

**North Tyneside Council  
Provisional Audit  
Results Report**

Year ended 31 March 2021

14 September 2021



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14 September 2021

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

Dear Audit Committee Members

**2021 Provisional Audit Results Report**

We are pleased to attach our provisional Audit Results Report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 22 September 2021 on further progress to that date and explain the remaining steps to the issue of our opinion.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on North Tyneside Council's (the Council's) accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that our regulator and society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

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

Yours faithfully



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

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

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



# 01 Executive Summary

# Executive Summary

## Scope update

In our Audit Planning Report presented at the 26 May 2021 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ **Changes in materiality:** We updated our planning materiality assessment using the draft financial statements. Based on our materiality measure of gross expenditure on the provision of services, we updated our overall materiality assessment to £12.9 million for the Group (Audit Planning Report – £11.4 million). This results in updated performance materiality, at 75% of overall materiality, of £9.7 million, and an updated threshold for reporting misstatements of £0.64 million.
- ▶ **Changes in group scoping:** In our Audit Planning Report we identified North Tyneside Trading Development Company Limited and Aurora Properties (Sales) Limited as 'specific scope' components of the Group as we expected there to be balances in these companies above our Group materiality thresholds. As a result of the Covid-19 pandemic, the companies have not undertaken as much activity as expected and, as a consequence, we have subsequently assigned a 'review scope' to these components.

## Additional audit procedures as a result of Covid-19

Other changes, including in respect of the regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

- ▶ **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.

## Executive Summary

### Status of the audit

Our audit work in respect of the Council opinion is still ongoing. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- ▶ Receipt of assurances required to conclude on our work on the LGPS liability and additional audit procedures in respect of the estimated net liability.
- ▶ Completion of procedures on the valuation of land and buildings.
- ▶ Completion of procedures around Covid-19 funding streams.
- ▶ Receipt of responses, and appropriate supporting evidence, for outstanding income and expenditure samples.
- ▶ Receipt of Non-Domestic Rate and Council Tax reconciliations and sample information.
- ▶ Walkthrough of child care social care system.
- ▶ Receipt of evidence for employee remuneration and exit package disclosures.
- ▶ Receipt of signed Better Care Fund agreement.
- ▶ Receipt and review of Annual Governance Statement.
- ▶ Final partner and senior manager review of the audit file.

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

### Auditor responsibilities under the new Code of Audit Practice 2020

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

The specified reporting criteria are:

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

# Executive Summary

## Status of the audit - Value for Money

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

As a result, we expect to have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary by the end of October 2021 as part of issuing the Auditor's Annual Report.

## Audit differences

At the time of preparing this report, we have identified the following potential audit differences which we are discussing with management:

- ▶ The analysis of Covid-19 funding streams provided to us by management identified that the funding for the Local Restrictions Grant Funding income should be accounted for on an agency basis (i.e. excluded from the Council's income in the financial statements), as the Council is passing on the funding to other organisations on behalf of central government. This treatment is in line with our expectations and our understanding of the funding. We have, however, noted that this income is disclosed in the financial statements as a grant credited to services and is included within the income in the Comprehensive Income and Expenditure Statement. The total value of this funding is £14.696 million.
- ▶ We have identified errors in the exit packages disclosure and therefore we have extended our sampling in this area to quantify the overall error in disclosure.

## Other reporting issues

At the time of preparing this report, we have not yet received the Annual Governance Statement for review and consideration of its consistency with our knowledge of the Council. We also note that it is a requirement of the Accounts & Audit Regulations 2015 that the Annual Governance Statements (whether approved or not) is published at the same time as the unaudited financial statements and, therefore, the Council is in breach of these regulations for the current audit cycle.

We have not yet received the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We expect that the guidance will be provided later in the Autumn and therefore our audit certificate will remain open until this element of our responsibilities are completed.

We recognise that the management continue to face challenges, including ongoing remote working, as a result of the Covid-19 pandemic but we have encountered longer than expected delays in receiving some of the evidence to support the disclosures made in the financial statements and responses to queries in some areas. We also note that, in some areas, the quality of the evidence provided was not always at the level we would expect. As a result of these matters, and the issues relating to the audit of the Local Government Pension Scheme liability set out in Section 2 of this report, completion of the required audit procedures to allow us to issue our opinion 30 September 2021 is at risk.

# Executive Summary

## Areas of audit focus

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

### ***Risk of fraud in revenue and expenditure recognition***

Our work in this area is ongoing; however, at the time of preparing this report, we have identified a potential misstatement arising from the accounting for an element of Covid-19 grant funding.

### ***Misstatements due to fraud or error***

Our work in this area is still ongoing; however, at the time of preparing this report, we have not identified any matters to bring to your attention.

### **Valuation of land and buildings - held at open market value and depreciated replacement cost**

Our work in these areas is still ongoing; however, at the time of preparing this report, we have not identified any matters to bring to your attention.

### ***Valuation of Local Government Pension Scheme liability***

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

### **Going Concern**

We have received management's cashflow workings to support their going concern position; however we have requested fuller assessment setting out the base case position, downside scenarios and details of mitigating actions to allow us to conclude our work.

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

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

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





# Executive Summary

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## Control observations

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

- ▶ There have been delays in the provision of audit evidence and, in some areas, the audit evidence provided to support disclosures in the financial statements was not of the required standard.
- ▶ As a result of delays during the Covid-19 pandemic, a number of key Council policies, including whistleblowing and anti-bribery, have passed their date for review.
- ▶ We recommend that management rebase the operator models for the schools and street-lighting PFIs and ensure that the accounting model reflects the changes to the operating model.

## Independence

Please refer to Section 10 for our update on Independence.



# 02 Areas of Audit Focus





## Areas of Audit Focus

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

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

### 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?

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

We therefore focused our audit work in these areas. We note from our initial discussions with management, that Covid-19 funding in excess of £100 million was received during 2020/21 and, therefore, we specifically considered this funding stream as part of our consideration of grants with terms and conditions.

### What did we do?

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

### What are our conclusions?

Our work in relation to the recognition of grant income with terms and conditions remains underway. We have, however, identified a potential adjustment of £14.696 million in relation to the treatment of the Local Restrictions Grant Funding which we are discussing with management. Management's intention was that this income should be accounted for on an agency basis (i.e. excluded from income the Council's financial statements), as the Council is passing on the funding to other organisations on behalf of central government, which is in line with our expectations. We have, however, noted that this income is disclosed in the financial statements as a grant credited to services and is included within the income in the Comprehensive Income and Expenditure Statement. If it is confirmed that this income is incorrectly recognised by the Council, we will also need to consider the implications on any pass-through expenditure recognised and other funding streams which were intended to be accounted for on an agency basis.

We have completed our testing on capital expenditure incurred in year and have not identified any items which should have been accounted for as revenue.

Our work to confirm that expenditure associated with post-year end transactions and payments is recorded in the correct period remains underway. At the time of preparing this report, we have not identified any matters for reporting to Audit Committee.



## Areas of Audit Focus

# Misstatements due to fraud or error (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 is focussed on reviewing manual adjustments to the financial statements, as this is the way in management would most easily be able to manipulate accounting records.

#### What did we do?

- ▶ We tested the appropriateness of journal entries recorded in the general ledger.
- ▶ We reviewed accounting estimates for evidence of management bias.
- ▶ We evaluated the business rationale for any significant and / or unusual transactions.

#### What are our conclusions?

Our work in this area remains underway; however, at the time of preparing this report, we have not identified any matters to bring to your attention.



## Areas of Audit Focus

# Valuation of land and buildings held at Open Market Value (Significant risk)

### Valuation of land and buildings- Land and buildings held at Open Market Value

#### 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, has 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.

Our experience from the audit of property valuations for the year ended 31 March 2020, is that there is a greater likelihood of uncertainty in valuations of assets held at open market value and therefore we attach our significant risk to these assets.

#### What judgements are we focused on?

- ▶ The basis of valuation and the valuation methodology applied by the Council's external valuation specialist, Capita.
- ▶ The robustness of data inputs into the valuation.
- ▶ The accuracy of the valuation calculations and the subsequent accounting journals.

#### What did we do?

- ▶ We considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ We sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- ▶ We considered the annual cycle of valuations to check that assets have been valued within a five year rolling programme as required by the CIPFA Code.
- ▶ We considered management's assessment of assets not subject to valuation in 2020/21 to obtain assurance that the remaining asset base is not materially misstated.
- ▶ We reviewed the accounting journals processed by management to obtain assurance that the treatment of the revaluation is appropriate.

#### What are our conclusions?

Our work in this area remains underway; however, at the time of writing this report, we have not identified any matters to bring to your attention.

## Audit risks

### Other areas of audit focus

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

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

##### **Valuation of Land and Buildings – Land and buildings held at Depreciated Replacement Cost**

The value of land and buildings held at Depreciated Replacement Cost represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges.

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

##### **Pension liability valuation**

The Local Authority Accounting Code of Practice (the Code) 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. At 31 March 2020, this totalled £465 million. The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt. Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What were our Conclusions?

Our work in this area remains underway; however, at the time of writing this report, we have not identified any matters to bring to your attention.

At the time of preparing this report we have not yet received the IAS 19 assurances from the auditor of the Tyne and Wear Pension Fund. We highlighted in our Audit Planning Report that the 2019/20 audit opinion for the Northumberland County Council Pension Fund (which merged with the Tyne and Wear Pension Fund on 1 April 2020) was expected to be signed in early July 2021; however, formal sign-off was not received until the end of August 2021. As a consequence of this, there is a delay in receipt of the IAS 19 assurances required for our audit of the Council's financial statements.

There has also been an emerging national issue where it has been identified that the assurances received from PwC, on behalf of the NAO, over the work of the actuaries used to calculate the liability does not fully meet the requirements of the revised ISA(UK) 540 for auditing estimates. The work of PwC provides assurances over the inputs to the actuarial model, but not the model itself. This is an issue that is impacting all audit firms and we are engaging our EY actuarial experts to obtain the required level of assurance over the calculation of the liability. We will liaise with management to obtain the additional information required to complete this process.

## Audit risks

### Other areas of audit focus

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

What is the risk/area of focus?	What will we do?
<p><b>Going Concern Compliance with ISA 570</b></p> <p>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.</p> <p>The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards.</p>	<p>We have received management's cashflow workings to support their going concern position; however we have requested a fuller assessment setting out the base case position, downside scenarios and details of mitigating actions.</p> <p>We also note that, management's initial assessment was only up to the end of September 2022 and, therefore, this will need to be extended if there is a delay in conclusion of our audit. Typically, we would expect the going concern assessment to go up to the end of the next operating cycle (i.e. 31 March 2023).</p>



# 03 Audit Report





# Audit Report

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## Draft audit report

We will share a draft of our audit report on completion of the outstanding audit procedures.

### Our opinion on the financial statements



# Audit Report

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## Our opinion on the financial statements

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# 04 Audit Differences





## Audit Differences

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

### Summary of audit differences

At the time of preparing this report, our audit work is still ongoing; however, we have identified the following potential audit differences:

- ▶ The analysis of Covid-19 funding streams provided to us by management identified that the funding for the Local Restrictions Grant Funding income should be accounted for on an agency basis (i.e. excluded from revenue in the Council's financial statements), as the Council is passing on the funding to other organisations on behalf of central government. This treatment is in line with our expectations and our understanding of the funding. We have, however, noted that this income is disclosed in the financial statements as a grant credited to services and is included within income in the Comprehensive Income and Expenditure Statement. The total value of this funding is £14.696 million.
- ▶ We have identified errors in the exit packages disclosure and therefore we have extended our sampling in this area to quantify the overall error in disclosure.

There were also a small number of typographical and consistency errors identified in the draft financial statements which management have agreed to amend.



05

## Value for Money



# Value for money

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

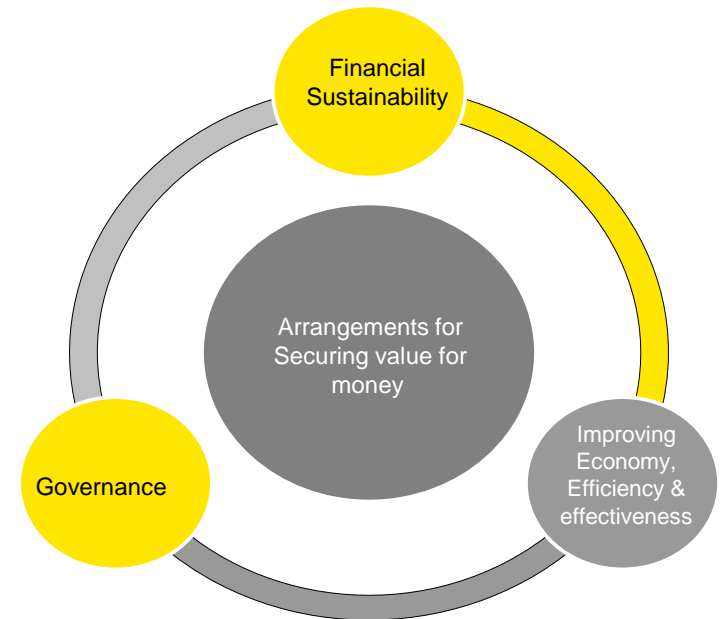
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

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

## Risk assessment

The outcome of our assessment of the risk of significant weaknesses in the Council's VFM arrangements is that we had not identified any risks. We will revisit our risk assessment during the conclusion stage of our audit to confirm that we have not identified any additional risks of significant weaknesses in arrangements.

As a result, we expect to have no matters to report by exception in the auditor's report (see Section 3). We plan to issue the VFM commentary by the end of October 2021 as part of issuing the Auditor's Annual Report.





## 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 Annual Financial Report 2020/21 with the audited financial statements

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

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

At the time of writing this report, we have not yet received the Annual Governance Statement for review and consideration of its consistency with our knowledge of the Council. We also note that it is a requirement of the Accounts & Audit Regulations 2015 that the Annual Governance Statements (whether approved or not) is published at the same time as the unaudited financial statements and, therefore, the Council is in breach of these regulations for the current audit cycle.

### Whole of Government Accounts

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

We have not yet received the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We expect that the guidance will be provided later in the Autumn and therefore our audit certificate will remain open until our reporting is concluded in this respect.

### Other powers and duties

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

### Other matters

We recognise that the management continue to face challenges, including ongoing remote working, as a result of the Covid-19 pandemic but we have encountered longer than expected delays in receiving some of the evidence to support the disclosures made in the financial statements and responses to queries in some areas. We also note that, in some areas, the quality of the evidence provided was not always at the level we would expect. As a result of these matters, and the issues relating to the audit of the Local Government Pension Scheme liability set out in Section 2 of this report, completion of the required audit procedures to allow us to issue our opinion 30 September 2021 is at risk.





07

## Assessment of Control Environment



# Assessment of Control Environment

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## Financial controls

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

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

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

We have also provided an update on the recommendations made as part of the 2019/20 audit process.

## 2020/21 control recommendations

<b>Observation</b>	<p>We recognise that the management continue to face challenges, including ongoing remote working, as a result of the Covid-19 pandemic but we have encountered longer than expected delays in receiving some of the evidence to support the disclosures made in the financial statements and responses to queries in some areas. We also note that, in some areas, the quality of the evidence was not always at the level required.</p>	<b>Observation</b>	<p>As a result of delays during the Covid-19 pandemic, a number of key Council policies, including whistleblowing and anti-bribery, have passed their date for review. We understand that plans are in pace to proceed with approval of updated policies in the medium term.<sup>1</sup></p>
<b>Impact</b>	<p>The delays encountered are a significant factor in our ability to issue our audit opinion by 30 September 2021 being put at risk. We have suggested to management that a full debrief is held on conclusion of the audit in preparation for 2021/22.</p>	<b>Impact</b>	<p>The formal written policies may not be in-line with best practice guidance or the actual operating procedures of the Council.</p>
<b>Management comment</b>		<b>Management comment</b>	

## 2020/21 control recommendations

**Observation**

We recommend that management rebase the operator models for the schools and street-lighting PFIs and ensure that the accounting model reflects the changes to the operating model.

**Impact**

Rebasing the models would allow for more accurate management accounting and monitoring of the processes surrounding the PFI assets and liabilities.

**Management comment**

## Status of previous year's recommendations

Description	Update
<p><b>Lack of evidenced review of journals greater than £500,000</b> - 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.</p>	<p>As part of our audit procedures, we have identified that a retrospective review of journals greater than £500,000 is performed; however, we recommend that journals of this magnitude should be reviewed before being posted to the general ledger.</p>
<p><b>Accruals de minimis level</b> - 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.</p>	<p>The accounting policies for 2020/21 have retained the £1,000 de minimis level for accruals. At the time of preparing this report, we have not identified any issues with the cut-off of transactions; however, our work in this area is still underway.</p>
<p><b>Members allowances</b> - 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.</p>	<p>At the time of preparing this report, our audit work on member allowances for 2020/21 is still underway.</p>
<p><b>Better Care Fund agreement</b> - 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.</p>	<p>At the time of preparing this report, we have not received a signed better care fund agreement for 2020/21.</p>



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Independence

## Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### **Services provided by Ernst & Young**

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

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

## Relationships, services and related threats and safeguards

### Services provided by Ernst & Young

Our planned audit fee, which was included in our Audit Planning Report presented to Audit Committee in May 2021, is included in the table below. We shared our fee proposals for 2020/21 with management prior to issuing our Audit Planning Report; however we have not yet had any confirmation from management whether they are satisfied with our proposed fees.

	2020/21	2019/20
	£	£
Base fee (Note 1)	162,500	125,250
Fee Variation (Note 2)	9,300	17,600
<b>Total fee</b>	<b>171,800</b>	<b>142,850</b>
North Tyneside Trading Company and subsidiaries (Note 3)	TBC	18,000
<b>Total group fees</b>	<b>TBC</b>	<b>27,000</b>
Non-audit work - Housing Benefit certification	12,800	12,800
Non audit-work - Other certification work	10,500	10,500
<b>Total other non-audit services</b>	<b>23,300</b>	<b>23,300</b>
<b>Total fees</b>	<b>TBC</b>	<b>193,150</b>

### Notes

(1) In 2020/21 there are new auditing standards on going concern and estimates which we are required to apply and the NAO Code of Practice has introduced a new approach to discharging our responsibilities in relation to Value for Money. We have proposed an increase to the base fee to reflect the fact that these requirements will now become part of our standard audit procedures.

(2) In 2019/20 the variation to the base fee related to impact of the Covid-19 pandemic and the additional audit procedures that we were required to undertake to issue our audit opinion. These procedures included additional procedures on the going concern position of the Council, which has now been reflected in the base fee for 2020/21, as result of the new auditing standard taking effect for 2020/21. We note that the Covid-19 pandemic has continued to have an effect on our audit for this year, including consideration of accounting for new Covid-19 funding streams and performance of additional procedures.

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



## Other communications

### EY Transparency Report 2020

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 2020:

[EY UK Transparency Report 2020 | EY UK](#)



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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 include:




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

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

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

## Appendix B

# Summary of communications




Date 	Nature 	Summary 
8 February 2021	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to hold an initial audit planning discussion.
24 March 2021	Meeting	The partner in charge of the engagement gave a verbal update to the Audit Committee on the status of the audit planning work and the initial audit risks identified.
19 April 2021	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Section 151 Officer to hold a formal audit planning meeting.
26 May 2021	Report	The audit planning report, including confirmation of independence, was presented to the Audit Committee.
8 September 2021	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Section 151 Officer for an audit status update meeting.
22 September 2021	Report	The provisional audit results report, including confirmation of independence, will be presented to the Audit Committee.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.




## Appendix C

# Required communications with the Audit Committee




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

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The Audit Engagement letter serves as the formal terms of the engagement between the auditor and the audited body
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report - May 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report - May 2021
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> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	Audit Planning Report - May 2021





## Appendix C

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
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 related to going concern</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The appropriateness of related disclosures in the financial statements</li> </ul>	Provisional Audit Results Report - September 2021
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</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>	Provisional Audit Results Report - September 2021
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>	Provisional Audit Results Report - September 2021

## Appendix C





		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
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 entity</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 entity, 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>	Provisional Audit Results Report - September 2021
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <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 entity</li> </ul>	Provisional Audit Results Report - September 2021
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <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>	<p>Audit Planning Report - May 2021</p> <p>Provisional Audit Results Report - September 2021</p>

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> <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> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
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>	Provisional Audit Results Report - September 2021
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>	Provisional Audit Results Report - September 2021



## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Provisional Audit Results Report - September 2021
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 Planning Report - May 2021 Provisional Audit Results Report - September 2021
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>	Provisional Audit Results Report - September 2021
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>	Provisional Audit Results Report - September 2021
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Provisional Audit Results Report - September 2021

## Appendix D

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# Management representation letter


We will share a copy of the template representation letter when as part of the conclusion of our audit and once we understand the full nature of the representations that we will be requesting.

### Management Rep Letter

## Implementation of IFRS 16 Leases

In previous reports to the Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2022. However, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the Council will be fully compliance with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures 
Data collection	<p>Management should:</p> <ul style="list-style-type: none"> <li>▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.</li> <li>▶ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases</li> <li>▶ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.</li> </ul>
Policy Choices	<p>The Council needs to agree on certain policy choices. In particular:</p> <ul style="list-style-type: none"> <li>▶ Whether to adopt a portfolio approach</li> <li>▶ What low value threshold to set and agree with auditors</li> <li>▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components</li> <li>▶ What is managements policy in relation to discount rates to be used?</li> </ul>
Code adaptations for the public sector	<p>Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).</p>
Transitional accounting arrangements	<p>Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.</p>
Ongoing accounting arrangements	<p>Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.</p>
Remeasurements and modifications	<p>Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.</p>

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