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North Tyneside Council

Audit Committee

14 March 2022

Wednesday, 23 March 2022 0.01 Chamber - Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY **commencing at 6.00 pm**.

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Circulation overleaf …

Members of the Audit Committee

Kevin Robinson (Chair)
Councillor Debbie Cox
Councillor Mrs Linda Arkley OBE
Councillor Linda Bell
Councillor John Stirling
Malcolm Wilkinson (Deputy Chair)
Councillor Janice Mole
Councillor Gary Bell
Councillor John O'Shea

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Audit Committee

Wednesday, 17 November 2021

Present: K Robinson (Chair)
M Wilkinson
Councillors Mrs L Arkley OBE, G Bell, L Bell, D Cox and J O'Shea

AC/26/21 Apologies for Absence

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

AC/27/21 Declarations of Interest and Dispensations

There were no Declarations of Interest or Dispensations reported.

AC/28/21 Minutes

Resolved that the minutes of the meetings held on 28 July, 22 September and 6 October 2021 be confirmed as a correct record and signed by the Chair.

AC/29/21 Key Outcomes from Internal Audit Reports issued between May 2021 and November 2021

Consideration was given to a report which set out the key outcomes from internal audit reports issued between May and November 2021 to enable the Committee to maintain an oversight of the emerging risks and governance issues as they arose during the year.

It was explained that there had been five reports finalised within the reporting period. Three of the reports had been given a significant assurance rating with the remaining two given a limited assurance rating. No critical or high priority recommendations had been issued. For each of the reports a level of assurance had been identified and a series of recommendations made, examples of good practice identified and where appropriate the progress made by management in relation to the issues identified had been outlined.

Members queried the medium priority awarded in relation to the back up of Log-Point data and the potential loss of data. It was explained that the issue only related to one out of three machines and had therefore been classed as a medium risk. The Acting Chief Internal Auditor undertook to check that he remained comfortable with the risk level.

Clarification was also sought in relation to the report that invoices for school meals had not been raised in a timely manner. It was explained that the implementation of a new system would address concerns. Reference was also made to delays in invoicing and debt recovery whilst the pandemic had been ongoing and it was explained that a conscious decision had been made to suppress debt recovery during this period although normal recovery processed had now been re-commenced.

Reference was also made to the checks in place in relation to the Covid-19 business grants scheme. It was explained that work was ongoing to sift information to identify any fraudulent activity. It was also explained that Economic Development and Finance had worked very closely with Internal Audit in the early stages of the business grants scheme to ensure probity and that suitable systems were in place to try to prevent fraud in relation to the grants scheme and it was noted that the Authority was acting as a conduit for the disbursement of government monies rather than local authority monies. It was explained that an update would be provided to a future meeting of the Committee.

Resolved that the key findings, good practice identified and the management response to the internal audit reports issued between May and November 2021 be noted.

AC/30/21 Exclusion Resolution

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

AC/31/21 Strategic Audit Plan 2021/22 Interim Monitoring Statement

Consideration was given to a report which provided a half yearly update on the Strategic Audit Plan 2021/22. Clarification was provided on a number of the elements in the report.

Resolved that the progress set out in the monitoring statement and the planned levels of coverage achieved by Internal Audit at this stage of the year be noted.

North Tyneside Council

Provisional Audit Planning Report

Year ended 31 March 2022

March 2022

EY

Building a better working world

Private and Confidential

March 2022

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

Dear Audit Committee Members

Provisional audit planning report

We are pleased to attach our provisional audit planning report which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the committee's expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for North Tyneside Council (the Council), and outlines our planned audit strategy in response to those risks. Our audit planning process is still underway and, if there are any significant changes to our audit strategy as a result of this process, we will provide updates of any material changes to the Audit Committee.

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

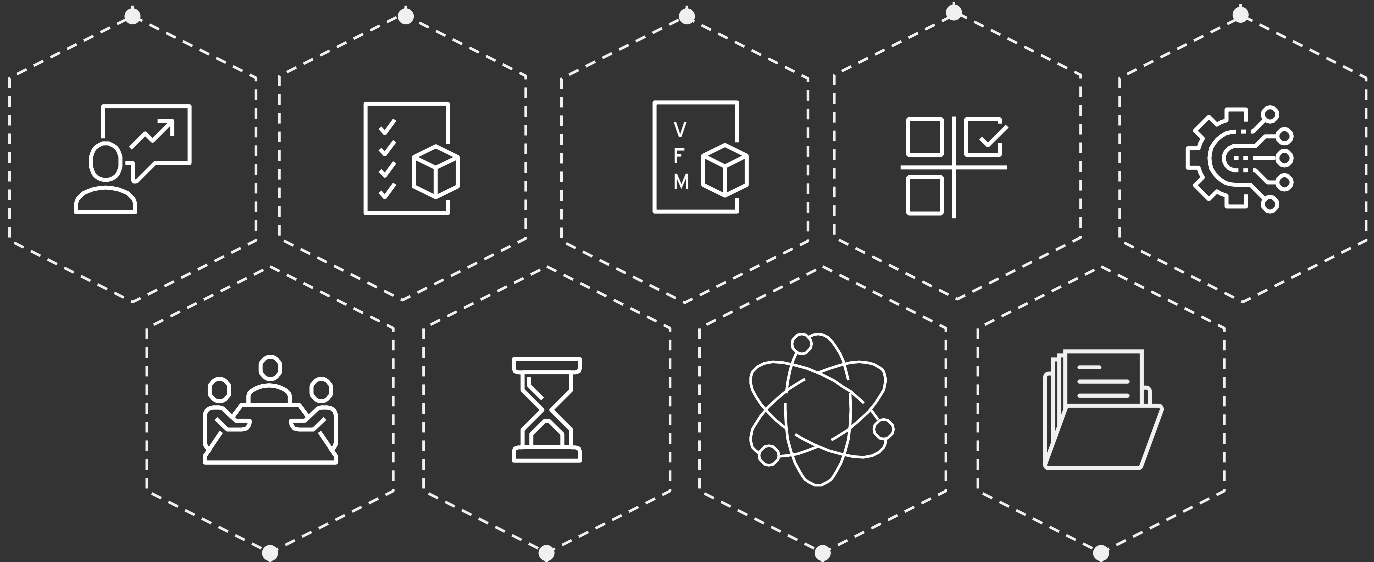
We welcome the opportunity to discuss this report with you on 23 March 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Stephen Reid, Partner

For and on behalf of Ernst & Young LLP

Contents



01 Overview of our 2021/22 audit strategy

Overview of our 2021/22 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition – inappropriate recognition of grants with terms and conditions attached, inappropriate capitalisation of revenue expenditure and omission of expenditure from the financial statements (Group and Council)	Fraud risk / Significant risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Our judgement is that the significant risk at the Council relates to the improper recognition of grants with terms and conditions attached, the improper capitalisation of revenue expenditure and the omission of expenditure from the financial statements. We will therefore target our audit work in these areas.
Misstatements due to fraud or error (Group and Council)	Fraud risk / Significant risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Valuation of land and buildings held at existing value (Group and Council)	Inherent	Decrease in risk or focus	Our experience from the audit of property valuations, is that there is a greater likelihood of uncertainty in valuations of assets held at existing use value; however, as we did not identify any significant issues during our audit work in 2020/21, and there is no change to the valuation process for 2021/22, we consider the valuation of these assets to represent a higher inherent risk of material misstatement to the financial statements, rather than a significant risk.

Page 11

Overview of our 2021/22 audit strategy

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Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of land and buildings held at depreciated replacement cost (Group and Council)	Inherent risk	No change in risk or focus	The value of land and buildings held at Depreciated Replacement Cost represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. We recognise that there are fewer assumptions used in the valuation of assets held at depreciated replacement cost, rather than open market value, and have revisited our risk assessment for these assets.
Pension liability valuation (Group and Council)	Inherent risk	No change in risk or focus	The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions can have a material impact on the balance sheet.
Financial Statement Close Process (Group and Council)	Inherent risk	New risk for 2021/22	As part of our 2020/21 audit we identified that there were a large volume of manual material adjustments made by management, outside of the general ledger, as part of the financial statement preparation process. As these adjustments are not subject to the same processes and controls as transactions posted in the general ledger, there is an increased risk of error.

Overview of our 2021/22 audit strategy

Materiality

Planning materiality

£12.5M

Group materiality has been set at £12.5 million, which represents 1.8% of the prior years gross expenditure on provision of services for the Group.

Performance materiality

£6.2M

Performance materiality has been set at £6.2 million, which represents 50% of planning materiality. This is a lower threshold than 75% of planning materiality used in 2020/21, and is reflective of the volume of errors identified during the audit of the 2020/21 financial statements.

Audit differences

£0.6M

We will report all uncorrected misstatements relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and the collection fund greater than £0.6 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2021/22 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 3.

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

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

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

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

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

Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2021/22 audit strategy

Audit scope – Group audit

Our Group scoping procedures are still underway but we expect that, given the reduction in our performance materiality thresholds for 2021/22, there will be balances from the subsidiary entities that will be material to the Group financial statements.

Where this is the case, we will assign the company a 'specific scope' for the Group engagement and test those balances material to the Group financial statements before we issue our Group audit opinion.

Value for money conclusion

We include details in Section 3 but in summary:

- We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on value for money, and the associated risk assessment, is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will provide a commentary on the Council's arrangements against three reporting criteria:
  - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
  - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
  - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Timeline

The Ministry of Housing, Communities and Local Government established regulations to extend the target date for publishing audited local authority financial statements from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years).

In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited financial statements to 30 November for 2021/22.

We are working with the Council to deliver the audit ahead of 30 November 2022. In Section 7 we include a provisional timeline for the audit.

02 Audit risks

Our response to significant risks

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

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

Financial statement impact

Misstatements that may occur in relation to the assessed risk of fraud in revenue and expenditure recognition affect the following accounts. These accounts had the following values in the 2012/21 financial statements:

- Grants credited to services: £342.6 million
- PPE additions: £41.1 million
- Gross expenditure: £692.9 million
- Provisions: £12.9 million

What is the risk?

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

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

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

What will we do?

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

- Test a sample of grant income to underlying evidence of award to check that revenue has been recognised in line with any terms and conditions attached to the funding
- Test a sample of capital additions recognised in year to ensure that they are capital in nature and should not have instead been recognised as expenditure in the Comprehensive Income and Expenditure Statement
- Review a sample of expenditure transactions recorded in the ledger and payments made from bank accounts post year-end and confirm that the associated expenditure has been recorded in the correct period
- Consider the completeness of provisions in the financial statements based on our review of Council and committee meetings and discussions with management

Our response to significant risks (continued)

Misstatements due to fraud or error*	What is the risk?	What will we do?
	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	▶ Identifying fraud risks during the planning stages ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks ▶ Understanding the oversight given by those charged with governance of management's processes over fraud ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud ▶ Determining an appropriate strategy to address those identified risks of fraud ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ Assessing accounting estimates for evidence of management bias ▶ Evaluating the business rationale for significant unusual transactions

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Land and Buildings Land and buildings represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We plan to perform the following procedures to address the risk: ▸ Consider the work performed by the Council's valuer, Capita, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work ▸ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) ▸ Consider the annual cycle of valuations to ensure that land and buildings assets have been valued as part of a five-year rolling programme as required by the CIPFA Code of Practice ▸ Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated ▸ Consider changes to useful economic lives as a result of the most recent valuation ▸ Test accounting entries have been correctly processed in the financial statements

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Pension liability valuation The Local Authority Accounting Code of Practice and IAS 19 requires the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Tyne and Wear Pension Fund. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021, this totalled £557.9 million. The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt. Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We plan to perform the following procedures to address the risk: ▶ Liaise with the auditor of the Tyne and Wear Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council ▶ Assess the work of the Pension Fund actuary (Aon) including the assumptions they have used by relying on the work of PWC, Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team ▶ Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19 This programme of work will also apply to the unfunded Teachers Pension element of the Local Government Pension Scheme liability.
Financial statement close process As part of our 2020/21 audit we identified that there were a large volume of manual material adjustments made by management, outside of the general ledger, as part of the financial statement preparation process. As these adjustments are not subject to the same processes and controls as transactions posted in the general ledger, there is an increased risk of error. We also note that the volume of these adjustments means that we are unable to apply our new digital audit approach which would allow us to analyse the financial statements, using whole populations of data, and focus our substantive testing on those areas with more judgement and risk.	We plan to perform the following procedures to address the risk: ▶ Select a sample of adjustments to understand the rationale for the adjustment, the reasons for it not being processed within the general ledger and test the appropriateness of the adjustment to underlying corroborative evidence ▶ Compare the adjustments made as part of the preparation of the 2021/22 financial statements to the adjustments made in 2020/21 to assess the completeness of the financial statements

03 Value for Money Risks

Value for Money

Council's responsibilities for value for money

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

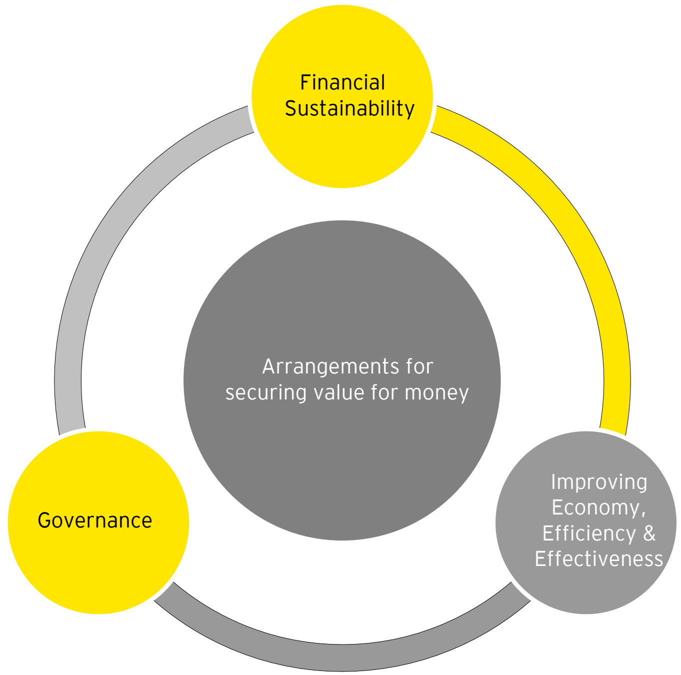
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

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

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period
- Evidence obtained from our work on the financials statements
- The work of inspectorates and other bodies
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation
- Leads to – or could reasonably be expected to lead to – unlawful actions
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts
- The impact of the weakness on the Council's reported performance
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned
- Whether any legal judgements have been made including judicial review
- Whether there has been any intervention by a regulator or Secretary of State
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue
- The impact on delivery of services to local taxpayers
- The length of time the Council has had to respond to the issue

Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2021/22 VFM planning

We have yet to complete our detailed VFM planning. However, one area of focus will be on the arrangements that the Council has in place in relation to financial sustainability – including the impact of Covid-19 on the medium term financial planning.

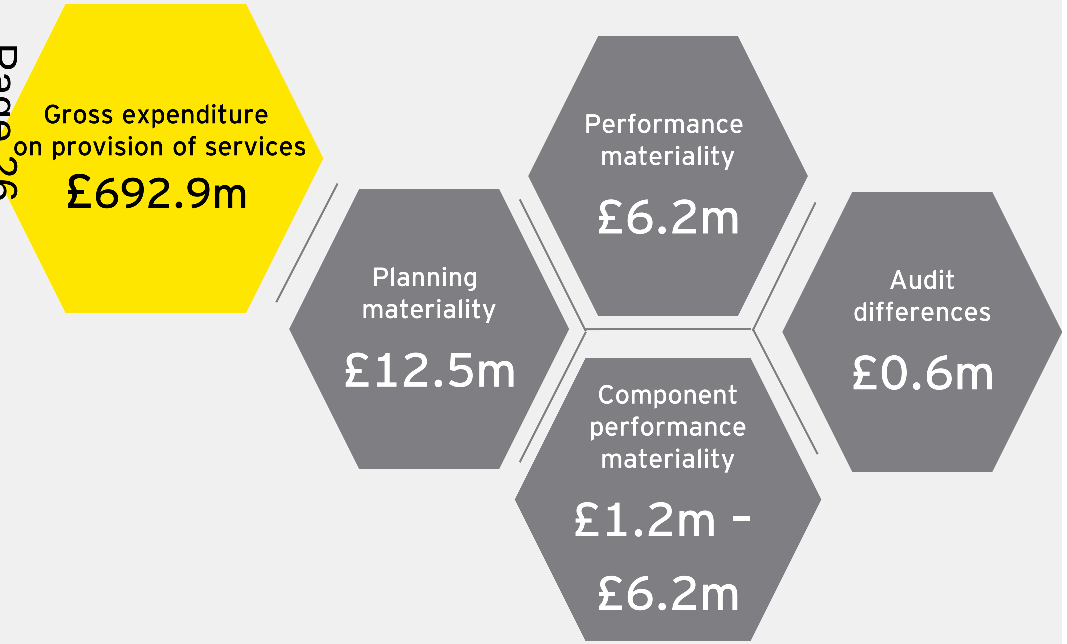
We will update the next Audit Committee meeting on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £12.5 million. This represents 1.8% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £6.2 million which represents 50% of planning materiality. We have used a threshold of 50% as, based on the volume of errors identified during the audit of the 2020/21 financial statements, we have an expectation that we will identify errors as part of our 2021/22 audit work.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and the collection fund greater than £0.6 million.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

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

Specific materiality – We have set a materiality of £1,000 for remuneration disclosures, members' allowances and exit packages which is the level of rounding in the financial statements reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these.

Materiality

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

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO

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

As outlined in Section 3, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

We note that, due to the high volume of adjustments made outside of the General Ledger, we are unable to follow our new digital audit methodology which would allow us to gain greater insight into the transactions and balances of the financial statements.

Internal audit

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

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.

Entity	Scope
Council	Full scope audit
North Tyneside Trading Co. Ltd. (Hold Co)	Review scope audit
North Tyneside Trading (Consulting) Co. Ltd	Dormant - Review scope audit
Aurora Properties (Rental) Ltd	Dormant - Review scope audit
North Tyneside Trading Development Co. Ltd (Dev Co)	Specific scope audit
Aurora Properties (Sale) Ltd	Specific scope audit

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

06 Audit team

Audit team

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

Use of specialists

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

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

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

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

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

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22. From time to time, matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning - Risk assessment and setting of scopes. Walkthrough of key systems processes	**March**	Audit Committee	Audit Planning Report
Interim audit testing	April		
	May	Audit Committee	Audit status update (if required)
	June		
Year end audit testing	**July**	Audit Committee	Audit status update (if required)
Year end audit testing continued	**August - October**		
Audit Completion procedures	November	Audit Committee	Audit Report Audit Results Report

At the time of writing this report, we have not yet agreed the detailed audit timetable with management for the 2021/22 audit. We note that it is not our expectation that we will have staff assigned to the audit throughout the whole of the period July to November but, we will agree specific timings with management following our debrief on the 2020/21 audit process.

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit/additional services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ► An opportunity to discuss auditor independence issues.

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, our invoice for our assurance work on the 2019/20 pooling return, issued in November 2021, remains outstanding.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 1.1:1. No additional safeguards are required. A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

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

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021: https://www.ey.com/en_uk/about-us/transparency-report-2021

09 Appendices

Fees

A breakdown of our fees is shown in the table below.

	Planned fee 2021/22*	Final fee 2020/21
	£	£
Total Fee – Code work (Base Fee)	165,750	162,500
Total Fee – Code work (Variation) Note (1)	TBC	9,300
Total Audit fee		**171,800**
Total Fee – North Tyneside Trading Company and subsidiaries Note (2)	TBC	TBC
Total additional group fees		**TBC**
Non-audit work – Housing Benefit certification	13,056	12,800
Non audit-work – Other certification work	10,710	10,500
Total other non-audit services	**23,300**	**23,300**
Total fees	**TBC**	**TBC**

All fees exclude VAT

A 2% inflationary uplift has been applied to the 2021/22 fees in line with our Engagement contract.

The agreed fee presented is based on the following assumptions:

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

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

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

Notes

(1)The 2020/21 the variation to the base fee related to impact of the Covid-19 pandemic and the additional audit procedures that we were required to undertake to issue our audit opinion including assessing the accounting treatment for the new Covid funding streams. We note that in 2021/22 we are likely to have to undertake additional audit work, due to the reduction in materiality levels, and we will agree the impact of this on the fee with management.

(2) We note that the activity of the subsidiary entities is increasing and more complex judgements are required in the production of the financial statements, such as the valuation of work in progress for the properties under construction. In addition, the new auditing standards for going concern and estimates will also apply to these entities. We will discuss the impact of these factors on the fees with subsidiary management and seek approval from the subsidiary Boards. We are currently finalising our 2020/21 audit of the subsidiary entities and will confirm the final fee as part of this work.

Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Engagement Contract
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	Engagement Contract
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report
Fraud	▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit Committee responsibility	Audit results report
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report and Audit Results Report
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit results report
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report

Appendix B

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Group audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit planning report Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report Audit results report

Appendix C

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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

EY | Assurance | Tax | Transactions | Advisory

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ED None

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North Tyneside Council

Auditor’s Annual Report
Year ended 31 March 2021

7 March 2022

Building a better working world

Contents

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

Executive Summary: Key conclusions from our 2020/21 audit

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 2021 and of its expenditure and income for the year then ended. The financial statements were prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 10 February 2022.
Going concern	We concluded that the Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements was appropriate.
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 4.
Consistency of the Annual Governance Statement	We were satisfied that the Annual Governance Statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance communicating significant findings resulting from our audit.	We presented a draft Audit Results Report, dated 14 September 2021 to the Audit Committee and issued an updated version upon conclusion of the audit.
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 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

Fees

Our final fees were reported in our Audit Results Report, dated 14 September 2021. We agreed uplifts to the base audit fee to take account of:

- new auditing standards for estimates and going concern; and
- the new requirements of the National Audit Office Code of Practice.

We would like to take this opportunity to thank the Council 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 and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan presented to the Audit Committee on 26 May 2021. We have complied with the National Audit Office's (NAO's) 2020 Code of Audit Practice, International Standards on Auditing (UK) and other guidance issued by the NAO.

As auditor we are responsible for:

Expressing an opinion on:

- the 2020/21 financial statements;
- conclusions relating to going concern; and
- the consistency of other information published with the financial statements, including the Statement of Accounts 2021.

Reporting by exception:

- if the Annual Governance Statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- if we identify a significant weakness in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, Statement of Accounts 2021 and Annual Governance Statement. It 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

We issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

The Annual Report and 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.

On 10 February 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 14 September 2021 Audit Committee meeting and issued an updated report on conclusion of our audit. We outline below the key issues identified as part of our audit reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We did not identify any instances of management override of controls during the course of our audit work. We did, however, identify one transaction where management had incorrectly accounted for the release of a provision from 2019/20. This was included as an unadjusted misstatement in our Audit Results Report. As part of our audit procedures, we also identified that a retrospective review of journals greater than £500,000 is performed; however we recommended that journals of this magnitude should be reviewed before being posted to the general ledger
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. Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, the potential improper capitalisation of revenue expenditure and the omission of expenditure from the financial statements.	We identified one material error during the course of our work, which was adjusted for by management in the final version of the financial statements. Income and expenditure in the financial statements were overstated by £22.8 million as a result of Covid-19 funding received from central government on an agency basis being incorrectly included in the Comprehensive Income and Expenditure Statement.

Financial Statement Audit (continued)

Significant Risk	Conclusion
Valuation of land and buildings held at open market value The value of land and buildings represents a significant balance in the Council's financial statements. Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Our assessment is that there is a greater likelihood of uncertainty in valuations of assets held at open market value and therefore we attach our significant risk to these assets.	Overall we were satisfied that the valuation of these assets was within an acceptable range.

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
Valuation of land and buildings held at Depreciated Replacement Cost The value of land and buildings held at Depreciated Replacement Cost represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges.	Overall we were satisfied that the valuation of these assets was within an acceptable range.
Pension liability valuation The Council's pension fund deficit is a material estimated balance and there is a requirement that this liability is disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt. Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf.	Following a review of investment performance of assets held by the Tyne and Wear Pension Fund, management engaged their actuary, to revisit the calculation of the LGPS Pension Liability. This resulted in a reduction of £37.5 million which was adjusted in the financial statements. We also noted that the auditor of the Tyne and Wear Pension Fund identified that assets in the Pension Fund financial statements had been overstated by £30.7 million. The Council Group share of this error was in the region of £2.9 million.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
Going Concern Compliance with ISA 570 This auditing standard was revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly thereafter. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern.	We concluded that management's use of the going concern basis of accounting was appropriate and recommended some updates to the disclosures in the financial statements.

Financial Statement Audit (continued)

Audit differences

In addition to the audit adjustments discussed on the previous slides, management also made the following agreed amendments to the financial statements:

- As part of our work on cash and cash equivalents we identified a number of short term deposits that did not meet the definition of a cash and cash equivalent in the CIPFA Code. The total value of these deposits was £17.5 million and management reclassified this balance to short term investments in the final draft of the financial statements.
- An adjustment of £41.2 million was made to the financial asset disclosures within the financial instrument note, as management had incorrectly omitted cash and cash equivalents and short term deposits from the analysis.
- We identified multiple errors in the exit packages and senior officer banding disclosures which were amended for in the final version of the financial statements. These issues were also present in the 2019/20 disclosure and, as these disclosures are material by nature, we requested that management amend the prior year comparatives.
- A number of other, more minor adjustments, were also made to the disclosures in the initial draft of the financial statements received for audit.

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 for the Group to be £12.9 million as 2% of gross revenue expenditure reported in the financial statements. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the committee all audit differences in excess of £0.64 million.

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

Section 4

Value for Money

Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 26 May 2021 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council / and committee reports, meetings with management and evaluation of associated documentation through our regular engagement with management and the finance team.

We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Reporting

We completed our planned VFM arrangements work by 30 September 2021 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

VFM commentary

We had no matters to report by exception in the audit report.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability
  How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance
  How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness:
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them.

The Council has the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

As is the case for all local government organisations, the Council is under pressure to deliver balanced budgets over the medium term and maintain levels of service. With the austerity measures and financial pressures unlikely to ease in the years ahead, the Council produced a three-year budget in 2019 which projected forward to 2022.

The impact of the Covid-19 pandemic, and resulting Government response, has heightened the need for up to date and timely forecasting. The Council has received new grant income funding streams to offset some of the burden of the pandemic in 2020/21, whilst reviewing the planned savings in year. The monthly evolution of the Budget and Financial Planning report demonstrates the focus of the Council on new financial challenges arising from the unforeseen Covid-19 pandemic that began in March 2020.

Through proactive management of the General Fund the Council was able to successfully manage its finances in 2021, and despite on-going funding reductions, continued cost pressures in respect of social care services and the significant impact of the Covid-19, the Council achieved a year end surplus of £2.5 million.

Financial sustainability (continued)

How the body plans to bridge its funding gaps and identifies achievable savings

Whilst central government provided the Council with significant levels of funding during 2020/21 to support the additional costs associated with the Covid-19 pandemic, they also set an expectation that councils should raise council tax and the adult social care precept by the maximum amount available to cover the financial gap. As a result, the Council chose to raise council tax by an additional 1.99% in the 2020/21 year and use the 3% adult social care precept increase to meet rising demand for social care, to close a £6.3 million funding gap expected in 2021/22.

The Council has a good a track record of achieving budget and takes a prudent approach to forecasting. We note that historically, deficits have been forecast throughout the year, but the year-end outturn position has always been a surplus.

Total useable reserves of the Council are £155.3 million. This not only demonstrates that there is a significant buffer against any financial uncertainty, but that the Council has in place strong budgetary controls across the directorates which ensures the Council has a healthy, sustainable budget based on good risk management.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

When developing the medium term financial plan the Council adopts a risk-based approach looking at relevant internal and external factors which may impact on the ability to provide services. For 2020/21 the matters considered included the risks associated with changes in government policy, the state of the economy, particularly the potential for downturns and the impact of Brexit, and demographic factors which may impact on the demand for services. Beyond this the Council also consider a host of other factors including supply chain issues, work force retention and recruitment and information governance risks.

These risks are managed on a continuous rolling basis in order to arrive at an overall risk score which reflects the potential size/significance of the risk and its likelihood. Action plans identifying further mitigating actions required are put in place to support continued delivery of services.

This process demonstrates that the Council has sufficient arrangements to both acknowledge and attempt to mitigate the impacts of these risks to ensure sustainable delivery of services.

Financial sustainability (continued)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The basis of consistent communication across the Council is through its process of reporting and meetings, which not only allows for the effective communication of quarterly financial planning and capital expenditure seen across the organisation, but also allows for challenge from the various representatives of the sections within the Council if certain plans are not congruent. The Audit Committee, Cabinet and Council meetings provide forums for such challenge and discussion. Before reports reach the presentation stage they are run by the various department heads to ensure that the information presented is correct.

Staff costs are a key expenditure stream for the Council and have a significant impact on its financial plans. The 2021-2024 Efficiency Programme takes into account workforce planning, to ensure that the work force can be adapted over the next four years, allowing the workforce to fulfil their potential and allow the recruitment of staff with the necessary skills required. Given that the Efficiency programme is interwoven into the Medium Term Financial Plan we are content that the Council has in place the necessary arrangements to ensure that its other plans are aligned with the financial constraints.

As part of the Capital / Treasury Strategy there is close working between finance and the various elements of the business. The capital programme ensures that the need for investment is identified as well as then ensuring there is sufficient review, approval and monitoring of any expenditure so that it is not in conflict with other areas of the business as well as funding capacities. Seeing capital expenditure being pushed back through reprogramming is also evidence of a strong and prudent environment around capital spending.

Financial sustainability (continued)

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

The Council has a robust process of review when it comes to the risks that it faces, in particular financial resilience. This is mandatory as a result of Section 25 of the Local Government Act 2003 which requires the Chief Finance Officer of the Authority to report on the robustness of the estimates made for the purpose of Budget and Council tax calculations, and the adequacy of the proposed financial reserves.

The foundation of the Council's risk identification and management process is its Strategic Risk register which includes, as one of its risks, finance and resourcing. Within this the Council acknowledges that there is a risk resulting from the significant historic reduction in local authority core funding, and the ongoing uncertainty of funding beyond 2020/21, which has been further exacerbated by the Covid-19 pandemic. This has been further compounded by patchwork funding for social care and the introduction of new funding formulas for schools and, at the same time, the demand for services for vulnerable adults and children continues to grow.

The risk register, and quarterly reviews and meetings, allow the Council to respond to any changes in demand and allow them to put in place mitigating factors which not only allow for oversight of any unplanned changes but form the basis of how the entity plans to act in order to remain financially resilient. During the Covid pandemic the Council also increased it's level of scrutiny, given how suddenly the risk landscape changed.

Whilst the 2021-2025 Medium-Term Financial Plan currently assumes no use of reserves to support the budget. The current plan maintains the Strategic Reserve at least at the planned level of £10million over the life of the plan.

The Council has the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks.

Governance

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

At the very core of its arrangements the Council has a Constitution which sets out the key responsibilities of elected officials, members and staff. In addition to this, it also has a host of policies which specify how they should behave in light of potential instances of fraud.

To support the upholding of the Constitution, the Council also has several committees. In particular the Overview, Scrutiny and Policy Development Committee assesses the robustness of the policies themselves and their implementation in light of the Constitution. In addition there is also the Appointments and Disciplinary Committee which enacts any necessary internal discipline if malpractice has been noted.

The Council also maintains a strategic risk register. The strategic risk register contains risks, including those influenced by external factors and internal risks which can stem from normal operations. These are monitored to ensure that the necessary internal controls are in place, with areas of improvement noted and action plans to ensure that the Council can continue to achieve its priorities.

We also note that counter-fraud activity is overseen by the Council's internal auditor and monitoring officer. Quarterly reporting on counter-fraud activity and risks is provided by internal audit to the Audit Committee.

How the body approaches and carries out its annual budget setting process

Each quarter, before the setting of budgets, the Budget sub-group of the Overview, Scrutiny and Policy Development Committee considers and scrutinises Cabinet’s approach to budget engagement and Cabinet’s initial budget proposals. Budgets and the Council Tax rates for the year are usually approved by Cabinet in January / February and budget performance is reported to the Audit Committee.

In setting the annual budget, the Council continues to face a number of significant financial pressures that existed before factoring in the impact of the Covid-19 pandemic.

The Council publishes it key budget and finance reports on its website: https://my.northtyneside.gov.uk/news/27823/budget-agreed-2021-2022

Governance (continued)

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

Financial performance is monitored on a monthly basis through the management accounts. All budget managers have access to real time financial information via the Council’s financial systems. Monitoring of financial performance is overseen by the Overview, Scrutiny and Policy Development Committee with higher-level reporting provided to Cabinet. Cabinet are provided quarterly updates on the Council's actual verses budgeted spend and the projected year end outturn.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance / audit committee.

In addition to Cabinet, the Council has a current total of 20 further committees, sub-committees, boards and panels which provide oversight of particularly elements of the internal control environment, including the Standards Committee, Audit Committee and Regulation & Review Committee. Each committee includes member / director representation to provide independent challenge of management, and is required to report to Cabinet / Council on the assurance received.

How the body monitors and ensures appropriate standards, such as meeting legislative / regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The Council has approved and adopted a Constitution, which is consistent with the principles of the Chartered Institute of Public Finance Accountants. The Council recognises that to fulfil its purpose, and deliver the intended outcomes for its citizens and service users, it needs to have in place comprehensive arrangements for corporate governance and accountability designed to ensure that it and its employees operate in an effective, efficient and ethical manner.

The Council has a wide range of HR policies covering expectations and requirements of staff. Failure to adhere to these policies can result in disciplinary procedures against individuals. This is overseen by the Overview, Scrutiny & Policy Development Committee.

The Council has the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement.

The Council Plan, 'Our North Tyneside 2020-2024' sets out the following three areas of focus:

1) Our People - how to improve the experience, health and wellbeing of the people in the area

2) Our Places - regenerating the local area to ensure that the physical infrastructure promotes the wellbeing of the citizens

3) Our Economy - growing local business to provide the conditions for employment for residents

The Council Plan sets out the overall vision and policy context within which the Financial Plan and Budget proposals will operate. The Council works to a clear set of priorities through the Council Plan and these priorities have formed the basis of the Framework for COVID-19 Recovery in North Tyneside. Ultimately, this plan sets out the key performance criteria upon which the Council is judged.

Each quarter, the Council reviews performance against the priorities set out in the Council Plan. This is then presented to Council, whereby the performance is open to challenge and thus enables the Council to identify areas for improvement.

How the body evaluates the services it provides to assess performance and identify areas for improvement

Where internal reporting or other sources (e.g. external inspections, whistleblowing etc.) identify performance concerns, responsible team leaders and management are challenged on the reasons for the underperformance, and the steps being taken to deliver improvements. Significant elements of underperformance are then escalated and reported to Cabinet as required.

The Council also has in place an internal audit function which is given specific areas to review and audit on an annual basis. The information detailed in this process is then taken to Audit Committee whereby areas of improvement are noted and challenges made of management.

The Council also has over 20 separate Committees, sub committees and panels. Part of their remit is to regularly monitor performance for service delivery in the provision of service within the Council in respect the Council's core functions set out in the Council Plan. This is then reported to Cabinet / Council on a regular basis which can then be acted upon if areas of improvement are identified.

From a political level the Councillors and the elected Mayor are also held accountable in local elections. Furthermore, the Council website allows its citizens to air their discontent and there is a residents panel which highlights the need for improvement in certain areas of service provision.

Improving economy, efficiency and effectiveness (continued)

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council understands the importance of working in partnership to achieve its goals. One of the most significant partnerships is the North of Tyne Combined Authority (NTCA) which was established in November 2018. This brings together the three councils which serve Newcastle, North Tyneside and Northumberland. NTCA works across the following three portfolios and work streams:

1. Transport (within North East Joint Transport Committee)
2. Employability and Inclusion
3. Economic development and regeneration

Finance and procurement is provided by North Tyneside Council, with legal and HR support and advice provided by Newcastle City Council in addition to IT support. The Leader and Deputy Leader of the Council are members of the NTCA cabinet and there is representation from the Council across the various committees.

The Council has a significant pooled budget arrangement with North Tyneside Clinical Commissioning Group. More specifically, the Better Care Fund was established by the Government to provide funds to local areas to support the integration of health and social care and to seek the achievement of national conditions and local objectives. The Council monitors and reports the amounts of expenditure through this arrangement. Decision making with regard to the Pooled Budget with the CCG feeds into the regular budgetary processes.

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

Services are not usually outsourced, with the exception being Capita and Equans who manage the housing and finance departments of the Council. Management receive regular reporting on the activities of these organisation, including financial and operational performance reporting.

Section 5

Other Reporting Issues

Other Reporting Issues

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 complies with relevant guidance.

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

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued.

We will liaise with the Council to complete this work as required.

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.

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.

Other Reporting Issues (cont'd)

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 have adopted a fully substantive approach and have therefore not tested the operation of controls.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
We recognise that the management continue to face challenges, including ongoing remote working, as a result of the Covid-19 pandemic but we encountered longer than expected delays in receiving some of the evidence to support the disclosures made in the financial statements and responses to queries in some areas. We also note that, in some areas, the quality of the evidence was not always at the level required.	The delays encountered were a significant factor in our inability to issue our audit opinion by 30 September 2021. We have suggested to management that a full debrief is held in preparation for 2021/22.
Multiple errors were identified during the audit of the officer remuneration and expenditure disclosures which resulted in amendments to the disclosures included in the draft 2020/21 financial statements presented for audit and also the 2019/20 comparatives. The main reasons for the errors were: • The 2019/20 officer remuneration note being prepared on an incomplete set of data. • The remuneration and exit packages note, including disclosure of individuals employed by VA and Trust schools, rather than the Council, which contradicts the requirements of the CIPFA Code. • The exit packages note being prepared on payments made through the relevant general ledger codes without liaison with the HR/payroll departments to determine the date that the exit package was agreed which is the point disclosure is required under the CIPFA Code.	We recommend that management revise the procedures for preparation of these disclosures, so that closer liaison with the HR/payroll departments is in place and more thorough quality assurance procedures are performed in this area before the statements are presented for audit.

Other Reporting Issues (cont'd)

Control Themes and Observations (cont'd)

Description	Impact
As a result of delays during the Covid-19 pandemic, a number of key Council policies, including whistleblowing and anti-bribery, have passed their date for review. We understand that plans are in pace to proceed with approval of updated policies in the medium term.	The formal written policies may not be in-line with best practice guidance or the actual operating procedures of the Council.
We recommend that management rebase the operator models for the schools and street-lighting PFIs and ensure that the accounting model reflects the changes to the operating model.	Rebasing the models would allow for more accurate management accounting and monitoring of the processes surrounding the PFI assets and liabilities.

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North Tyneside Council
Report to Audit Committee
Date: 23 March 2022

Accounting Policies to be used in the compilation of 2021/22 Annual Statement of Accounts

Report from Service:	**Finance**	
Responsible officer:	**Janice Gillespie, Director 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 2021/22' (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 2021/22 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 2021 to 31 March 2022.

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 2021/22 are attached as Appendix A.

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, Director of Resources, Tel 643 5701
Claire Emmerson, Senior Manager, Financial Strategy and Planning, Tel 643 8109

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 2021/22.

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 30 November 2022 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, Director 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 2021/22 financial year and its position at the year-end of 31 March 2022. The Authority is required to prepare an annual Statement of Accounts in accordance with proper accounting practices by the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (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 accrual 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

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 full 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

Benefits Payable during Employment

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

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

Termination Benefits

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

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

Post-Employment Benefits (Retirement Benefits)

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

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

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

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Commissioning 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.

Remeasurements comprising

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; and
- Contributions paid to the Tyne and Wear Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

Discretionary Benefits
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.

Impairment

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Depreciation

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

Deprecation is calculated on the following bases:

- Council Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer (generally 30-60 years);

- Vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset (generally 3-10 years); and

- Infrastructure – straight-line allocation over the useful life of the asset (generally 10-120 years).

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

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

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 2021/22.

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 19).

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

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

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and

- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment or revenue expenditure in the relevant service line of the Comprehensive Income and Expenditure Statement when the relevant works are eventually carried out.

18. Financial Instruments

Financial Liabilities

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

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

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

Financial Assets

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

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

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

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

Provisions

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.

Contingent Liabilities

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.

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

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

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).

Title: Annual Statement of Accounts 2021/22

North Tyneside Council
Report to Audit Committee
Date: 23 March 2022

Report from Service:	Finance	
Report Author:	Janice Gillespie, Director 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 2021/22 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 2021/22 accounts.

1.3 Council plan and policy framework:

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

1.4 Information:

1.4.1 The Chief Finance Officer is required, no later than 31 July 2022, to sign and certify that the draft Statement of Accounts present a true and fair view of the Authority's financial position for the year ended 31 March 2022. For 2021/22 the aim is to produce a set of draft accounts by the end of May as the statutory deadline reverts back to the end of May for the 2022/23 accounts. The audited set of accounts is required, no later than 30 November 2022, to be approved and subsequently published.

Update on the preparation of the 2021/22 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 2021/22 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 2021/22 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 Director of Resources reminding staff of the importance of meeting the final accounts deadlines.

1.4.4 As in 2020/21 group accounts will continue to be required for 2021/22 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.

1.4.7 Work is progressing towards meeting the deadlines that are required in order for the Authority to be able to publish the draft Statement of Accounts by 31 May 2022. 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 – Director 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 a draft Annual Statement of Accounts by 31 July 2022 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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North Tyneside Council
Report to Audit Committee
Date: 23 March 2022

Title: Review of Audit Committee Effectiveness

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 an updated 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 full review (2019/20) and self-assessment (2020/21) of Audit Committee arrangements to help ensure that all aspects of CIPFA's good practice can be reflected;
(c) agrees that the updated 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 This self-assessment, undertaken during March 2022, builds on the self-assessment undertaken during 2020/21 and demonstrates that our Audit Committee arrangements reflect the good practice areas recommended by CIPFA. Some areas for development identified previously, such as presentation of an Annual Report from Audit Committee to Cabinet, have been implemented throughout the financial year.

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 2022) – 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.

(a) Audit Committees, Practical Guidance for Local Authorities and Police, CIPFA, 2018 (P)
(b) North Tyneside Council Constitution, version 24, June 2021 (P)
(c) Review of Audit Committee Arrangements, Report to Audit Committee, 20 November 2019 (P)
(d) Review of Audit Committee Arrangements, Report prepared for Audit Committee, 25 March 2020 (**NB** meeting was cancelled due the pandemic)
(e) Review of Audit Committee Arrangements, Report to Audit Committee, 24 March 2021 (P)
(f) The 'Our North Tyneside' Council Plan 2021-2025, 2021 (P)
(g) Audit Committee Annual Report 2020/21, 18 October 2021 (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
Marc Oldham

Audit Committee Arrangements: Initial Self Assessment of Good Practice (March 2022)
(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 Annual Report for the 2020/21 financial year from the Audit Committee was presented to Cabinet at its meeting in October 2021 and this will continue to be an presented annually.
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓			A 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.

	Good practice questions	Yes	Partly	No	Comments
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. The Annual Report from Audit Committee presented to Cabinet in October 2021, reflected that steps had been taken to improve interaction between the Audit Committee Chair and the Senior Leadership Team (SLT), and there was now a regular programme of briefings between the Chair, Chief Executive, Chief Finance Officer and Chief Internal Auditor.
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?	✓			An Annual Report from the Audit Committee was presented to Cabinet in October 2021. The purpose of the report was to appraise Cabinet of the work performed by the Committee during 2020/21. The Annual Report helps to demonstrate how the Audit Committee meets its Terms of Reference, and enables Cabinet to challenge the performance of Audit Committee.
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 each 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. This is regularly considered by Audit Committee.
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?	✓			

Membership and support

	Good practice questions	Yes	Partly	No	Comments
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.

	Good practice questions	Yes	Partly	No	Comments
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 Chief Internal Auditor provided the Audit Committee with training before the first meeting of the financial year in May 2021, and this training will again be provided before the first meeting of the financial year in May 2022. The timing of this training has been scheduled to provide training to any new members of the Committee following appointments earlier in May each year, or and acts as refresher training for existing members. A briefing on the draft statement of accounts was also delivered to the Audit Committee at its meeting in July 2021, when the draft accounts were presented. Training and support requirements will continue to be kept under review.
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

	Good practice questions	Yes	Partly	No	Comments
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	✓			An Annual Report from Audit Committee, including a summary of work completed in year, was presented to Cabinet in October 2021. This provided Cabinet with the opportunity to offer feedback on the work and performance of the Audit Committee. The report was 'noted' by Cabinet and minutes of the meeting recorded the following as the reason for doing so: *"Reason for decision: Noting the Audit Committee Annual Report 2020/21 will demonstrate that Cabinet has received and considered the outcomes of the Audit Committee's review of its own effectiveness, which is good practice recommended by CIPFA; and will help to ensure that Cabinet is aware of the main governance matters which have been considered by Audit Committee in 2020/21."* In addition, it was also recorded in the minutes that: *"The Elected Mayor thanked Mr Robinson for attending Cabinet on behalf of the Audit Committee to present the Audit Committee's Annual Report 2020/21, and that Cabinet would welcome the Committee's future guidance and support, as appropriate."*
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. An Annual Report from Audit Committee was taken to Cabinet in October 2021, and highlighted that steps had been taken to improve interaction between the Chair and the Senior Leadership Team (SLT), including a regular programme of briefings with the Chief Executive, Chief Finance Officer and Chief Internal Auditor. The Chief Executive also attended Audit Committee in March 2021 to outline the work on a fundamental review of corporate risks that he had commissioned. The Annual Report also noted a further development opportunity (identified in earlier reviews of effectiveness), that it would welcome attendance of SLT members at Committee when relevant items of business were being considered.
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. Compilation of an Annual Report also enables the Committee to reflect upon its own performance against its objectives, and demonstrate the value added.

	Good practice questions	Yes	Partly	No	Comments
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?	✓			Yes, an Annual Report from Audit Committee was presented to Cabinet in October 2021.

North Tyneside Council
Report to Audit Committee
Date: 23 March 2022

Title: Proposed Audit Committee Work Programme 2022/23

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 2022/23, 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 2022/23,
(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 2022/23.

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 2022/23 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. In order to help with a sector wide resourcing and capacity issue, the Department for Levelling Up, Housing and Communities (DLUHC) has proposed extending the deadline for publishing 2021/22 audited local authority accounts to the end of November 2022. At the time of writing this is at consultation stage, but it is expected to be agreed and the work programme is reflective of this. However, should it not be agreed the deadline will remain at the end of September and an additional meeting of the Audit Committee will be scheduled. The deadline for publishing draft accounts, end of May 2022, remains the same in both circumstances.

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

Month	**Item of Business**
May 2022	<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>Counter Fraud</u> • Counter Fraud Annual Report <u>Finance</u> • Draft Statement of Accounts 2021/22 • Draft Annual Governance Statement (and supporting information) <u>External Audit</u> • External Audit Progress Report (if required)
July 2022	<u>Finance</u> • CIPFA Financial Management Code

Month	Item of Business
November 2022	<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> • Final Statement of Accounts • Annual Governance Statement <u>External Audit</u> • External Audit Results Report
March 2023	<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>Finance</u> • Report on accounting policies to be used in Compilation of Annual Statement of Accounts • Report on preparation of Annual Statement of Accounts 2022/23 <u>External Audit</u> • External Audit Planning Report 2022/23 • External Audit Annual Report 2021/22

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 24, June 2021 (P)
(b) Financial Regulations, version 7a, June 2021 (P)
(a) The Accounts and Audit Regulations 2015, April 2015 (P)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no direct financial implications arising from this report.

2.2 Legal

There are no direct legal implications arising from this report.

2.3 Consultation/community engagement

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

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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