

# North Tyneside Council Audit Results Report

Year ended 31 March 2020

November 2020

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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North Tyneside  
NE27 0BY

November 2020

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our conclusions in relation to the audit of North Tyneside Council ("the Council") for 2019/20.

We have substantially completed our audit of the Council for the year ended 31 March 2020, with only the areas highlighted in Section 1 outstanding. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form included in Section 3, before the accounts publication date of 30 November 2020. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 18 November 2020.

Yours faithfully



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

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As part of the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive.

The Terms and Conditions of our appointment contained within the Engagement Letter sets out 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 Audit Results Report is prepared in the context of the Terms and Conditions of Engagement. 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

## Scope update

In our updated Audit Planning Report, presented to the 29 July 2020 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. This included details around how we were planning to adapt our approach to reflect the impact of the Covid-19 pandemic. We carried out our audit in accordance with this plan, with the following exceptions:

- Information Produced by the Entity (IPE) - We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:
  - Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
  - Agreed IPE to scanned documents or other system screenshots.
- Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19 - The changes to audit risks, audit approach and auditor reporting requirements, set out in our Audit Planning Report, changed the level of work we needed to perform. This has resulted in additional internal consultations being required for every audit, The purpose of the consultation is to ensure that appropriate disclosures are made in both the audit report and the Council's financial statements about the impact of Covid-19 on the Council.
- Materiality update Council and Group - We updated our planning materiality assessment using the draft 2019/20 financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £11.3 million (Audit Planning Report £11.6 million). This results in updated performance materiality, at 75% of overall materiality, of £8.5 million, and an updated threshold for reporting audit differences to the Audit Committee of £0.56 million. It should be noted that the materiality levels used for the Group audit are in line with those used for the Council.

## Status of the financial statements audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our updated Audit Planning Report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears in Section 3. However until work is complete, further amendments may arise.

### Outstanding Items

- Completion of the Going Concern consultation process;
- Completion of EY actuarial review of the impact of changes in the McCloud ruling on the Council's pension liability;
- Completion of procedures required by the National Audit Office ("NAO") regarding the Whole of Government Accounts submission;
- Review of the final financial statements, including all adjustments made; and
- Final review of audit work completed and audit completion procedures.

# Executive Summary

## Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. This relates to the valuation of Property, Plant and Equipment and more detail can be found in Sections 2 and 4 in relation to this matter. The value of this unadjusted item is £968,000 and is therefore immaterial to the financial statements.

We have also identified a number of audit differences which have been adjusted by management. Details can be found in Section 4 of this report.

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. Through our audit work, we have however identified four control observations that we wish to bring to your attention. These observations are:

- Lack of evidenced review of journals greater than £500,000;
- Accruals greater than the de-minimis level of £1,000 not being made;
- Total value of members allowances differing between the draft financial statements and the Council's website; and
- The 2019/20 Better Care Fund agreement not being signed.

Further detail on each of these control findings can be viewed in Section 7 of the report.

## Areas of audit focus

Our updated Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report set out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in Section 2 of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

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

# Executive Summary

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## Objections

We have received no objections to the 2019/20 financial statements from members of the public.

## Independence

Please refer to Section 8 for our update on Independence.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report, we identified the following significant risk:

- Financial sustainability

We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

## Other reporting issues

We have the following matters to highlight:

- WGA - We are required to perform procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. At the time of writing the NAO has not yet released the auditor instructions for this work and as a result we are unable to conclude on this area; we will issue our certificate of completion in respect of the 2019/20 audit once we have completed our procedures and reporting on the Council's Whole of Government Accounts submission.
- Accounts Inspection period - The initial accounts inspection period set by the Council was for a period of 10 working days, rather than the required 30 working days. This was subsequently identified and the Council advertised the inspection period again, to ensure that it was for a period of at least 30 working days.

We have no other matters to raise at the time of writing this report.



02

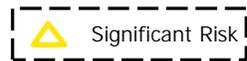
## Areas of Audit Focus



# Areas of Audit Focus

## Significant risk

### Risk of fraud in revenue and expenditure recognition



#### 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 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.

#### What judgements are we focused on?

The main judgements we focussed on were:

- The recognition of grant income that contains terms and conditions;
- Recognition of income and expenditure around year end, in particular focussing on expenditure accruals and manual debtors that require management judgement to be applied before they are recognised in the financial statements; and
- Management's judgement in capitalising expenditure as Property, Plant and Equipment.

#### What did we do?

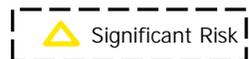
- We reviewed and tested revenue and expenditure recognition policies, including consideration of the recognition of grant income;
- We reviewed, discussed with management, and tested (where appropriate) any accounting estimates on revenue or expenditure recognition, such as manual debtors and expenditure 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.

#### What are our conclusions?

At the time of writing this report, our work in this area has not identified any material misstatements arising from fraud in revenue and expenditure recognition.

## Significant risk

### Misstatements due to fraud or error



#### 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 focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

#### What did we do?

- We identified fraud risks during the planning stage of our audit;
- We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- We reviewed accounting estimates for evidence of management bias (as noted on the previous page relating to revenue and expenditure recognition); and
- We evaluated the business rationale for any significant unusual transactions.

#### What are our conclusions?

At the time of writing this report, our work in this area has not identified any transactions during our audit which appeared unusual or outside of the Council's normal course of business.

We have not identified any instances of inappropriate judgements being applied.

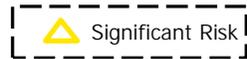
We have not identified any instances of inappropriate journals.



# Areas of Audit Focus

## Significant risk

### Valuation of land and buildings



#### What is the risk?

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

In addition, The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in their property valuations at 31 March 2020. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. As a result of the material uncertainty clause we believe there is an increased risk of misstatement in the year end valuations that requires us to specifically focus on the disclosures made by the Council and also to perform additional procedures to gain comfort over the year end valuation.

#### What judgements are we focused on?

- The assumptions underlying the management's valuation of land and buildings at year end; and
- The robustness of the data underlying the valuations and the overall methodology used by the Council's valuer, Capita.

#### What did we do?

- We have 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 have 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 have engaged our internal valuers to review the market yields used by the valuer to ensure they are in line with our expectations;
- We have considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code;
- We have reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- We have considered changes to useful economic lives as a result of the most recent valuation; and
- We have reviewed the disclosures made by the Council in relation to the material uncertainty clauses to ensure they provide sufficient detail to the user of the financial statements.

#### What are our conclusions?

At the time of writing this report, our work in this area has not identified any material misstatements arising from the valuation of land and buildings.

However, we have identified two matters that are included on the following page.



## Areas of Audit Focus

# Valuation of land and buildings (Significant risk)



### Further details on procedures/work performed

#### Use of RICS BCIS Indices

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

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

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

#### Material uncertainty

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

- Approximately 70% of the Council's assets are valued at DRC. Given DRC valuations are not informed by evidence of relevant market conditions which could have been impacted by Covid-19, we are satisfied that the outbreak of Covid-19 is unlikely to have led to significant uncertainty in the valuation.
- Although the Council does have a limited number of assets where the valuation is more reliant on market evidence we were satisfied, based on our detailed testing, that the values included in the draft financial statements are supportable. We would also not expect a significant movement at 31 March 2020 in these assets.

Based on the work we have undertaken we are satisfied that the carrying value of PPE disclosed in the financial statements is not materially misstated. We did, however, request some changes to be made to the Council's disclosure of the RICS material uncertainty clause in the financial statements.



## Areas of Audit Focus

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

### What was the risk/area of focus?

#### Going concern and the impact of Covid-19

The CIPFA Code of Practice requires that the financial statements of Local Authorities are prepared on a going concern basis. However, due to the unpredictability of the current environment, we believe that there is a need for additional disclosures to be made by the Council in the financial statements, that detail the full financial and operational impact of Covid-19 in 2020/21 and beyond.

There is also an expectation that management will complete a detailed going concern assessment for 2019/20. This will focus on future funding streams and in particular cash flows for the Council for a period of at least 12 months from the date of the signing of the audit opinion. This assessment will then be used to support the Council's conclusion regarding whether the financial statements should be prepared on a going concern basis.

### What were our conclusions?

We have performed the following procedures to address this risk:

- Tested management's cash flow forecast up to 30 November 2021, including challenging the assumptions made by management, to ensure that the forecast position is prudent and realistic;
- Reviewed management's overall going concern assessment, including reviewing revisions to the medium term financial strategy (MTFS) and the level of reserves held by the Council; and
- Reviewed and challenged the going concern and Covid-19 narrative disclosures made by management in the financial statements to ensure that they were appropriate and represent a true and fair view of the Council's position.

Based on the procedures performed we are content that the Council will have a positive cash balance through to 30 November 2021, which is at least 12 months from the date the audit opinion is signed. In addition, we are also content that the assumptions used by management as part of their going concern assessment are prudent and realistic.

However, we identified some improvement points in the going concern and Covid-19 disclosures included in the draft financial statements. We are currently working with management to ensure that sufficient detail regarding both the financial and operational impact of Covid-19 are included in the financial statements. We will update the Audit Committee on progress on 18 November 2020.



## Areas of Audit Focus

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

### What was the risk/area of focus?

#### Pension liability valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Tyne and Wear Pension Fund.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. Per the draft financial statements at 31 March 2020, this totalled £465 million.

Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

In addition, we have noted that Covid-19 has had a significant downwards impact on year end asset values. Therefore there is a risk that the Council's pension liability may increase.

### What were our conclusions?

We have performed the following procedures to address this risk:

- Liaised with the audit team of Tyne and Wear Pension Fund, to obtain assurances over the information supplied to the actuary in relation to North Tyneside Council;
- Assessed the work of the Pension Fund actuary (AON Hewitt) including the assumptions they used, by relying on the work of PwC, the consulting actuaries commissioned by the PSAA for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to the pension disclosures.

In July 2020, the Ministry of Housing, Communities and Local Government (MHCLG) published its consultation proposals to remove age discrimination from the LGPS. This was as a result of both the Sargeant and McCloud judgments that the Council first accounted for in 2018/19. It is generally accepted that the proposals contained in the consultation provide updated information on the Sargeant and McCloud judgements that need to be considered as part of the year end actuarial valuation for 31 March 2020. However, as these proposals were published after the valuation was produced, it was deemed likely that the proposals were not adequately reflected in this valuation. A detailed review of the valuation produced for the Council has therefore been performed by EY's actuaries in order to ensure that the year end valuation is not materially misstated.

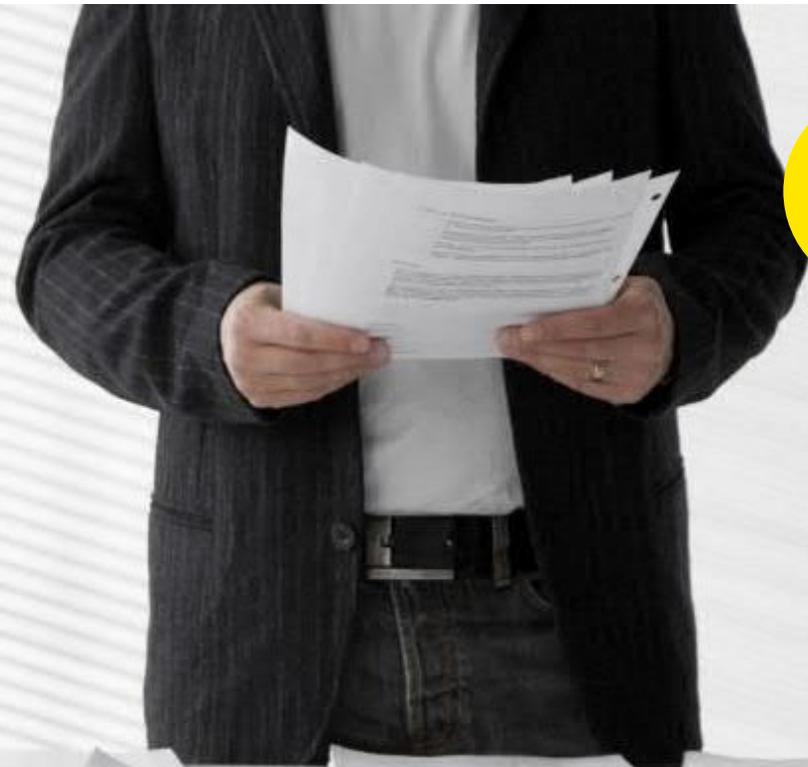
At the time of writing, these procedures have not yet been completed. We will provide the Audit Committee with an update on 18 November 2020.



## Areas of Audit Focus

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

What was the risk/area of focus?	What were our conclusions?
<p>Group financial statements</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 consider that it is important the Council reassess their group boundary and the need to produce group financial statements in 2019/20.</p>	<p>We reviewed the detailed quantitative assessment produced by management, which concluded that group financial statements were required for the first time in 2019/20, due to an increase in activity at the Council's subsidiaries.</p> <p>Our review of the quantitative assessment 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 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 agree with management's assessment that it is necessary for the Council to prepare group financial statements for the first time in 2019/20.</p>



# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH TYNESIDE COUNCIL

##### Opinion

We have audited the financial statements of North Tyneside Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement for the year ended 31 March 2020;
- Movement in Reserves Statement for the year ended 31 March 2020;
- Balance Sheet as at 31 March 2020;
- Cash Flow Statement for the year ended 31 March 2020;
- Notes to the Core Financial Statements A, 1 to 43;
- Housing Revenue Account - Income and Expenditure Statement for the year ended 31 March 2020, the Movement on the Housing Revenue Account Statement and the related notes 44 to 55; and
- Collection Fund Statement for the year ended 31 March 2020 and the related notes 56 to 61.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of North Tyneside Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



# Audit Report

## Draft audit report

### Our opinion on the financial statements (continued)

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the Annual Financial Report set out on pages 2 to 20, other than the financial statements and our auditor's report thereon. The Head of Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

##### Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, North Tyneside Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.



# Audit Report

## Draft audit report

### Our opinion on the financial statements (continued)

#### Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

#### Responsibility of the Head of Resources

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 25, the Head of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Resources is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Audit Report

## Draft audit report

### Our opinion on the financial statements (continued)

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether North Tyneside Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether North Tyneside Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



# Audit Report

## Draft audit report

### Our opinion on the financial statements (continued)

#### Delay in certification of completion of the audit

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.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

#### Use of our report

This report is made solely to the members of North Tyneside Council as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Edinburgh

The maintenance and integrity of the North Tyneside Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions



# 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 adjusted differences

#### Corrected misstatements and disclosure issues

We highlight the following misstatements in the disclosures identified during the audit. These have been corrected by management:

#### Council and Group financial statements

- Disclosure of Covid-19 Grant – Pre 31 March 2020, the Council received £6.8 million of Covid-19 funding from Central Government. This was non-ringfenced funding and as a result should have been recognised in full in Taxation and Non Specific Grant Income in the Council’s Comprehensive Income and Expenditure Statement for 2019/20.
- Note 14 - Officers’ Remuneration – £50,000 Banding note – A small number of banding errors and differences between the values disclosed in the note and payroll records were identified.
- Note 14 – Officers’ Remuneration – The Chief Executive’s name was not disclosed in the note, despite this being a requirement as he earns over the £150,000 threshold.
- Note 14 – Officers’ Remuneration – Exit Packages – We identified three individuals included in the 2019/20 exit package disclosure, who received notification of their exit package in 2018/19. As a result these individuals should have been included in the 2018/19 financial statements. We have performed additional procedures to ensure that there were no other errors and identified no other similar occurrences.
- Note 15 – Members Allowances – A small number of differences between payroll records and the values disclosed in the financial statements were identified. These have been agreed with management who have amended the financial statements.
- Note 17 – Audit Costs – The value disclosed in the draft financial statements was incorrect and has now been updated.
- Note 37 - National Health Services Act 2006 – The winter pressures grant of £1,031,000 was incorrectly omitted from the draft disclosure. This has now been amended by management.

There were also a small number of typographical and consistency errors identified in the draft financial statements. All differences have been amended by management.

#### Group financial statements only

- Cash Flow Statement – The draft financial statements did not include a Group Cash Flow Statement. This has now been updated by management.
- Note 23 – Long Term Investments - The draft financial statements incorrectly included an intra group investment of £2,991,000 between the Council and North Tyneside Trading Company in the Group Balance Sheet. This has been discussed with management and the financial statements have been amended to remove this value.



# Audit Differences

## Summary of unadjusted differences

In addition we highlight the following unadjusted difference that has not been amended by management:

- Note 19 - Property, Plant and Equipment – BCIS Indices difference – The Council’s valuer, Capita, performed some of their 2019/20 valuations as at 1 April 2019. This includes a number of specialised assets that follow a Depreciated Replacement Cost methodology, which utilise the RICs BCIS indices. The BCIS indices used by Capita are as at 1 April 2019, however these indices have been updated as at 31 March 2020. When the indices at 31 March 2020 are used we identified a decrease of £968,000 in the value of these assets.

Uncorrected misstatements 31 March 2020 (£000)		Effect on the current period:	 Balance Sheet (Decrease)/Increase				
			Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Revaluation Reserve							968
Property, Plant and Equipment				(968)			

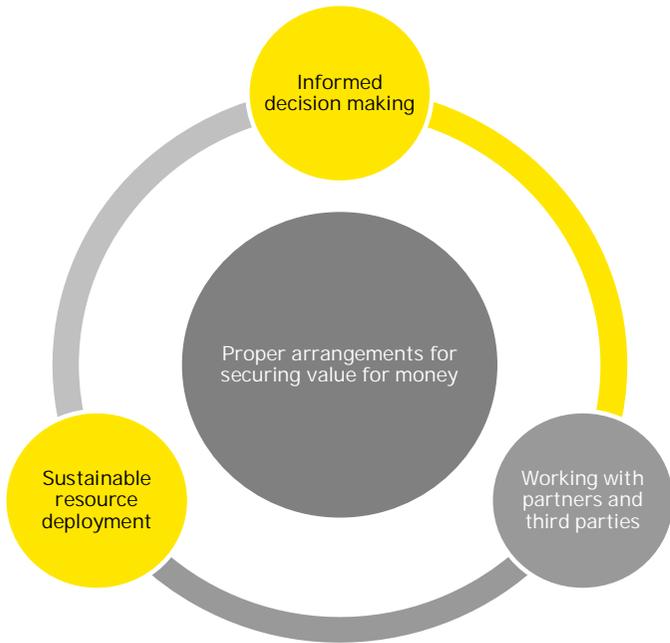
There are no other amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the Council or Group financial statements for the year ended 31 March 2020.



05

# Value for Money





## Background

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

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.

Based on our procedures we have not identified a significant failure in arrangements at the Council due to Covid-19 and as a result we do not have a VFM significant risk in relation to Covid-19.

## Overall conclusion

We identified one significant risk in relation to value for money arrangements as part of our audit planning work. The table on the following page presents our findings in response to the risk in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

Based on the work performed we expect to have no matters to report about your arrangements in relation to the significant risk highlighted in our Audit Planning Report.

## 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 risks 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. These circumstances resulted in the Council forecasting significant pressures against budget throughout the financial year.</p> <p>In addition, the Council now also has to manage the additional financial burden of dealing with Covid-19 and the increased strain this will have on both services and the underlying financial position.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We have completed the following work in this area:</p> <ul style="list-style-type: none"> <li>We have selected a sample of savings plans and assessed their reasonableness, including testing of the assumptions used;</li> <li>We have 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 have 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 have reviewed the Medium Term Financial Strategy (MTFS) and tested the reasonableness of a sample of the assumptions used.</li> </ul> <p>Our testing identified that the Council delivered an underspend of £1.1 million against budget in 2019/20, which includes one off dividend payments from Newcastle Airport and Kier North Tyneside of £1 million. The Council also delivered 90% of proposed savings in 2019/20.</p> <p>We have also reviewed the Council’s reserves and compared them to other similar sized Council’s from across the Country. Based on this assessment we are satisfied that the Council has sufficient reserves in order to allow it to provide its statutory functions.</p> <p>The Covid-19 pandemic has had a significant impact on the Council’s finances going forward, with the Council reporting a potential pressure of £11.4 million for 2020/21 to Cabinet in September 2020. However, the Council do have plans to mitigate this pressure. We have reviewed and challenged management’s assessment, with a particular focus on the assumptions that have been used, and we are content that the revisions made by management to the plan are prudent and achievable.</p>



## 06 Other reporting issues



## 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 Narrative Statement with the audited financial statements. We are satisfied that the Narrative Statement is consistent 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. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

In addition to 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.

At the time of writing this report, the relevant NAO guidance for the completion of WGA returns has not yet been released. As a result we have not yet commenced our work. However, when our work is complete we will report back to the Committee any material findings.

### 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.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Notice of Public Inspection

Under the Accounts and Audit Regulations 2015 members of the public can, for a period of 30 working days, ask questions of the Council about the draft financial statements. The Council is required to advertise the dates set for the inspection period, so members of the public are aware. However, it was identified that for the 2019/20 draft financial statements, the initial inspection period was incorrectly set at 10 working days.

This was subsequently identified and the Council advertised a new inspection period. We are now satisfied that the Council has implemented an inspection period of at least 30 working days in relation to the 2019/20 draft financial statements.

### Other matters

As required by ISA (UK) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. We have nothing to report to you in relation this.



07

## Assessment of Control Environment



# Assessment of Control Environment

## Assessment of Control Environment

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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

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



08

Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our updated Audit Planning Report presented in July 2020. However, it should be noted that we also perform the audit of the Council's subsidiary company, North Tyneside Trading Company and its subsidiaries.

We complied with the APB Ethical Standards. 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.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 18 November 2020.

## Fee Analysis

	Planned fee 2019/20	Final fee 2018/19
	£	£
Total Fee – Code work (Scale Fee)	145,500	85,200
Total Fee – Code work (Variation)	11,793*	26,250
<b>Total Audit fee</b>	<b>157,293</b>	<b>111,450</b>
Total Fee – North Tyneside Trading Company and subsidiaries	27,000	3,800
<b>Total additional group fees</b>	<b>27,000</b>	<b>3,800</b>
Non-audit work – Housing Benefit certification	12,800	6,550
Non audit-work – Other certification work	10,500	4,925
<b>Total other non-audit services</b>	<b>23,300</b>	<b>11,475</b>
<b>Total fees</b>	<b>207,593</b>	<b>126,725</b>

As part of our reporting on our independence, we set out alongside a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have undertaken the certification of the Council's Housing Benefits claim form, Teachers Pensions claim and Pooling of Housing Capital Receipts claim. This constitutes non audit work, which is work that is not carried out under the Code. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

\* In our updated Audit Planning Report, dated July 2020, we noted the planned fee in the table would require variation to account for the impact of the Covid-19 pandemic on our audit, as we have been required to perform additional procedures in order to allow us to conclude on the Council's financial statements. The fee included above is an indicative fee and we will agree a finalised fee variation with management after the completion of the audit and report this back to the Audit Committee.

In our Audit Planning Report, presented to the Audit Committee in July 2020, we set out a number of key factors that have resulted in the need for us to increase our audit fees for the 2019/20 audit year. We have set out below an overview of the factors that continue to impact audit fees. We have discussed the impact on our audit fees of the changing audit environment with management and bring these to the attention of the Audit Committee. In summary:

- Recent high profile corporate failures have weakened public trust and confidence in both the auditing profession and business at large. Multiple ongoing regulatory reviews continue to reshape the corporate reporting environment and raise fundamental questions about the purpose, product and role of an external audit, as well as the accountability of auditors and those charged with governance.
- Financial reporting and decision making continues to become increasingly complex. Additionally, there has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address stakeholder understanding and regulatory expectations on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

In continuing to respond to these factors we seek higher levels of corroborative evidence, including increasing sample sizes and engage with our internal specialists more extensively and on a wider array of matters. Additionally, we continue to increase our investment in data analytics tools to allow us to test more transactions to a greater level of detail and enhance audit quality. To support the increasing regulatory focus, we invest in our audit quality infrastructure. As a firm our compliance costs have doubled over the past five years.

## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services
  - Remuneration advisory services
  - Internal audit services
  - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

### Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

## Other communications

### EY Transparency Report 2019

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 2019:

[https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf)

### Financial Reporting Council (FRC) – Major Local Audits – Audit Quality Inspection

On an annual basis the FRC reviews each audit firm who undertake local audits. The review process involves the FRC selecting a range of audit files and challenging the work performed by the firm in reaching their audit opinion. The results and the key findings from their review of 2018/19 audits can be viewed at

<https://www.frc.org.uk/getattachment/da3446de-8d37-4970-828d-e816d7c0826c/FRC-LA-Public-Report-30-10-20.pdf>



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## 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 are:

- 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 
9 March 2020	Meeting	Senior members of the audit team, met with the management team to discuss key issues at the Council and plan the 2019/20 year end audit.
9 March 2020	Meeting	Senior members of the audit team, met with the Audit Committee Chair to discuss the key areas of focus for the Committee, as well as potential audit and accounting issues that may arise during the 2019/20 year end audit.
25 March 2020	Report	The Audit Planning Report, including confirmation of independence, was distributed to the Audit Committee in advance of the March 2020 meeting. However, due to the Covid-19 pandemic this committee was cancelled and as a result the Audit Planning Report was not formally presented.
27 March 2020	Meeting	Audit Partner met with the Council's Chief Executive to to discuss key issues at the Council and plan the 2019/20 year end audit.
29 July 2020	Report	An updated Audit Planning Report, which contained additional detail in relation to the impact of Covid-19 on the audit was presented to the Audit Committee.
28 October 2020	Meeting	Audit close meeting with the management team to discuss the preliminary findings of the audit.
18 November 2020	Report	The Audit Results Report, including confirmation of independence, was presented to the Audit Committee.

In addition to the above specific meetings and reporting, the audit team met with the management team multiple times throughout the 2019/20 audit year to discuss audit progress and the latest developments at the Council.

## Appendix C

# Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. 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.	Engagement signed contract
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Updated Audit Planning Report – presented July 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Updated Audit Planning Report – presented July 2020
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report – presented November 2020

# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report – November 2020
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit Results Report – November 2020
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Committee – November 2020
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	<p>Audit Committee – November 2020</p> <p>Audit Results Report – November 2020</p>

# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Council’s related parties including, when applicable: <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Council</li> </ul>	Audit Results Report – November 2020
Independence	Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. <ul style="list-style-type: none"> <li>• Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>• Services provided by EY that may reasonably bear on the auditors’ objectivity and independence</li> <li>• Related safeguards</li> <li>• Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>• A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> </ul>	Updated Audit Planning Report – July 2020  Audit Results Report – November 2020

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Audit Results Report – November 2020
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances of non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report – November 2020
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>• Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report – November 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report – November 2020

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> <li>• An overview of the type of work to be performed on the financial information of the components</li> <li>• 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</li> <li>• 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</li> <li>• Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>• 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.</li> </ul>	Audit Results Report - November 2020
Auditor's report	<ul style="list-style-type: none"> <li>• Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - November 2020
Fee Reporting	<ul style="list-style-type: none"> <li>• Breakdown of fee information when the audit planning report is agreed</li> <li>• Breakdown of fee information at the completion of the audit</li> <li>• Any non-audit work</li> </ul>	Updated Audit Planning Report - July 2020 Audit Results Report - November 2020
Certification work	<ul style="list-style-type: none"> <li>• Summary of certification work</li> </ul>	Certification Report - March 2021

# Management representation letter

## Management Rep Letter

Ernst & Young LLP  
Citygate  
St James' Boulevard  
Newcastle upon Tyne  
NE1 4JD

Dear Sirs

This letter of representations is provided in connection with your audit of the Group and Council financial statements of North Tyneside Council ("the Group and Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the Group and Council financial statements give a true and fair view of the Group and Council financial position of as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and for the Council.

We understand that the purpose of your audit of our Group and Council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and the Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Group and Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

# Management representation letter

## Management representation letter

5. We believe that the effect of the unadjusted audit difference, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented is immaterial to the Group and Council financial statements taken as a whole. We have not corrected the difference identified and brought to our attention by the auditor due to the fact it is immaterial.

### B. Non-Compliance with Law and Regulations, including Fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the Group and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Group or Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or

- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the Group and Council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee held through the year to the most recent meeting on the following date: X November 2020
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the Group and Council financial statements.

# Management representation letter

## Management representation letter

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the Group and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the Group and Council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the Group and Council financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

1. Other than those described in Note 43 to the Group and Council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the Group and Council financial statements or notes thereto.

### F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated

### G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### H. Going Concern

1. Note 43 to the Group and Council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

# Management representation letter

## Management representation letter

### I. Use of the Work of a Specialist

1. We agree with the findings of the property valuers that we engaged to evaluate the valuation of Council Dwellings and Other Land and Buildings and the actuary that we engaged to evaluate the valuation of the pension liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the Group and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### J. Estimates

#### Valuation of Council Dwellings and Other Land and Buildings

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the valuation of Council Dwellings and Other Land and Buildings appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.
3. We confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic on the valuation of Council Dwellings and Other Land and Buildings and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

### Valuation of Pension Liability

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in creating the valuation the pension liability appropriately reflects our intent and ability to carry out the valuation on behalf of the entity.
3. We confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic on the valuation of the pension liability and are made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

Yours faithfully,

\_\_\_\_\_  
Head of Resources

\_\_\_\_\_  
Chair of the Audit Committee

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