

A photograph of a meeting table with documents and hands pointing at them. The table is white, and there are several sheets of paper with text on it. A person's hand is pointing at a document in the foreground, and another person's hand is pointing at a document in the background. A smartphone is visible on the table. The background is slightly blurred, showing a person in a yellow shirt.

North Tyneside Council

Provisional Audit Planning Report

Year ended 31 March 2022

March 2022

Private and Confidential

March 2022

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

Dear Audit Committee Members

Provisional audit planning report

We are pleased to attach our provisional audit planning report which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the committee's expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for North Tyneside Council (the Council), and outlines our planned audit strategy in response to those risks. Our audit planning process is still underway and, if there are any significant changes to our audit strategy as a result of this process, we will provide updates of any material changes to the Audit Committee.

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

We welcome the opportunity to discuss this report with you on 23 March 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Stephen Reid, Partner

For and on behalf of Ernst & Young LLP

Contents



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 our engagement contract. 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

Overview of our 2021/22 audit strategy



Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

| Risk / area of focus | Risk identified | Change from PY | Details |
|---|-------------------------------|----------------------------|---|
| 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 (Group and Council) | Fraud risk / Significant risk | No change in risk or focus | 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. Our judgement is that the significant risk at the Council relates to the improper recognition of grants with terms and conditions attached, the improper capitalisation of revenue expenditure and the omission of expenditure from the financial statements. We will therefore target our audit work in these areas. |
| Misstatements due to fraud or error (Group and Council) | Fraud risk / Significant risk | No change in risk or focus | As identified in ISA 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 would otherwise appear to be operating effectively. |
| Valuation of land and buildings held at existing value (Group and Council) | Inherent | Decrease in risk or focus | Our experience from the audit of property valuations, is that there is a greater likelihood of uncertainty in valuations of assets held at existing use value; however, as we did not identify any significant issues during our audit work in 2020/21, and there is no change to the valuation process for 2021/22, we consider the valuation of these assets to represent a higher inherent risk of material misstatement to the financial statements, rather than a significant risk. |

Overview of our 2021/22 audit strategy

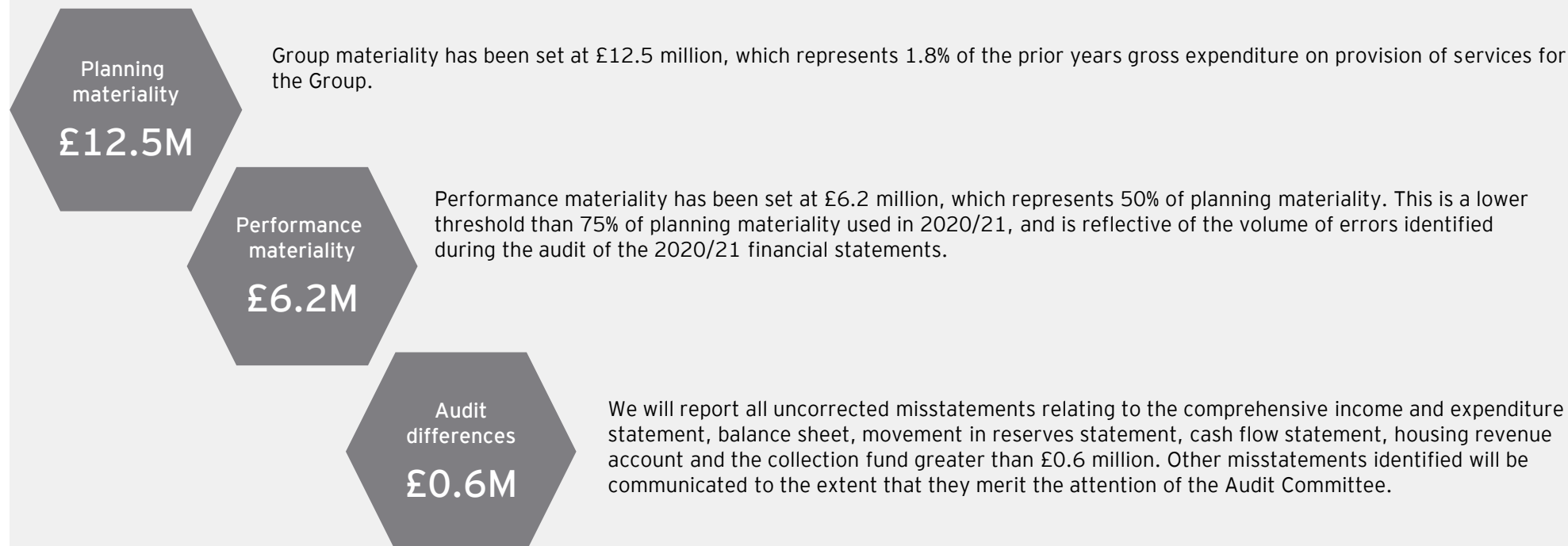
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Audit risks and areas of focus

| Risk / area of focus | Risk identified | Change from PY | Details |
|---|-----------------|----------------------------|--|
| Valuation of land and buildings held at depreciated replacement cost (Group and Council) | Inherent risk | No change in risk or focus | 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. We recognise that there are fewer assumptions used in the valuation of assets held at depreciated replacement cost, rather than open market value, and have revisited our risk assessment for these assets. |
| Pension liability valuation (Group and Council) | Inherent risk | No change in risk or focus | The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions can have a material impact on the balance sheet. |
| Financial Statement Close Process (Group and Council) | Inherent risk | New risk for 2021/22 | As part of our 2020/21 audit we identified that there were a large volume of manual material adjustments made by management, outside of the general ledger, as part of the financial statement preparation process. As these adjustments are not subject to the same processes and controls as transactions posted in the general ledger, there is an increased risk of error. |

Overview of our 2021/22 audit strategy

Materiality



Overview of our 2021/22 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 3.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2021/22 audit strategy

Audit scope - Group audit

Our Group scoping procedures are still underway but we expect that, given the reduction in our performance materiality thresholds for 2021/22, there will be balances from the subsidiary entities that will be material to the Group financial statements.

Where this is the case, we will assign the company a 'specific scope' for the Group engagement and test those balances material to the Group financial statements before we issue our Group audit opinion.

Value for money conclusion

We include details in Section 3 but in summary:

- ▶ We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- ▶ Planning on value for money, and the associated risk assessment, is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- ▶ We will provide a commentary on the Council's arrangements against three reporting criteria:
 - ▶ 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.
- ▶ The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Timeline

The Ministry of Housing, Communities and Local Government established regulations to extend the target date for publishing audited local authority financial statements from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years).

In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited financial statements to 30 November for 2021/22.

We are working with the Council to deliver the audit ahead of 30 November 2022. In Section 7 we include a provisional timeline for the audit.



02 Audit risks



Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

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*

Financial statement impact

Misstatements that may occur in relation to the assessed risk of fraud in revenue and expenditure recognition affect the following accounts. These accounts had the following values in the 2012/21 financial statements:

- ▶ Grants credited to services: £342.6 million
- ▶ PPE additions: £41.1 million
- ▶ Gross expenditure: £692.9 million
- ▶ Provisions: £12.9 million

What is the risk?

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

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

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 will therefore target our audit work in these areas.

What will we do?

We plan to perform the following procedures to address the risk:

- ▶ Test a sample of grant income to underlying evidence of award to check that revenue has been recognised in line with any terms and conditions attached to the funding
- ▶ Test a sample of capital additions recognised in year to ensure that they are capital in nature and should not have instead been recognised as expenditure in the Comprehensive Income and Expenditure Statement
- ▶ Review a sample of expenditure transactions recorded in the ledger and payments made from bank accounts post year-end and confirm that the associated expenditure has been recorded in the correct period
- ▶ Consider the completeness of provisions in the financial statements based on our review of Council and committee meetings and discussions with management

Our response to significant risks (continued)

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 will we do?

- ▶ Identifying fraud risks during the planning stages
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud
- ▶ Determining an appropriate strategy to address those identified risks of fraud
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- ▶ Assessing accounting estimates for evidence of management bias
- ▶ Evaluating the business rationale for significant unusual transactions

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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Valuation of Land and Buildings

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.

What will we do?

We plan to perform the following procedures to address the risk:

- ▶ Consider the work performed by the Council's valuer, Capita, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre)
- ▶ Consider the annual cycle of valuations to ensure that land and buildings assets have been valued as part of a five-year rolling programme as required by the CIPFA Code of Practice
- ▶ Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated
- ▶ Consider changes to useful economic lives as a result of the most recent valuation
- ▶ Test accounting entries have been correctly processed in the financial statements

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

Pension liability valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021, this totalled £557.9 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.

Financial statement close process

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

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

What will we do?

We plan to perform the following procedures to address the risk:

- ▶ Liaise with the auditor of the Tyne and Wear Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council
- ▶ Assess the work of the Pension Fund actuary (Aon) including the assumptions they have used by relying on the work of PWC, Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team
- ▶ Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19

This programme of work will also apply to the unfunded Teachers Pension element of the Local Government Pension Scheme liability.

We plan to perform the following procedures to address the risk:

- ▶ Select a sample of adjustments to understand the rationale for the adjustment, the reasons for it not being processed within the general ledger and test the appropriateness of the adjustment to underlying corroborative evidence
- ▶ Compare the adjustments made as part of the preparation of the 2021/22 financial statements to the adjustments made in 2020/21 to assess the completeness of the financial statements



03

Value for Money Risks





Value for Money

Council's responsibilities for value for money

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.

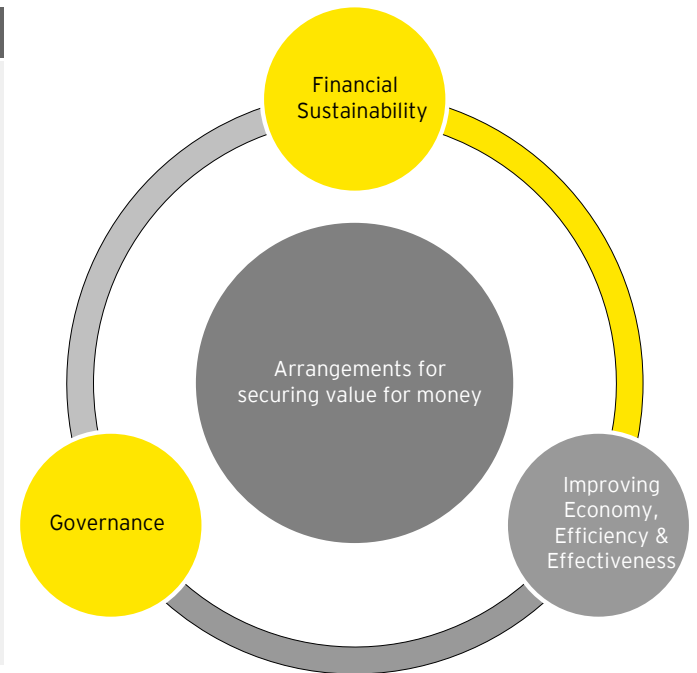
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice 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. The 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.
- ▶ 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.





Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- ▶ The Council's governance statement
- ▶ Evidence that the Council's arrangements were in place during the reporting period
- ▶ Evidence obtained from our work on the financials statements
- ▶ The work of inspectorates and other bodies
- ▶ Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- ▶ Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk
- ▶ Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation
- ▶ Leads to - or could reasonably be expected to lead to - unlawful actions
- ▶ Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans

We should also be informed by a consideration of:

- ▶ The magnitude of the issue in relation to the size of the Council
- ▶ Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts
- ▶ The impact of the weakness on the Council's reported performance
- ▶ Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned
- ▶ Whether any legal judgements have been made including judicial review
- ▶ Whether there has been any intervention by a regulator or Secretary of State
- ▶ Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue
- ▶ The impact on delivery of services to local taxpayers
- ▶ The length of time the Council has had to respond to the issue



Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2021/22 VFM planning

We have yet to complete our detailed VFM planning. However, one area of focus will be on the arrangements that the Council has in place in relation to financial sustainability - including the impact of Covid-19 on the medium term financial planning.

We will update the next Audit Committee meeting on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements.



04

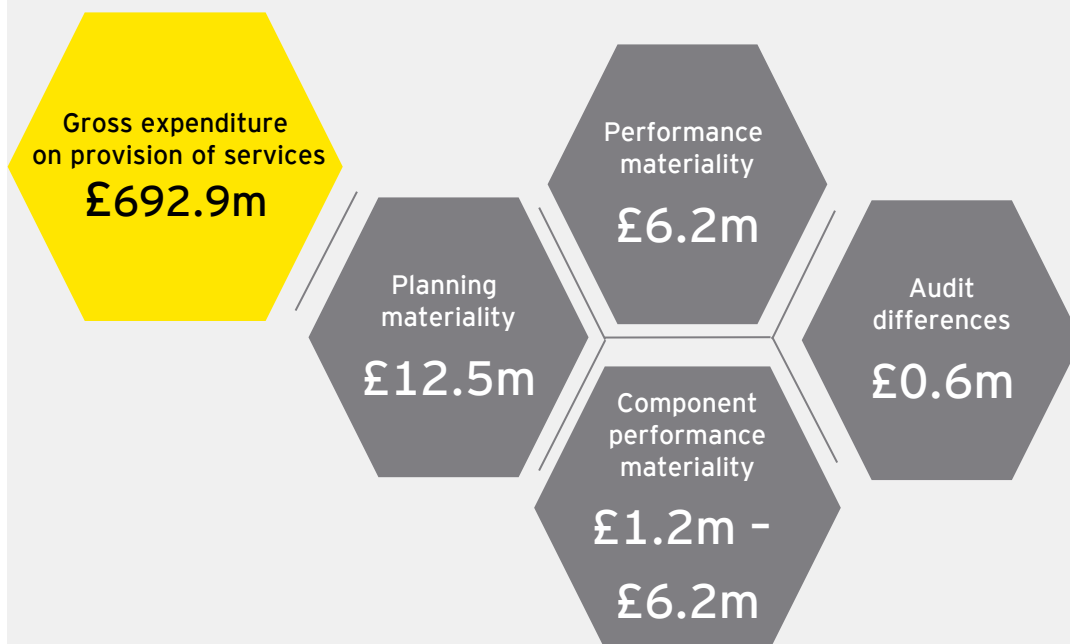
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £12.5 million. This represents 1.8% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £6.2 million which represents 50% of planning materiality. We have used a threshold of 50% as, based on the volume of errors identified during the audit of the 2020/21 financial statements, we have an expectation that we will identify errors as part of our 2021/22 audit work.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and the collection fund greater than £0.6 million.

Component performance materiality range - we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Other uncorrected misstatements, such as reclassifications and corrected misstatements, will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

Specific materiality - We have set a materiality of £1,000 for remuneration disclosures, members' allowances and exit packages which is the level of rounding in the financial statements reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these.

Materiality

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- ▶ Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

- ▶ whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- ▶ whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- ▶ whether other information published together with the audited financial statements is consistent with the financial statements; and
- ▶ where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- ▶ Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 3, 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 and report a commentary on those arrangements.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

We note that, due to the high volume of adjustments made outside of the General Ledger, we are unable to follow our new digital audit methodology which would allow us to gain greater insight into the transactions and balances of the financial statements.

Internal audit

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scope of our audit

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

- 1. Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
- 2. Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.

| | |
|---|------------------------------|
| Council | Full scope audit |
| North Tyneside Trading Co. Ltd. (Hold Co) | Review scope audit |
| North Tyneside Trading (Consulting) Co. Ltd | Dormant - Review scope audit |
| Aurora Properties (Rental) Ltd | Dormant - Review scope audit |
| North Tyneside Trading Development Co. Ltd (Dev Co) | Specific scope audit |
| Aurora Properties (Sale) Ltd | Specific scope audit |

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.



06

Audit team



Audit team

Audit team

The engagement team continues to be led by Stephen Reid (Partner), who will have responsibility for ensuring that our audit is high quality and delivers value to the Council. He will be supported by Claire Mellons (Senior Manager), who will be responsible for the day-to-day direction of audit work and is the key point of contact for the finance team.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

| Area | Specialists |
|---------------------------------|--|
| Valuation of Land and Buildings | Capita (management's valuation specialist) EY Real Estate (as requires) |
| Pensions disclosure | AON Hewitt (management's actuarial specialist) EY Actuaries |

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22. From time to time, matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

| Audit phase | Timetable | Audit committee timetable | Deliverables |
|---|------------------|---------------------------|--------------------------------------|
| Planning - Risk assessment and setting of scopes. Walkthrough of key systems processes | March | Audit Committee | Audit Planning Report |
| Interim audit testing | April | | |
| | May | Audit Committee | Audit status update (if required) |
| | June | | |
| Year end audit testing | July | Audit Committee | Audit status update (if required) |
| Year end audit testing continued | August - October | | |
| Audit Completion procedures | November | Audit Committee | Audit Report Audit Results Report |

At the time of writing this report, we have not yet agreed the detailed audit timetable with management for the 2021/22 audit. We note that it is not our expectation that we will have staff assigned to the audit throughout the whole of the period July to November but, we will agree specific timings with management following our debrief on the 2020/21 audit process.



08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

| Required communications | |
|--|---|
| Planning stage | Final stage |
| <ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. | <ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit/additional services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▶ An opportunity to discuss auditor independence issues. |

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Reid, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, our invoice for our assurance work on the 2019/20 pooling return, issued in November 2021, remains outstanding.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 1.1:1. No additional safeguards are required. A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021: https://www.ey.com/en_uk/about-us/transparency-report-2021



09

Appendices



Appendix A

Fees

A breakdown of our fees is shown in the table below.

| | Planned fee 2021/22* | Final fee 2020/21 |
|--|-------------------------|----------------------|
| | £ | £ |
| Total Fee - Code work (Base Fee) | 165,750 | 162,500 |
| Total Fee - Code work (Variation) Note (1) | TBC | 9,300 |
| Total Audit fee | | 171,800 |
| Total Fee - North Tyneside Trading Company and subsidiaries Note (2) | TBC | TBC |
| Total additional group fees | | TBC |
| Non-audit work - Housing Benefit certification | 13,056 | 12,800 |
| Non audit-work - Other certification work | 10,710 | 10,500 |
| Total other non-audit services | 23,300 | 23,300 |
| Total fees | TBC | TBC |

All fees exclude VAT

A 2% inflationary uplift has been applied to the 2021/22 fees in line with our Engagement contract.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the base fee.

Notes




(1)The 2020/21 the variation to the base fee related to impact of the Covid-19 pandemic and the additional audit procedures that we were required to undertake to issue our audit opinion including assessing the accounting treatment for the new Covid funding streams. We note that in 2021/22 we are likely to have to undertake additional audit work, due to the reduction in materiality levels, and we will agree the impact of this on the fee with management.

(2) 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. We are currently finalising our 2020/21 audit of the subsidiary entities and will confirm the final fee as part of this work.

Appendix B





Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

| | | |  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 Contract | |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | Engagement Contract | |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit Planning Report | |
| Significant findings from the audit | <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process | Audit results Report | |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | Audit results report | |




Appendix B

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|-------------------------|---|--|
| Required communications |  What is reported? |   When and where |
| Misstatements | <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management | Audit results report |
| Fraud | <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility | Audit results report |
| Related parties | <ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity | Audit results report |




Appendix B

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|---------------------------------------|---|--|
| Required communications |  What is reported? |  When and where |
| Independence | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence | Audit Planning Report and Audit Results Report |
| External confirmations | <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures | Audit results report |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | Audit results report |
| Internal controls | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit | Audit results report |

Appendix B

Required communications with the Audit Committee (continued)

| | | |  Our Reporting to you |
|--|---|--|--|
| Required communications |  What is reported? |  When and where | |
| Group audits | <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements | Audit planning report Audit results report | |
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit results report | |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report | |
| Auditors report | <ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report | Audit results report | |
| Fee Reporting | <ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work | Audit planning report Audit results report | |

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.



Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

About EY

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EY-000070901-01 (UK) 07/18. CSG London.



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