

North Tyneside Council Provisional Audit Results Report

Year ended 31 March 2022

3 November 2022



Private and Confidential

3 November 2022

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

Dear Audit Committee Members

2021/22 Provisional Audit Results Report

We are pleased to attach our Provisional Audit Results Report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 16 November 2022 on further progress to that date and explain the remaining steps to the conclusion of the audit and issue of our opinion.

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

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

Yours faithfully

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

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

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



01 Executive Summary

Executive Summary

Scope update

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

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

To address this issue, there are two proposals being taken forward:

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

Neither of these proposals are expected to be confirmed until December 2022, with implementation of the required amended accounting by management in January 2023. One option to finalise the 2021/22 financial statements, which is being taken by some authorities, is for the auditor to include a 'limitation of scope' on infrastructure assets in the audit opinion. Council officers have confirmed they do not wish to proceed with a limitation of scope, which means that the Council's financial statements are unlikely to be finalised until February 2023.

Further information on this risk is included within section 2 of this report.

Executive Summary

Status of the audit

Our audit work in respect of the Council opinion remains ongoing due to delays in receipt of evidence throughout the audit, and the quality of the evidence received not always being of the required standard. Regular updates on these matters have been provided to management. The following items relating to the completion of our audit procedures were outstanding at the date of drafting of this report:

- Responses to outstanding queries on income, expenditure, debtors and creditors sample testing, including items selected during our interim audit visit;
- Testing of land and buildings valuation sample due to delays in receipt of information being provided by Capita;
- Receipt of assurances required from the Tyne and Wear Pension Fund auditor to conclude on our work on the LGPS liability;
- Testing of the Collection Fund;
- Testing of grant income;
- Receipt of settlement agreement to support exit package disclosures;
- Completion of going concern procedures;
- Update to value for money risk assessment;
- Update of amended accounting on infrastructure assets and completion of audit procedures;
- Final partner and senior manager review of the audit file; and
- Audit completion procedures and receipt of signed financial statements.

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

Executive Summary

Auditor responsibilities under the Code of Audit Practice 2020

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

The specified reporting criteria are:

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

Status of the audit – Value for Money

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

Audit differences

At the time of preparing this report, we have identified one material audit adjustment of £7.5m that has been agreed with management in relation to the incorrect classification of short term deposits as cash and cash equivalents.

We have also identified one judgemental audit difference of £1.5m which relates to a difference between our recalculated Teachers Pension Unfunded Scheme liability and that calculated by the actuary.

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

Executive Summary

Areas of audit focus

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

Risk of fraud in revenue and expenditure recognition

At the time of preparing this report, our work in this area is ongoing whilst we work through final remaining sample items. To date, we have identified £1.4 million of grant income which has been double counted in the financial statements and management have agreed to adjust for this in the final draft of the financial statements.

Misstatements due to fraud or error

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

Valuation of land and buildings held at open market value

Our work in this area is still ongoing as sample information requested on 1 September 2022 was received from the Capita team on 13 October 2022, approximately 5 weeks after the originally agreed due date.

Valuation of land and buildings held at depreciated replacement cost

Our work in this area is still ongoing as sample information requested on 1 September 2022 was received from the Capita team on 13 October 2022, approximately 5 weeks after the originally agreed due date.

Valuation of Local Government Pension Scheme liability

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

Financial Statement Close Process

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

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

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

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

Executive Summary

Other reporting issues

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

On page 6 of this report, we highlight the information required to allow us to conclude on our audit. The timescales required for completion of the required audit procedures, including agreeing a resolution to the treatment for infrastructure assets, mean that the financial statements are not likely to be ready for final approval until January / February 2023.

Control observations

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

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

Independence

Please refer to Section 8 for our update on Independence.



02 Areas of Audit Risk

Areas of Audit Risk

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

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

* Fraud risk

What is the risk?

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

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

What judgements are we focused on?

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

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

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

What did we do?

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

What are our conclusions?

Our work in this area is ongoing, due to delays in receiving the sample information and the quality of some evidence provided.

To date, we have identified £1.4 million of grant income which has been double counted in the financial statements and management have agreed to adjust for this in the final draft of the financial statements.

We will update the Committee on the status of this work at the meeting on 16 November 2022.



Areas of Audit Risk

Misstatements due to fraud or error (Significant risk)

Misstatements due to fraud or error*

* Fraud risk

What is the risk?

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

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

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

What judgements are we focused on?

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

What did we do?

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

What are our conclusions?

Our work in this area is still ongoing; however, at the time of preparing this report, we have identified one judgement taken by management that we wish to draw to your attention.

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

We will update the committee on the status of this work at the meeting on 16 November 2022.



Areas of Audit Risk

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

Valuation of land and buildings held at existing use value

What is the risk?

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

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

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

What judgements are we focused on?

Our work in this area focussed on:

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

What did we do?

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

What are our conclusions?

Due to the delay in receiving the evidence for our valuations sample from Capita, our work in this area is ongoing.

We will update the committee on the status of this work at the meeting on 16 November 2022.



Areas of Audit Risk

Infrastructure Assets (Significant risk)

Infrastructure Assets

What is the risk?

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

What judgements are we focused on?

Management has acknowledged that records on infrastructure assets are not sufficient to evidence compliance with the CIPFA Code for derecognition following replacement of a component part.

What did we do?

We discussed with management the options available for closing down the 2021/22 financial statements which include waiting for enhanced guidance from CIPFA through an update to the CIPFA Code of Practice on Local Authority Accounting and a statutory override being issued by the Department for Levelling up, Housing and Communities. We also discussed the possibility of issuing a limitation of scope on infrastructure assets as part of our audit opinion.

The limitation of scope opinion would highlight that we were unable to obtain sufficient appropriate audit evidence to support the value of the Infrastructure Assets in the financial statements. This is because the Council does not maintain accurate and current records to support the application of the applicable financial reporting framework to derecognise the gross cost and accumulated depreciation on infrastructure assets when a major part / component of that asset has been replaced or decommissioned.

What are our conclusions?

An update to the CIPFA Code of Practice on Local Authority Accounting and the enactment of a statutory override are not expected to be confirmed until December 2022 at the earliest, with implementation of the required amended accounting by management likely to be in January 2023.

One alternative option to finalise the 2021/22 financial statements, and allow more timely reporting, which is being taken by some authorities, is for the auditor to include a 'limitation of scope' on infrastructure assets in the audit opinion. Management has confirmed they do not wish to proceed with a limitation of scope, which means that the Council's financial statements are unlikely to be finalised until around February 2023.

Other areas of audit focus

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

What is the risk/area of focus?

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

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

Pension asset and liability valuation

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

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

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

What were our Conclusions?

Due to the delay in receiving the evidence for our valuations sample from Capita, our work in this area remains ongoing.

We will update the committee on the status of this work at the meeting on 16 November 2022.

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

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

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

Other areas of audit focus

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

What is the risk/area of focus?

Financial statement close process

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

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

What were our conclusions?

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

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



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

We will share a draft of our opinion following agreement of an approach to address the issues around infrastructure assets. If a limitation of scope on infrastructure assets is required, we will need to consult on the wording with our professional practice colleagues.



04 Audit Differences



Audit Differences

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

Summary of audit differences

At the time of preparing this report, we have identified the following material audit adjustment that has been agreed with management in relation to the incorrect classification of short-term deposits as cash and cash equivalents:

Dr Short-Term Investments £7.5 million
Cr Cash and Cash equivalents £7.5 million

We have also identified the following judgemental audit difference in relation to the element of Teachers Pension Unfunded liability which is above our usual tolerances when performing our roll forward procedures:

Dr Other Comprehensive Income £1.5m
Cr Local Government Pension Scheme Liability £1.5m

A number of other, more minor adjustments, have been made to the disclosures in the initial draft of the financial statements received for audit. Additionally, as we have yet to finalise our audit work we continue to discuss other potential adjustments required to the financial statements.



05 Value for Money



Value for money

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

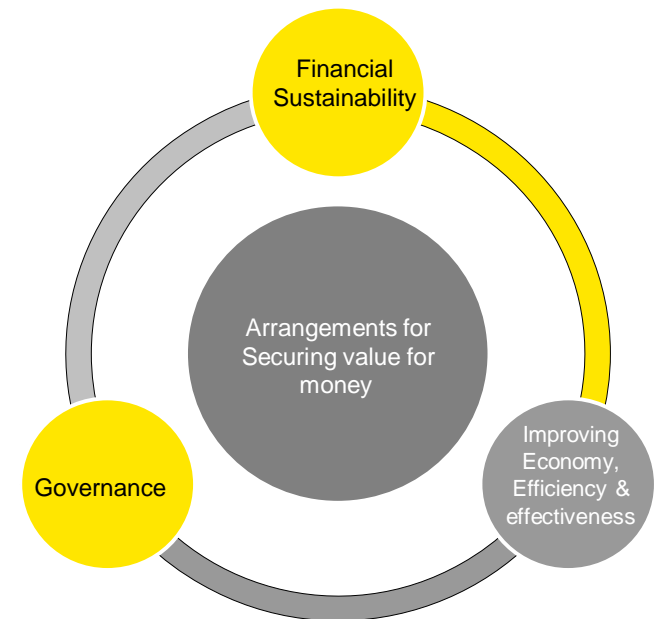
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

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

Risk assessment

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

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





06 Other reporting issues

Other reporting issues

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

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

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

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

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

Whole of Government Accounts

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

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

Other powers and duties

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



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

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

2021/22 control recommendations

Observation

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

Impact

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

Management comment

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



Assessment of Control Environment

Update on 2020/21 control recommendations

Observation

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

Observation

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

Impact

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

Impact

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

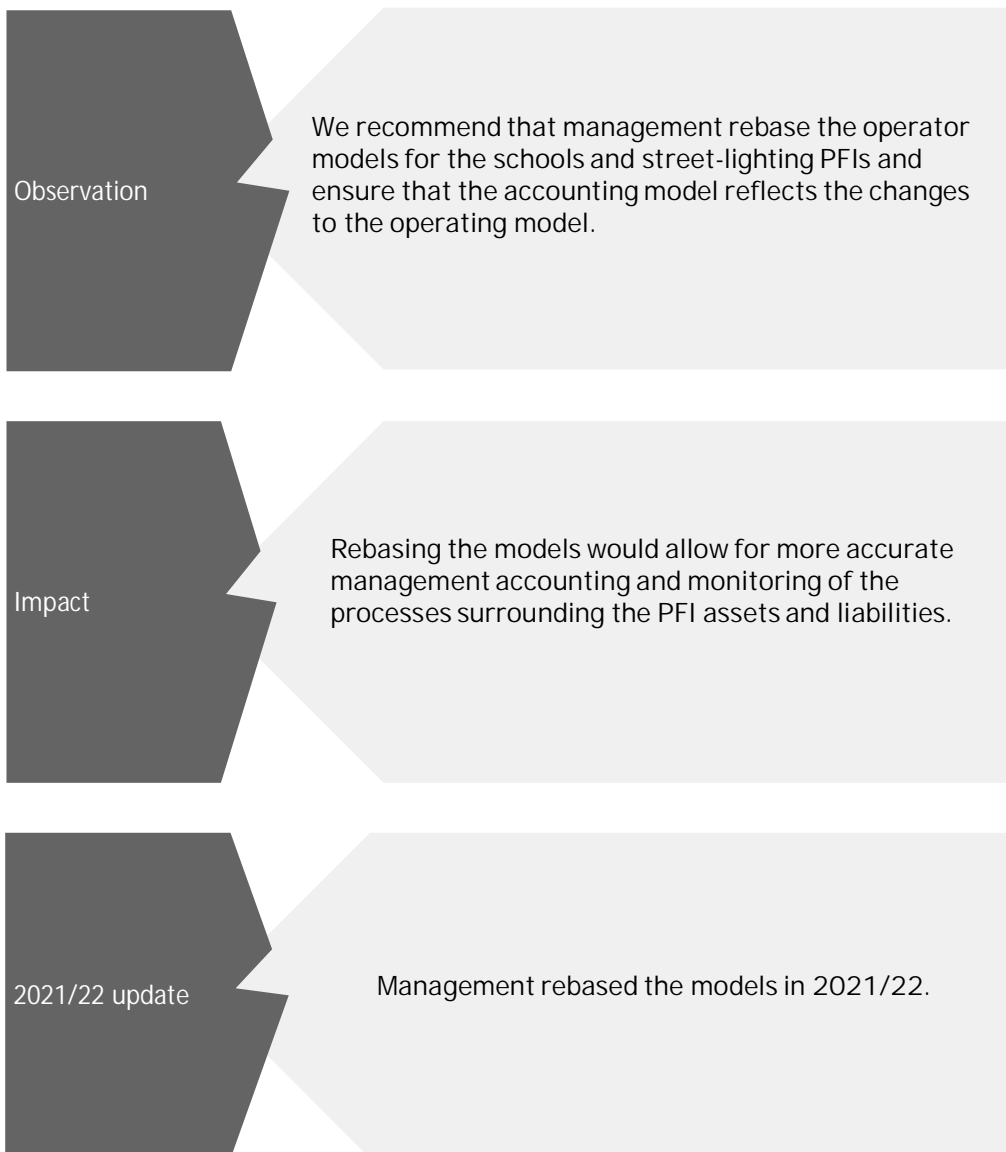
2021/22 update

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

2021/22 update

An update of key policies is still under way.

Update on 2020/21 control recommendations





08

Independence

Relationships, services and related threats and safeguards

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

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

Services provided by Ernst & Young

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

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

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

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

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

Notes

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

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

We note that in 2021/22 we have had to undertake additional audit work as a result of the following factors. Where quantified, we have set out the proposed value of scope variation that we are discussing with management:

- Data integrity issues and manual adjustments made outside of the ledger to prepare the Council's Comprehensive Income statement - £8,765
- Additional time due to delays in providing information / poor quality of evidence in some areas, resulting in three rounds of queries on some sample items and some matters are still not resolved - £18,845
- Additional time on the valuation of land and buildings as a result of the decision to revalue the full portfolio, rather than following the usual four yearly valuation cycle - £12,815
- Additional time will also be required to resolve the reporting of infrastructure assets and we will quantify this once we have agreed a way forward with management. We also note that, as our work is still ongoing, we may still identify other variations to our standard audit scope.

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

Other communications

EY Transparency Report 2021

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

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

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



09 Appendices

Audit approach update

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

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

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

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

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





Appendix B

Summary of communications




Date 	Nature 	Summary 
23 March 2022	Report	The provisional audit planning report, including confirmation of independence, was presented to the Audit Committee.
18 March 2022	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team for an audit status update meeting to refine the audit risks.
14 September 2022	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team for an audit status update meeting.
3 November 2022	Report	The Audit Update Report, including confirmation of independence, will be presented to the Audit Committee.
In addition, there was regular attendance at audit committee meetings throughout the financial year, including periodic liaison with the chair of the committee.		

Required communications with the Audit Committee





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

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

Appendix C

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





Appendix C

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

Appendix C

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

Appendix C

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



Appendix D

Management representation letter

Management Rep Letter

We will share a template of the representation letter which we are requesting management to sign prior to the conclusion of the audit.

Appendix E

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

Summary of key measures

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

Impact on North Tyneside Council

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

External resources

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

About EY

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

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