

# North Tyneside Council

Annual Audit Letter for the year  
ended 31 March 2019

August 2019



Building a better  
working world

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As part of the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies and these are contained within our engagement letter.

The Terms and Conditions of our appointment are contained within the Engagement Letter and set out any additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature. This Annual Audit Letter is prepared in the context of the Engagement Letter. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



# 01 Executive Summary

## Executive Summary

We are required to issue an Annual Audit Letter to North Tyneside Council (“the Council”) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the financial statements.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA)	We have not yet completed our procedures in relation to WGA. These procedures will be completed before the deadline of 13 September 2019.

## Executive Summary (continued)

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

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit	Our Audit Results Report for the Council was presented to the Audit Committee on 24 July 2019 and to the meeting of the Council on 25 July 2019.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice	We have not as yet issued our audit completion certificate. We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

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



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



## 02 Purpose and Responsibilities



# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit of the Council in our 2018/19 Audit Results Report to the 24 July 2019 Audit Committee and the meeting of the Council on 25 July 2019, who represent those charged with governance. As a result, we do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2018/19 audit work was undertaken in accordance with the Audit Planning Report that we issued in March 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2018/19 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. We have not yet completed our procedures in relation to WGA. These procedures will be completed before the deadline of 13 September 2019.

## Responsibilities of the Council

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

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



03

## Financial Statement Audit



# Financial Statement Audit

## Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office, and issued an unqualified audit report on the Council's Statement of Accounts on 31 July 2019.

Our detailed findings relating to the Council's Statement of Accounts audit were reported to the 24 July 2019 Audit Committee and the meeting of the Council on 25 July 2019.

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

## Significant Risks

### Risk of fraud in revenue and expenditure recognition

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

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

## Conclusion

We performed the following testing in relation to this risk:

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

Our testing did not identify any material misstatements relating to revenue and expenditure recognition.

# Financial Statement Audit (continued)

Significant Risks	Conclusion
<p>Misstatements due to fraud or error</p> <p>As identified in auditing standards, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We performed the following testing in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We identified fraud risks during the planning stage of our audit;</li> <li>• We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;</li> <li>• We considered the effectiveness of management's controls designed to address the risk of fraud;</li> <li>• We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>• We reviewed accounting estimates for evidence of management bias (as noted above relating to revenue and expenditure recognition); and</li> <li>• We evaluated the business rationale for any significant unusual transactions.</li> </ul> <p>Our testing did not identify any material misstatements due to fraud or error in the Council's financial statements.</p>
<p>Valuation of land and buildings</p> <p>The value of land and buildings represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges.</p> <p>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.</p>	<p>We performed the following testing in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We considered 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;</li> <li>• 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);</li> <li>• We engaged our internal valuers to review the valuation of the Spanish City and Swan Hunter sites;</li> <li>• We considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code;</li> <li>• We reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated;</li> <li>• We considered changes to useful economic lives as a result of the most recent valuation; and</li> <li>• We tested accounting entries to ensure they have been correctly processed in the financial statements.</li> </ul> <p>Our testing did not identify any material misstatements relating to the valuation of land and buildings in the Council's financial statements.</p>

# Financial Statement Audit (continued)

Other Key Findings	Conclusion
<p>Implementation of new accounting standards</p> <p>The CIPFA Code of Practice adopted two new accounting standards for 2018/19:</p> <p>IFRS 9 – financial instruments. This new accounting standard changed:</p> <ul style="list-style-type: none"> <li>• How financial assets are classified and measured;</li> <li>• How the impairment of financial assets is calculated; and</li> <li>• The disclosure requirements for financial assets.</li> </ul> <p>IFRS 15 – revenue from contracts with customers. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p>	<p>We performed the following testing in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We reviewed the Council’s assessment of the expected impact of the standards on the financial statements;</li> <li>• We reviewed the accounting policies amended as part of the implementation to ensure compliance with the requirements of the CIPFA Code of Practice; and</li> <li>• We reviewed the additional disclosure requirements to ensure that they have been included in the financial statements.</li> </ul> <p>During our review of IFRS 9 we identified that the valuation of the Council’s shares in Newcastle International Airport Limited (NIAL) was materially understated. This valuation was provided by an external expert to the Council. An amendment to the valuation was therefore made which resulted in a £5.2m increase in the valuation between that presented in the draft financial statements and the final valuation.</p>
<p>Pension Liability Valuation</p> <p>The Local Authority Accounting Code of Practice and accounting standards (IAS 19) require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Tyne and Wear Pension Fund.</p> <p>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. The information disclosed is based on the IAS 19 report issued by the Council’s actuary.</p> <p>Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf. Auditing standards require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We performed the following testing in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We liaised with the auditor for Tyne and Wear Fund, to obtain assurances over the information supplied to the actuary in relation to the Council;</li> <li>• We assessed the work of the Pension Fund actuary including the assumptions they used by relying on the work of the Consulting Actuaries commissioned by PSAA for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;</li> <li>• We liaised with the Council and our actuarial team to assess reasonableness of additional pension liabilities recognised in the accounts this year, arising as a result of the McCloud judgement and Guaranteed Minimum Pension equalisation; and</li> <li>• We reviewed and tested the accounting entries and disclosures made within the Council’s financial statements in relation to IAS19.</li> </ul> <p>During the audit period, a material adjustment relating to the McCloud judgement was identified, which has impacted upon all Local Government Pension Scheme Scheduled Bodies. The Council instructed their actuary to revisit the pension liability values previously provided to include the impact of both the McCloud judgement and Guaranteed Minimum Pension. The revised pension values provided by the actuary saw the pension liability increase by £28 million between the draft and final financial statements.</p>

# Financial Statement Audit (continued)

Other Key Findings	Conclusion
<p>Opening Balances</p> <p>2018/19 is the first year that we have completed the audit of the Council's financial statements, and as such the requirements of ISA (UK) 510 apply.</p> <p>The basic objectives of an initial audit are similar to those of any audit engagement. However, when performing an initial audit, we report on the current period's assets, liabilities and reserves, which are dependent upon the appropriateness of the opening balances.</p> <p>Therefore, we are required to perform additional procedures in order to gain assurance that the opening balances were free from material misstatement. These procedures cover all balance sheet items, including for example key judgement areas and Private Finance Initiative (PFI) assets and liabilities.</p>	<p>We performed the following procedures in this area:</p> <ul style="list-style-type: none"><li>• Reviewed the work of the predecessor auditor, to identify any issues identified that may impact upon the opening balances;</li><li>• Reviewed the work of the predecessor auditor to ensure the audit has been completed to an appropriate standard to allow us to place reliance on their audit opinion; and</li><li>• Substantively tested all opening balances to ensure that they agree both to the prior year audited financial statements and closing trial balance.</li></ul> <p>We also reviewed significant judgements that have been taken in preparing the financial statements in previous years. As part of this review we assessed how the Council accounted for Schools on their Balance Sheet and how the Council accounted for the prepayment of pension deficit funding payments made in 2017/18.</p> <p>Accounting for Schools</p> <p>Following our review we identified that Foundation Schools were included on the Council's Balance Sheet. However, legal ownership of these assets transferred to the School Trustee's in previous years. Under the CIPFA Code this does not automatically mean that the assets should be removed from the Council's Balance Sheet. Instead, if it can be demonstrated that the Council still has "control" over the assets then it may be acceptable to include them on the Council's Balance Sheet.</p> <p>After detailed discussions with management it was identified that the School Trustees' now make all significant decisions regarding the School assets and as a result it was not possible for the Council to demonstrate that they had "control" over these assets.</p> <p>It was therefore agreed that these assets should be removed from the Council's Balance Sheet and a prior period adjustment was made to reflect the fact that a similar situation was also in place in previous years. This adjustment reduced the Property, Plant and Equipment Net Book Value by £336 million between the draft and final financial statements in 2018/19. The adjustment in 2017/18 reduced the Net Book Value of Property, Plant and Equipment by £281 million.</p> <p>Pension Prepayment</p> <p>In 2017/18, the Council entered into an arrangement with Tyne and Wear Pension Fund whereby they prepaid the pension deficit funding payments for 2018/19 and 2019/20. The total value of this prepayment was £17.6 million. On review of the accounting for this transaction we identified that no prepayment had been recognised in debtors in either the 2017/18 or 2018/19 financial statements. Instead, the Council included the prepayment in their pension liability.</p> <p>This was discussed with management who agreed that a prepayment should be recognised in both 2017/18 and 2018/19 and therefore both prepayments and the pension liability were increased by £17.6 million in 2017/18 and £8.8 million in 2018/19.</p>

## Financial Statement Audit (continued)

Other Key Findings	Conclusion
<p><b>Group Financial Statements</b></p> <p>In previous years, the Council has not produced group financial statements on grounds of materiality. However, due to increasing activity in the Council's subsidiaries, we considered that it was important for the Council to reassess their group boundary and the need to potentially produce group financial statements in 2018/19.</p>	<p>We reviewed the detailed quantitative assessment, which focussed on the values that would be included in group financial statements if they were prepared, as well as the qualitative assessment, which focussed on the other factors, such as whether the Council is exposed to any commercial risk through its involvement with group entities. This review included:</p> <ul style="list-style-type: none"> <li>• Agreeing all values included in the quantitative assessment back to audited financial statements;</li> <li>• Assessing the qualitative assessment based on our knowledge of the Council and the wider sector; and</li> <li>• Detailed review of the CIPFA Group Accounting guidance to ensure that all required elements had been considered.</li> </ul> <p>Following our review we were satisfied that group financial statements are not required for the Council for 2018/19. However, this assessment will be required again in 2019/20.</p>

### 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	<p>We determined planning materiality to be £6.2 million (2017/18: £6.6 million), which is 2% of gross expenditure on the provision of services reported in the financial statements.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.29 million (2017/18: £0.198 million).</p>

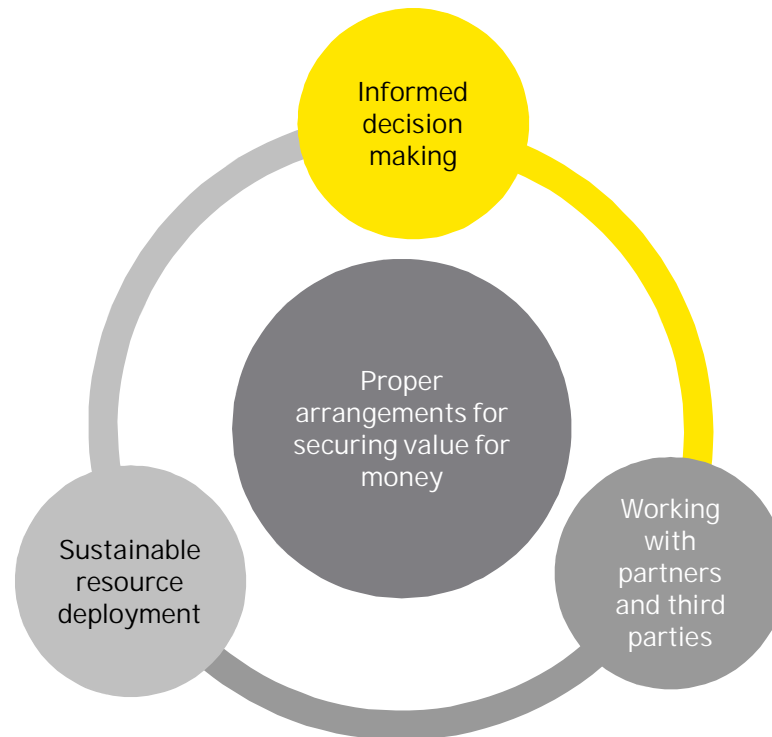


## 04 Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

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

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



We identified one significant risk in relation to these arrangements. The table on the following page presents the findings of our work in response to the risk identified. We have performed the procedures outlined in our Audit Plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work. The table below presents the findings of our work in response to the risk areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p><b>Financial Sustainability</b></p> <p>The Council continues to operate in a challenging financial environment. The main risks to the Council’s finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and demand for services.</p> <p>At the end of November 2018, the Council was forecasting a pressure against budget of £3.5 million. This pressure was largely due to significant overspends in Health, Education, Care and Safeguarding. In addition, over the next four years the Council estimates it is required to make £26.9 million of savings. There is therefore significant pressure on the Council’s finances over the coming years.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We completed the following work in this area:</p> <ul style="list-style-type: none"> <li>• We selected a sample of savings plans and assessed their reasonableness, including testing of the assumptions used;</li> <li>• We discussed the specific plans in place for Health, Education, Care and Safeguarding to understand how the Council plans to control the overspends in this area;</li> <li>• We reviewed the level of reserves to ensure they are sufficient to cover the Council’s assessment of the minimum required to provide its statutory services; and</li> <li>• We reviewed the Medium Term Financial Plan (MTFP) and tested the reasonableness of a sample of the assumptions used.</li> </ul> <p>Our testing identified that the Council delivered an underspend of £1.03 million against budget in 2018/19. However, during the year the Council did not achieve all of its proposed in year savings of £11.2 million and has therefore rolled forward some of this savings target into 2019/20.</p> <p>The Council has created detailed savings plans for 2019/20 to ensure that they can achieve a balanced outturn. We have reviewed these savings plans to ensure that they are reasonable and we are satisfied that the assumptions used are appropriate and that the Council has a system for monitoring and challenging the savings delivery plan in 2019/20. We have also reviewed the MTFP and are satisfied that the Council has been prudent in its use of assumptions, in particular around income streams.</p> <p>During June 2019, the Council received a Corporate Peer Challenge Review. This identified no fundamental weaknesses in the Council’s financial sustainability. However, some recommendations were made in relation to linking the strategy and the MTFP better in future years. Based on the testing performed we concluded that there is no impact upon our VFM conclusion from this risk.</p>





## 05 Other Reporting Issues



## Other Reporting Issues

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### Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts (WGA) purposes. We have not yet completed our procedures in relation to WGA. These procedures will be completed before the deadline of 13 September 2019.

### Annual Governance Statement

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

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

### Report in the Public Interest

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

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

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendations that require the Council to consider them at a public meeting and to decide what action to take in response.

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

### Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

### Other Powers and Duties

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

## Other Reporting Issues (continued)

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### Independence

We communicated our assessment of independence for the Council in our Audit Results Report to the Audit Committee on 24 July 2019 and to the meeting of the Council on 25 July 2019. In our professional judgement, the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

### Control Themes and Observations

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. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

We identified one control observation relating to the Council's whistleblowing policy. This is because the policy has not been formally updated since 2011. We have therefore recommended that the Council formalises its approach to review and approval of policies on a periodic basis, including arrangements to ensure that all policies remain up to date with changes in legal and regulatory requirements.



06

Focused on Your Future



# Focused on Your Future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard, IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> <li>• new definitions of assets, liabilities, income and expenses;</li> <li>• updates for the inclusion of the recognition process and criteria and new provisions on derecognition;</li> <li>• enhanced guidance on accounting measurement bases; and</li> <li>• enhanced objectives for financial reporting and the qualitative aspects of financial information.</li> </ul> <p>The Conceptual Framework is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of Local Authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

## 07 Audit Fees

## Audit Fees

Our base audit fee for 2018/19 is as agreed with you in our Engagement Letter and reported in our 2018/19 Audit Results Report.

	Final fee 2018/19	Planned fee 2018/19	Final fee 2017/18
		£	£
Total Fee – Code work	85,200	85,200	135,765
Total Fee – Code work (Fee Variation)	TBC	-	-
<b>Total Audit Fee</b>	<b>85,200</b>	<b>85,200</b>	<b>135,765</b>
Non audit work – Housing Benefit Certification work	TBC	6,500	16,970
Non-audit work – Grant Certification	TBC	7,387	8,300
<b>Total Fee</b>	<b>85,200</b>	<b>99,087</b>	<b>161,035</b>

In our Audit Results Report, dated July 2019, we noted the planned fee required variation to account for audit scope variation in respect of a number of matters during 2018/19 audit, including the implementation of the new accounting standards IFRS 9 and IFRS 15; the revaluation of the Council's shares in Newcastle International Airport Limited; our assessment of the Council's group accounts considerations; additional work required in relation to the accounting for LGPS net liability following the judgements around McCloud and GMP; additional use of EY property valuation specialists to review the valuation of the complex assets held by the Council; and the treatment of the two prior period adjustments relating to Foundation schools and a pension prepayment. We are currently in the process of agreeing the value of this fee variation with management and will report back to those charged with governance when the fee is agreed.

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