

## **Audit Committee**

**27 March 2019**

Present: Mr M Wilkinson (Chair)  
Councillors D Cox, N Craven, S Graham, J Harrison,  
A McMullen, J Mole and J Wallace.

### **AC30/03/19 Apologies**

An apology for absence was submitted on behalf of the chair, Mr K Robinson.

### **AC31/03/19 Substitute Members**

There were no substitute members reported.

### **AC32/03/19 Declarations of Interest and Dispensations**

Councillor S Graham declared a non-registerable personal interest in the following item as a family member was an employee of EY:

- Audit Planning Report.

### **AC33/03/19 Minutes**

**Resolved** that the minutes of the meeting held on the 21 November 2018 be confirmed as a correct record and signed by the Chair.

### **AC34/03/19 Results of Certification Works 2017/18 - Mazars**

The Committee was presented with a letter which provided the results of the certification works carried out during 2017/18 by Mazars, the Authority's external auditors. It was explained that the only return during 2017/18 related to the Housing Benefit subsidy. This return had been subject to an amendment and a qualification letter.

It was explained that during the testing process an error had been identified in one case where the state retirement pension had not been taken into account, following a change in circumstances, which had meant that the claimant was no longer entitled to full housing benefit. The Authority had identified where a similar situation had arisen and had corrected the error. It was explained that the matter had been included within the observations section of the qualification letter as the amendments had already been made within the housing benefits system.

The letter also set out the fees charged for providing this service.

**Resolved** that (1) the report be noted; and  
(2) The Committee's thanks be forwarded to Mazars for their work on behalf of the Authority and the Committee.

### **AC35/03/19 Audit Planning Report**

Consideration was given to a report which provided an update on the changes made in relation to the provision of an external audit service for the Authority. The report covered an overview of the 2018/19 audit strategy and identified a number of new risks which required consideration including whether there was a need to produce group accounts as a result of increased activity in the Authorities subsidiaries, the impact of the implementation of new accounting standards and financial sustainability. The report also advised the Committee that EY would be carrying out works to gain assurance that the opening balances were free from misstatement as this was the first year that they had carried out the Authority's external audit. It was also explained that further reports would be submitted on any audit differences of sums greater than the specified £0.29M where they warranted the attention of the Committee.

The report also set out the significant risks which had been identified for the current year's audit, the reason why the risks had been identified and the expected approach to the audit of those risks. It was noted that the risks identified in the report could change as a result of significant findings or subsequent issues being identified.

It was explained that the external auditors were required to consider whether the Authority has put in place proper arrangements to secure the economy, efficiency and effectiveness of its resources. Details of how EY would consider this were outlined.

The report also set out the timeline for the completion of the audit, the team which would be delivering the audit and how EY would make use of specialists in carrying out its work for the Authority including in relation to valuation of land and buildings, pensions and Private Finance Initiatives (PFI's).

Clarification was sought in relation to when it was likely that a decision would be made on the need for a group financial statement to be prepared. It was explained that EY were in discussions with the Authority and once a decision had been reached a report would be presented to the Committee.

Reference was made to the recent bad press that external audit firms had been subjected to and clarification was sought on how the Committee could be reassured. It was explained that there was an expectation that there would be changes to the audit sector in the near future. In respect of North Tyneside it was explained that quality monitoring had been included in the tender process and that EY had a team in place which understood the local government sector and it had a critical mass on the ground. Reference was also made to the transparency report which would be circulated to members

**Resolved** that the report be noted

### **AC36/03/19 Annual Statement of Accounts 2018/19**

Consideration was given to a report which provided an update on the preparation of the 2018/19 annual statement of accounts. It was explained that detailed guidance notes had been published to remind officers of the deadlines and to provide advice on where to raise any concerns.

It was also explained that the team was working closely with the new External Auditors to understand their approach to the audit of the Authority's accounts and to understand their working paper requirements.

Reference was also made to the assessment of whether there was a need for group accounts to be prepared in relation to the trading company for 2018/19. It was also explained that regular meetings with Valuation had been carried out due to the high value of the assets and the changes in valuation techniques, especially in relation to the Authority’s schools.

**Resolved** that the work in respect of the closure of the 2018/19 accounts be noted

**AC37/03/19 Accounting Policies**

Consideration was given to a report which set out the accounting policies to be used in the compilation of the annual statement of accounts. It was explained that in the annual Audit Committee statement of accounts the Authority was required to disclose how the accounting statements had been prepared. The accounting policies explained the basis for the recognition, measurement and disclosure of transactions in the accounts.

It was explained that changes to the accounting policies would only be made if the change was required by the Code of Practice on Local Authority Accounting in the UK or it would result in the statements providing more reliable or relevant financial information.

Details of the proposed changes and the reasons for the changes were set out.

**Resolved** that the Accounting Policies to be adopted by the Authority and used to compile the Annual Statement of Accounts for the financial year 1 April 2018 to 31 March 2019 be endorsed.

**AC38/03/19 Proposed Audit Committee Work Programme 2019/20**

Consideration was given to a report which set out a proposed programme of core business to be considered by the Committee during 2019/20 to ensure that it was able to discharge its duties effectively and efficiently. It was noted that there were a number of items which had to be dealt with at a specific time during the financial year whilst others could be considered as and when required.

Month	Item of Business
<b>May 2019</b>	<p data-bbox="384 1581 911 1619"><u>Internal Audit and Risk Management</u></p> <ul data-bbox="432 1621 1497 1921" style="list-style-type: none"> <li data-bbox="432 1621 1353 1693">• Annual Report from Chief Internal Auditor and Opinion on the Framework of Governance, Risk Management and Control</li> <li data-bbox="432 1695 1465 1769">• Final Outturn Report (showing performance in achieving the previous year’s Strategic Audit Plan)</li> <li data-bbox="432 1771 1497 1883">• 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)</li> <li data-bbox="432 1886 855 1921">• Risk Management Update</li> </ul> <p data-bbox="384 1957 501 1995"><u>Finance</u></p> <ul data-bbox="432 1998 1414 2036" style="list-style-type: none"> <li data-bbox="432 1998 1414 2036">• Draft Annual Governance Statement (and supporting information)</li> </ul> <p data-bbox="384 2072 588 2110"><u>External Audit</u></p>

	<ul style="list-style-type: none"> <li>• External Audit Progress Report</li> <li>• External Audit Fee Letter (including Terms of Engagement)</li> </ul>
<b>July 2019</b>	<p><u>External Audit</u></p> <ul style="list-style-type: none"> <li>• Audit Completion Report (annual governance report)</li> </ul> <p><u>Internal Audit and Risk Management</u></p> <ul style="list-style-type: none"> <li>• Annual Review of Audit Committee Effectiveness</li> </ul>
<b>November 2019</b>	<p><u>Internal Audit and Risk Management</u></p> <ul style="list-style-type: none"> <li>• Interim Outturn Report (showing profiled performance against the Strategic Audit Plan)</li> <li>• 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)</li> <li>• Risk Management Update</li> </ul> <p><u>Finance</u></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement Update (progress on previously identified actions and agreeing methodology for coming year)</li> <li>• Report on preparation of Annual Statement of Accounts 2019/20</li> </ul> <p><u>External Audit</u></p> <ul style="list-style-type: none"> <li>• Annual Audit Letter</li> <li>• Grants Report</li> <li>• External Audit Progress Report</li> </ul>
<b>March 2020</b>	<p><u>Internal Audit and Risk Management</u></p> <ul style="list-style-type: none"> <li>• Strategic Audit Plan (for the forthcoming financial year)</li> <li>• Annual Audit Committee Work Programme</li> </ul> <p><u>Finance</u></p> <ul style="list-style-type: none"> <li>• Report on accounting policies to be used in Compilation of Annual Statement of Accounts</li> <li>• Report on preparation of Annual Statement of Accounts 2019/20</li> </ul> <p><u>External Audit</u></p> <ul style="list-style-type: none"> <li>• Audit Strategy Memorandum (audit plan)</li> </ul>

It was noted that the above list was not exhaustive and items could be added to or removed from the list as business dictated.

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

**Resolved** that (1) the proposed core business work programme for 2019/20 be agreed; (2) it be noted that it may be necessary to change or adapt the proposed reports to be considered by the Committee to ensure optimum timing of consideration of governance issues and to respond to emerging trends during the year; (3) it be noted that additional reports may be received on ad-hoc items of business which arose during the course of the year; (4) a background report be presented on the annual review of the effectiveness of the Committee to progress to the July meeting

### **AC39/03/19 Strategic Audit Plan 2019/20**

Consideration was given to a report which outlined the planned work of the internal audit section over 2019/20. It was explained that internal audit had carried out an assurance mapping exercise of the key risks facing the authority.

It was explained that the Strategic Audit Plan outlined the approach taken to risk management and audit planning, the respective roles of management and internal audit in relation to internal controls, the relationship between internal and external audit and the quality standards that would be applied in the delivery of the Plan. The Plan also covered the resourcing of the internal audit team. It was also noted that the Strategic Audit Plan had been prepared in consultation with the Chief Executive, the Head of Resources and all other Heads of Service.

The Committee was advised that the Plan would be kept under review throughout the year and a half year progress update was scheduled to be presented to the November meeting of the Committee along with a full outturn report in May 2020.

Reference was made to the number of audit days available within North Tyneside. It was explained that 60% of the days were committed which allowed for a measure of flexibility across the two audit teams where it was required.

**Resolved** that the Strategic Audit Plan 2019/20 be approved.