in place to address the risks and an assessment of their likelihood and potential impact.

Resolved that the report be noted.

AC/51/19 Strategic Audit Plan 2020/21 - Interim Monitoring Statement

Consideration was given to a report which provided the Committee with an interim monitoring statement in respect of the Strategic Audit Plan for 2020/21. It was explained that this report had originally been intended to be brought to the March 2020 meeting of the Committee but this meeting had been cancelled due to the restrictions imposed as a result of the Covid-19 pandemic.

Resolved that the progress set out in the Interim Monitoring Statement and the levels of planned coverage achieved be noted.

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North Tyneside Council

Annual Audit Letter for the year ended 31 March 2020

March 2021

Building a better working world

Contents

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 Annual Audit Letter is prepared in the context of the Statement of the engagement contract. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, 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.

Section 1

Executive Summary

Page 11

Executive Summary

We are required to issue an annual audit letter to North Tyneside Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
▸ Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, were published and came into force on 30 April 2020. This announced a change to publication date for final, audited financial statements from 31 July to 30 November 2020 for all relevant authorities. We worked with the Council to deliver the audit in line with the revised reporting timescale.
Impact on our risk assessment	
▸ Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
▸ Disclosures on Going Concern	Financial plans for 2020/21 and medium-term financial plans required revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
Impact on the scope of our audit	
▸ Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: ▸ used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ▸ agreed IPE to scanned documents or other system screenshots.
▸ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (continued)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the financial statements.
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that the Council put in place proper arrangements to secure value for money in the use of resources.

Page 13

Area of Work	Conclusion
Reports by exception:	
► Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

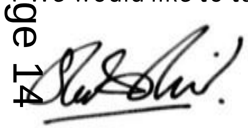
Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary (continued)

As a result of the areas disclosed on the previous page we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was presented to the Audit Committee on 18 November 2020.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 15 March 2021.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.



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

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter
The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the Audit Committee on 18 November 2020, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with our updated Audit Plan that we presented to the Audit Committee on 29 July 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditor we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO. We performed the procedures as required by the NAO, no issues were identified.

Page 17

Responsibilities of the Council

The Council is responsible for preparing and publishing its Statement of Accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3
Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 November 2020.

Our detailed findings were reported to the 18 November 2020 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition 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.	We performed the following testing in relation to this risk: ▸ We reviewed and tested revenue and expenditure recognition policies, including consideration of the recognition of grant income; ▸ We reviewed, discussed with management, and tested (where appropriate) any accounting estimates on revenue or expenditure recognition, such as manual debtors and expenditure accruals, for evidence of bias; ▸ We tested grant income with terms and conditions attached to ensure that where management judgements had been made relating to the recognition of the income, all terms and conditions had been achieved; ▸ We tested capital expenditure incurred during the year to ensure that it was correctly classified as capital expenditure and should not instead have been included as revenue; and ▸ We reviewed a sample of transactions recorded in the ledger and payments made from the bank account post year-end and confirmed that the associated income and expenditure has been recorded in the correct period. Our testing did not identify any material misstatements relating to revenue and expenditure recognition.

Financial Statement Audit (continued)

Significant Risk	Conclusion
Misstatements due to fraud or error As identified in auditing standards, 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 performed the following testing in relation to this risk: ▸ We identified fraud risks during the planning stage of our audit; ▸ We developed our understanding of the oversight given by those charged with governance over management's processes over fraud; ▸ We considered the effectiveness of management's controls designed to address the risk of fraud; ▸ We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▸ We reviewed accounting estimates for evidence of management bias; and ▸ We evaluated the business rationale for any significant unusual transactions. Our testing did not identify any material misstatements due to fraud or error in the Council's financial statements.
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 performed the following testing in relation to this risk: ▸ We considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ We sample tested key asset information used by the valuers in performing their valuation; ▸ We engaged our internal valuers to review the market yields used by the valuer to ensure they were in line with our expectations; ▸ We considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code; ▸ We reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; ▸ We considered changes to useful economic lives as a result of the most recent valuation; and ▸ We reviewed the disclosures made by the Council in relation to the material uncertainty clauses to ensure they provide sufficient detail to the user of the financial statements. We did not identify any material misstatements arising from the valuation of land and buildings. However, we identified two matters that are included on the following page.

Financial Statement Audit (continued)

Further details on findings relating to the Valuation of Land and Buildings significant risk

Use of RICS BCIS Indices

The Council's external valuer performed a number of their 2019/20 property valuations as at 1 April 2019. This includes a number of specialised assets that follow a Depreciated Replacement Cost (DRC) methodology, which utilise the RICS BCIS indices. The BCIS indices used by the valuer as part of the DRC valuation are as at 1 April 2019. However, as the asset values disclosed in the Balance Sheet are as at 31 March 2020, we have updated the DRC calculations to use the revised BCIS indices as at 31 March 2020.

After using the 31 March 2020 BCIS indices we calculated a reduction in the value of assets of £968,000, when compared to the values that are disclosed in the financial statements.

This was not amended by management in the financial statements, as the value disclosed is not materially different.

Material uncertainty

The Council's external valuer disclosed a 'material uncertainty' in their year end valuation report in line with RICS guidance. The Council included this 'material uncertainty' disclosure within their financial statements. As part of our work we considered the extent of the valuation uncertainty and noted the following:

- Approximately 70% of the Council's assets are valued at DRC. Given DRC valuations are not informed by evidence of relevant market conditions which could have been impacted by Covid-19, we are satisfied that the outbreak of Covid-19 is unlikely to have led to significant uncertainty in the valuation.
- Although the Council does have a limited number of assets where the valuation is more reliant on market evidence we were satisfied, based on our detailed testing, that the values included in the draft financial statements are supportable.
- Based on the work we have undertaken we are satisfied that the carrying value of Property, Plant and Equipment disclosed in the financial statements is not materially misstated.

Financial Statement Audit (continued)

Other Key risks	Conclusion
Going concern and the impact of Covid-19 The CIPFA Code of Practice requires that the financial statements of Local Authorities are prepared on a going concern basis. However, due to the unpredictability of the current environment, we believe that there is a need for additional disclosures to be made by the Council in the financial statements, that detail the full financial and operational impact of Covid-19 in 2020/21 and beyond. There is also an expectation that management will complete a detailed going concern assessment for 2019/20. This will focus on future funding streams and in particular cash flows for the Council for a period of at least 12 months from the date of the signing of the audit opinion. This assessment will then be used to support the Council's conclusion regarding whether the financial statements should be prepared on a going concern basis.	We performed the following procedures to address this risk: ▸ Tested management's cash flow forecast up to 30 November 2021, including challenging the assumptions made by management, to ensure that the forecast position is prudent and realistic; ▸ Reviewed management's overall going concern assessment, including reviewing revisions to the medium term financial strategy (MTFS) and the level of reserves held by the Council; and ▸ Reviewed and challenged the going concern and Covid-19 narrative disclosures made by management in the financial statements to ensure that they were appropriate and represent a true and fair view of the Council's position. Based on the procedures performed we are content that the Council will have a positive cash balance through to 30 November 2021, which is at least 12 months from the date the audit opinion is signed. In addition, we are also content that the assumptions used by management as part of their going concern assessment are prudent and realistic.
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. Per the draft financial statements at 31 March 2020, this totalled £465 million. 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 performed the following procedures to address this risk: ▸ Liaised 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; ▸ Assessed the work of the Pension Fund actuary (AON Hewitt) including the assumptions they 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 ▸ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to the pension disclosures. As part of the assurances provided by the auditor of Tyne and Wear Pension Fund a difference between the total fund asset values at 31 March 2020, that were used by the actuary, and the value that they tested as part of their year end audit was highlighted. The estimated impact of this difference on North Tyneside Council's financial statements is that the pension liability is understated by £2.9 million. As this is an estimated position, management decided not to amend the financial statements. This is also immaterial so it did not impact upon our audit opinion.

Page 22

Financial Statement Audit (continued)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £11.3 million, which is 1.8% of gross expenditure on the provision of services reported in the financial statements. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. It should be noted that the materiality levels used for the Group audit were in line with those used for the Council audit.
Reporting threshold	We agreed with the Audit Committee that we would report all audit differences in excess of £0.56 million.

Section 4

Value for Money

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. This is known as our value for money conclusion.

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

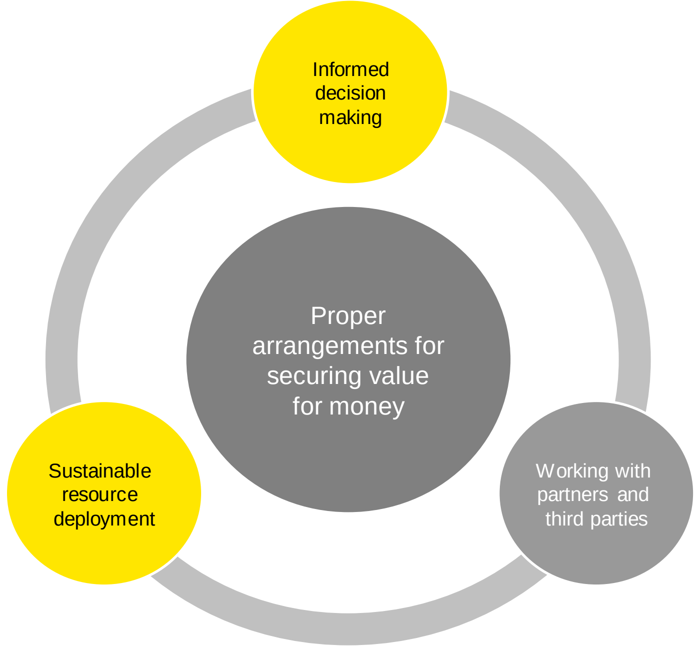
- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We identified a significant risk in relation to these arrangements. The table on the following page presents the findings of our work in response to the risk identified.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 30 November 2020.



Value for Money (continued)

Significant Risk	Conclusion
Financial Sustainability 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 resulted in the Council forecasting significant pressures against budget throughout the financial year. In addition, the Council now also has to manage the additional financial burden of dealing with Covid-19 and the increased strain this will have on both services and the underlying financial position.	We completed the following work in this area: ▸ We selected a sample of savings plans and assessed their reasonableness, including testing of the assumptions used; ▸ We discussed the specific plans in place for Health, Education, Care and Safeguarding to understand how the Council plans to control the overspends in this area; ▸ We reviewed the level of reserves to ensure they are sufficient to cover the Council's assessment of the minimum required to provide its statutory services; and ▸ We reviewed the Medium Term Financial Strategy (MTFS) and tested the reasonableness of a sample of the assumptions used. Our testing identified that the Council delivered an underspend of £1.1 million against budget in 2019/20, which includes one off dividend payments from Newcastle Airport and Kier North Tyneside of £1 million. The Council also delivered 90% of proposed savings in 2019/20. We reviewed the Council's reserves and compared them to other similar sized Council's from across the Country. Based on this assessment we are satisfied that the Council has sufficient reserves in order to allow it to provide its statutory functions. The Covid-19 pandemic has had a significant impact on the Council's finances going forward, with the Council reporting a potential pressure of £11.4 million for 2020/21 to Cabinet in September 2020. However, the Council do have plans to mitigate this pressure. We have reviewed and challenged management's assessment, with a particular focus on the assumptions that have been used, and we are content that the revisions made by management to the plan are prudent and achievable.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We completed this work and had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 18 November 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Other Reporting Issues (continued)

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements. However, we did identify four areas where processes and controls can be further enhanced to support the robustness of the overall control environment at the Council:

Control Observation	Recommendation
Lack of evidenced review of journals greater than £500,000 – It is our understanding that all journals posted that are greater than £500,000 in value are reviewed and authorised by a member of the North Tyneside Council finance team. However, we were unable to identify any formal evidence of this review taking place.	We recommend that evidence of the review of all journals above £500,000 is retained.
Accruals de minimis level – The Council has an accruals de minimis level of £1,000, which means all items above this value should be accrued. However, as part of our audit procedures we identified a small number of immaterial transactions above this value that relate to 2018/19. This suggests that the accruals de minimis level is not followed in all instances.	We are aware from our audits of other similar sized Local Authorities that their accruals de minimis level is higher than £1,000. We would therefore recommend that the Council explores increasing the de minimis level in order to enhance the efficiency of this process and reduce the number of missed accruals.
Members allowances – The Council is required to disclose the total value of members allowances in the financial statements and also separately on the Council's website. Although, the information on the Council's website is not subject to audit, we have identified differences between the draft financial statements and the values disclosed on the website.	We recommend that the Council performs a consistency review between the website and the draft financial statements before the information is posted.
Better Care Fund agreement – The Better Care Fund Agreement between the Council and North Tyneside Clinical Commissioning Group (CCG) for 2019/20 was not signed. However, it should be noted that the Council and the CCG did follow the instructions set out in the draft agreement during 2019/20.	We recommend that the Council ensures all formal agreements are signed.

Section 6

Audit Fees

Page 30

Audit Fees

	Final fee 2019/20	Final fee 2018/19
	£	£
Total Fee – Code work (Scale Fee)	125,250	85,200
Total Fee – Code work (Variation)	17,600*	26,250
Total Audit fee	**142,850**	**111,450**
Total Fee – North Tyneside Trading Company and subsidiaries	27,000	3,800
Total additional group fees	**27,000**	**3,800**
Non-audit work – Housing Benefit certification	12,800	6,550
Non audit-work – Other certification work	10,500	4,925
Total other non-audit services	**23,300**	**11,475**
Total fees	**193,150**	**126,725**

* Fee variations are due to the impact of the Covid-19 pandemic on our audit, as we have been required to perform additional procedures in order to allow us to conclude on the Council's financial statements.

In our Audit Planning Report, presented to the Audit Committee in July 2020, and also in our Audit Results Report, presented to the Audit Committee in November 2020, we set out a number of key factors that have resulted in the need for us to increase our audit fees for the 2019/20 audit year. We have set our below an overview of the factors that continue to impact audit fees. 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.

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North Tyneside Council
Report to Audit Committee
Date: 24 March 2021

Agenda Item 5
Accounting Policies to be used in the compilation of 2020/21 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 2020/21' (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 2020/21 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 2020 to 31 March 2021.

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 2020/21 are attached as **Appendix A**. There is one change recommended to the accounting policies for 2020/21. Following the adoption of a Community Infrastructure Levy (CIL) by the Authority, Accounting Policy 6 (Government Grants and Contributions) has been updated to include a section on accounting for the CIL.

1.5 Decision options:

1.5.1 The 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 The 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 as amended by the Accounts and Audit (Amendment) Regulations 2021.

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 2020/21.

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 1 August 2021 in accordance with the Accounts and Audit (Amendment) Regulations 2021. Part of the approval process is the endorsement 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 2020/21 financial year and its position at the year-end of 31 March 2021. 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 2020/21 (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.

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. Community infrastructure levy *(NEW)*

The Authority has elected to charge a community infrastructure levy (CIL). The levy is charged on new builds (chargeable developments for the authority) with appropriate planning consent. The Authority charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (secondary education, health facilities, green spaces, community facilities and walking and cycling connections) to support the development of the area.

The CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges may be used to fund revenue expenditure.

7. 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.

8. 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.

<u>The Authority as Lessee</u>

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).

<u>The Authority as Lessor</u>

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).

9. Employee Benefits

<u>Benefits Payable during Employment</u>
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.

<u>Termination Benefits</u>
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.

<u>Post Employment Benefits (Retirement Benefits)</u>
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 and 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

- 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:

<u>Service cost</u>

- 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.

<u>Remeasurements comprising</u>

- 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.

10. 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.

11. 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.

<u>Measurement</u>

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).

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.

<u>Impairment</u>

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.

<u>Depreciation</u>

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.

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.

<u>Disposals and Non-Current Assets Held for Sale</u>

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

12. 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.

13. 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.

14. 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.

15. 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 2020/21.

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.

16. 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.

17. 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 xx).

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.

18. Financial Instruments

<u>Financial Liabilities</u>

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.

<u>Financial Assets</u>

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).

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.
- 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.

19. 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.

20. 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.

21. 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), 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.

22. Collection Fund Statement

Council Tax and Business Rates (NNDR) 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.

23. 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:

- 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.

24. 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.

25. 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.

26. Fair Value measurement for non-financial assets

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
- 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.

27. 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.

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

Academy Schools
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.

Community Infrastructure Levy (CIL): is a charge that local authorities can set on new development in order to raise funds to help fund the infrastructure, facilities and services - such as schools or transport improvements - needed to support new homes and businesses.

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 6

Title: Annual Statement of Accounts 2020/21

North Tyneside Council
Report to Audit Committee
Date: 24 March 2021

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 2020/21 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 2020/21 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 1 August 2021, 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 2021. The audited set of accounts is required, no later than 30 September 2021, to be approved and subsequently published.

Update on the preparation of the 2020/21 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 2020/21 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 2020/21 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 As in 2019/20 group accounts will be continue to be required for 2020/21 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.

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 no later than the statutory date of 1 August 2021. 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:

1.5.1 The 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 The Audit Committee is recommended to endorse the proposals set out in section 1.2 of this report as the production Audited Annual Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021.

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:

1.9.1 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 as amended by the Accounts and Audit (Amendment) Regulations 2021.

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

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

2.2 Legal

2.2.1 The Authority has a duty to ensure that it produces an Annual Statement of Accounts by 1 August 2021 in accordance with the Accounts and Audit (Amendment) Regulations 2021.

2.3 Consultation/community engagement

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

2.4 Human rights

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

2.5 Equalities and diversity

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

2.6 Risk management

2.6.1 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

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

2.8 Environment and sustainability

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

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ITEM 7
Title: Proposed Audit Committee Work Programme 2021/22

North Tyneside Council
Report to Audit Committee
Date: 24 March 2021

Report from Service Area:	**Resources**	
Report Author:	**Kevin McDonald, Acting Chief Internal Auditor**	**(Tel: 643 5738)**
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 2021/22, 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 2021/22,
(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 2021/22.

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 2021/22 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. During March 2021, the Ministry of Housing, Communities and Local Government (the MHCLG) confirmed a revision to the Accounts and Audit Regulations in respect of the 2020/21 and 2021/22 accounts. The Accounts and Audit (Amendment) Regulations 2021 are due to come into force on 31 March 2021 and amend the publication of audited accounts from 31 July to 30 September for the next two years. It was also confirmed that the Authority's draft accounts are required to be published no later than 1 August. This amended timetable is reflected in the proposed work programme and it is proposed that an additional meeting of Audit Committee is held in September 2021, to accommodate the revised requirements.

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 2021	<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> • CIPFA Financial Management Code <u>External Audit</u> • Audit Planning Report 2020/21 • External Audit Progress Report
July 2021	<u>Finance</u> • Draft Statement of Accounts • Draft Annual Governance Statement (and supporting information)
September 2021 (Proposed additional meeting)	<u>Finance</u> • Final Statement of Accounts <u>External Audit</u> • Audit Results Report

November 2021	<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 2021/22 • CIPFA Financial Management Code – Mid-year update <u>External Audit</u> • External Audit Progress Report
March 2022	<u>Internal Audit and Risk Management</u> • Strategic Audit Plan (for the forthcoming financial year) • Annual Audit Committee Work Programme • Annual Review of Audit Committee Effectiveness <u>Counter Fraud</u> • Counter Fraud Annual Report <u>Finance</u> • Report on accounting policies to be used in Compilation of Annual Statement of Accounts • Report on preparation of Annual Statement of Accounts 2021/22 <u>External Audit</u> • Audit Planning Report 2021/22 • 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 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 (Acting Chief Internal Auditor) 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, version 22, October 2020 (P)
(b) Financial Regulations, version 5a, September 2013 (P)
(c) Accounts and Audit (Amendment) Regulations 2021, March 2021

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 Kevin McDonald
Marc Oldham

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ITEM 8
Title: Review of Audit Committee Effectiveness

North Tyneside Council
Report to Audit Committee
Date: 24 March 2021

Report from Service Area:	**Resources**	
Report Author:	**Kevin McDonald, Acting Chief Internal Auditor**	**(Tel: 643 5738)**
Wards affected:	**All**	

PART 1

1.1 Purpose:

The purpose of this report is to present a self-assessment of Audit Committee arrangements, following the review of Audit Committee arrangements undertaken during 2019/20, undertaken with reference to the good practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.2 Recommendation(s):

It is recommended that Audit Committee:

(a) considers and endorses the latest self-assessment of our Audit Committee arrangements against the good practice guidance recommended by CIPFA, attached as **Annex A**;
(b) notes the actions taken since the previous review of Audit Committee arrangements during 2019/20 to help ensure that all aspects of CIPFA's good practice can be reflected;
(c) agrees that the self-assessment undertaken will form the basis of an annual report from Audit Committee, which will be prepared for presentation to Cabinet, demonstrating how Audit Committee meets its Terms of Reference and providing a summary of the work of the committee during the 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. It is good practice to undertake an annual review of the effectiveness of Audit Committee arrangements.

1.4.2 An initial self-assessment of our Audit Committee arrangements, against the good practice recommended by CIPFA, was considered by Audit Committee in July 2019. The Chair of Audit Committee subsequently engaged with serving elected members of Audit Committee on an individual basis, in addition to senior officers, to examine the arrangements in place for our Audit Committee. Several ideas to develop Audit Committee arrangements were discussed and agreed during that review.

1.4.3 The self-assessment undertaken during March 2021 demonstrates that our Audit Committee arrangements reflect the good practice areas recommended by CIPFA. There are some identified areas for development which have been delayed during 2020/21, due primarily to circumstances relating to the pandemic, but actions planned to address these areas in early 2021/22 are detailed within the self-assessment at **Annex A**.

1.5 Decision Options:

It is recommended that Audit Committee notes and endorses the self-assessment of current arrangements against CIPFA good practice guidance, and that this work forms the basis of an annual report from Audit Committee to Cabinet, demonstrating how Audit Committee meets its Terms of Reference and providing a summary of the work of the committee during the year.

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

1.6 Reasons for recommended option:

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

1.7 Appendices:

Annex A: Self-assessment of Good Practice (March 2021) – from CIPFA, Audit Committees, Practical Guidance for Local Authorities and Police, published 2018

1.8 Contact officers:

Kevin McDonald (Acting Chief Internal Auditor) 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.

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) Review of Audit Committee Arrangements, Report prepared for Audit Committee, 25 March 2020
(e) The 'Our North Tyneside' Council Plan 2018/21,2018 (P)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

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

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

2.2 Legal

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

2.3 Consultation/community engagement

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

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

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

2.6 Risk management

Risks have been considered and there are no risks identified directly arising from this report.

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 Kevin McDonald

Audit Committee Arrangements: Initial Self Assessment of Good Practice (March 2021)
(taken from CIPFA, *Audit Committees, Practical Guidance for Local Authorities and Police*, published 2018)

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

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

	Good practice questions	Yes	Partly	No	Comments
Audit Committee purpose and governance					
1	Does the authority have a dedicated audit committee?	✓			Dedicated Audit Committee established as a full, politically balanced committee of Council. Agreed at meeting of Council on 21 January 2010 (Minute C109/01/10).
2	Does the audit committee report directly to full council? (Applicable to local government only.)		✓		There is a general provision in the Constitution that allows any committee of the Council to report matters up to full Council. An initial report (covering 2016/17) from the Chair of Audit Committee to Cabinet was prepared and presented to Cabinet in July 2017, however the work programme of the Audit Committee has not included this as a routine report. The previous review of Audit Committee arrangements, finalised in 2020, proposed that an annual report from Audit Committee is prepared for presentation to Cabinet, demonstrating how Audit Committee meets its Terms of Reference and providing a summary of the work of the committee during the year. It is intended that an annual report from Audit Committee, for the 2020/21 year, is prepared for presentation to Cabinet.

	Good practice questions	Yes	Partly	No	Comments
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓			The previous review of Audit Committee arrangements, finalised in 2020, identified an action to update Audit Committee's Terms of Reference, reflecting CIPFA's latest Position Statement on Audit Committees in Local Government. Necessary amendments to Audit Committee's Terms of Reference were proposed and agreed as part of the Annual Review of the Constitution at the annual meeting of Council in September 2020.
4	Is the role and purpose of the audit committee understood and accepted across the authority?		✓		This has been examined by the previous reviews of Audit Committee arrangements and demonstrated that the understanding of role and purpose was variable across the Authority at that time. It is hoped that the annual report from Audit Committee to Cabinet (as discussed at 2 above) will help improve understanding and a programme of communication and awareness raising with senior officers and appropriate elected members will be considered.
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			Members of Audit Committee are diligent in their reading of reports and this is reflected in debate within the Committee meeting itself. A range of appropriate and challenging questions are asked by Committee members to report authors. In addition the Annual Governance Statement is reviewed by the Committee each year.

	Good practice questions	Yes	Partly	No	Comments
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?		✓		See question 2 above. The previous review of Audit Committee arrangements, finalised in 2020, proposed that an annual report from Audit Committee is prepared for presentation to Cabinet, demonstrating how Audit Committee meets its Terms of Reference and providing a summary of the work of the committee during the year. It is intended that an annual report from Audit Committee, for the 2020/21 year, is prepared for presentation to Cabinet.

Functions of the committee

7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				
	▪ good governance	✓			
	▪ assurance framework, including partnerships and collaboration arrangements	✓			
	▪ internal audit	✓			
	▪ external audit	✓			
	▪ financial reporting	✓			
	▪ risk management	✓			
	▪ value for money or best value	✓			
	▪ counter-fraud and corruption.	✓			
	▪ supporting the ethical framework	✓			

	Good practice questions	Yes	Partly	No	Comments
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓			See questions 3 and 6 above. The detailed review led by the Chair of Audit Committee, undertaken in 2019/20, assessed these requirements specifically. The Terms of Reference for Audit Committee were subsequently amended as part of the Annual Review of the Constitution at the annual meeting of Council in September 2020. This has been evaluated as part of this self-assessment and is also considered as part of the preparation of the work programme for Audit Committee, considered by Audit Committee in March each year.
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	✓			This was considered in some detail during the Review of Audit Committee Arrangements completed in 2020. The Chair of Audit Committee engaged with serving elected members of Audit Committee on an individual basis, in addition to senior officers. Our Audit Committee arrangements were examined and possible wider areas for inclusion within Audit Committee's programme of work were discussed.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	✓			See questions 3 and 7 above. Necessary amendments to Audit Committee's Terms of Reference were proposed and agreed as part of the Annual Review of the Constitution at the annual meeting of Council in September 2020, following actions identified in March 2020.
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓			

	Good practice questions	Yes	Partly	No	Comments
Membership and support					
12	Has an effective audit committee structure and composition of the committee been selected? This should include:				
	▪ separation from the executive	✓			
	▪ an appropriate mix of knowledge and skills among the membership	✓			
	▪ a size of committee that is not unwieldy	✓			
	▪ Consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement).	✓			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or as appropriate for the organisation?	✓			Yes. The positions of co-opted Chair and Deputy Chair have a role definition, person specification, and qualifying criteria. The roles were advertised in local publications and on the internet in 2013. Appointments to the roles were made by means of competitive interview. The tenure of the postholders has been extended only with the express approval of full Council, as required by the Constitution.
14	Does the chair of the committee have appropriate knowledge and skills?	✓			The Chair of Audit Committee has extensive audit experience (as both a practitioner and recipient of audit services) and occupied a very senior role in the Financial Services sector before taking on the role of Chair of Audit Committee.
15	Are arrangements in place to support the committee with briefings and training?		✓		Improvements have been made regarding a structured induction to Audit Committee as part of the Members' Development Programme. The pandemic situation has precluded identified training / briefing sessions for Audit Committee from happening as planned during 2020/21, however a programme of appropriate briefings / training has been developed for Audit Committee during 2021/22.

	Good practice questions	Yes	Partly	No	Comments
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		✓		The latest CIPFA guidance on Audit Committees in Local Authorities (2018) includes a ‘core knowledge and skills’ framework’ for Audit Committee members. This framework and required knowledge and skills were discussed with Audit Committee members as part of the review undertaken during 2019/20, with no issues identified.
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			
18	Is adequate secretariat and administrative support to the committee provided?	✓			
Effectiveness of the committee					
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		✓		Undertaken as part of the 2015/16 review of audit committee effectiveness, but not subsequently. It is intended that an annual report from Audit Committee, for the 2020/21 year, is prepared for presentation to Cabinet.
20	Are meetings effective with a good level of discussion and engagement from all the members?	✓			

	Good practice questions	Yes	Partly	No	Comments
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?		✓		Audit Committee is not routinely attended by a wide range of leaders and managers. 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 during 2019/20. The Chief Executive plans to attend Audit Committee, to outline the work which he has commissioned regarding a full fundamental review of corporate risks. 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.
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	✓			
23	Has the committee evaluated whether and how it is adding value to the organisation?	✓			Undertaken as part of the 2019/20 review of Audit Committee arrangements.
24	Does the committee have an action plan to improve any areas of weakness?	✓			Recommended actions were identified following the review of Audit Committee arrangements undertaken during 2019/20 and progress on all actions is detailed in this report. Action plans continue to be monitored to ensure all required actions are completed.
25	Does the committee publish an annual report to account for its performance and explain its work?		✓		See above (questions 2 and 6)

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