North Tyneside Council

Audit Committee

15 March 2019

Wednesday 27 March 2019 Room 0.01, Quadrant East, The Silverlink North, Cobalt Business Park, North Tyneside commencing at 6.00pm.

Agenda Item		Page
1.	**Apologies for Absence** To receive apologies for absence from the meeting.	
2.	**Declarations of Interest and Dispensations** You are invited to declare any registerable or non-registerable interests in matters appearing on the agenda, and the nature of that interest. You are also invited to disclose any dispensation in relation to any registerable or non-registerable interests that have been granted in respect of any matters appearing on the agenda. You are also requested to complete the Declarations of Interests card available at the meeting and return it to the Democratic Support Officer before leaving the meeting.	
3.	**Minutes** To confirm the minutes of the meeting held on 21 November 2018.	3.

Members of the public are welcome to attend this meeting and receive information about it.

North Tyneside Council wants to make it easier for you to get hold of the information you need. We are able to provide our documents in alternative formats including Braille, audiotape, large print and alternative languages.

For further information about this meeting please call 0191 643 5316.

Cont…

Members of the Audit Committee:-
Mr K Robinson (Chair)
Mr M Wilkinson (Deputy Chair)

Councillor D Cox
Councillor N Craven
Councillor S Graham
Councillor J Harrison
Councillor A McMullen
Councillor J Mole
Councillor J Wallace

Audit Committee

21 November 2018

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

AC18/11/18 Apologies

There were no apologies for absence reported.

AC19/11/18 Substitute Members

There were no substitute members reported.

AC20/11/18 Declarations of Interest and Dispensations

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

- Audit Committee Briefing: External Audit Transition November 2018; and
- Local Government Audit Briefing.

AC21/11/18 Minutes

Resolved that the minutes of the meeting held on the 25 July 2018 be confirmed as a correct record and signed by the Chair.

AC22/11/18 Annual Audit letter

The Committee was presented with the Annual Audit Letter which had been prepared by Mazars for the year ending 31 March 2018 and which had been presented to the Council in September 2018.

Resolved that the report be noted.

AC23/11/18 Audit Committee Briefing: External Audit Transition November 2018

Consideration was given to a report which provided an update on the changes made in relation to the provision of an external audit service for the authority. It was explained that, following a tendering exercise, EY had been appointed to provide the authority's external audit service with effect from the financial year ended 31 March 2019. Details of the EY team appointed to carry out the audit were outlined:

- The team would be led by Stephen Reid, a Partner at EY, who would be responsible for ensuring that the authority received a high quality audit;

- Nicola Wright, Associate Partner, would be responsible for ensuring that the audit delivered value for the authority; and

- Stuart Kenny, Senior Manager, would be the main day to day contact with the finance team and would be responsible for ensuring delivery of the audit to timetable.

The report set out the arrangements in place to ensure a smooth transition, which included a review of the 2017/18 Statement of Accounts, the financial plan and budget as well as meeting with the previous external auditors, Mazars, to obtain an understanding of the complex transactions which had taken place in previous years and which would continue to have an impact on the accounts. It was explained that introductory meetings had been held with the finance and audit sections to identify the challenges which would face the authority in the coming financial year.

The report also set out the proposed approach to the effective implementation of the audit, including the planning and identification of risk, the development of strategy and an assessment of the risks identified. EY would then carry out the audit and report to the Head of Finance and the Audit Committee.

Reference was made to the difference in fees to be charged and it was explained that the identified savings would be accrued across the five year contract and would not affect the scope of the work undertaken.

Resolved that the report be noted

AC24/11/18 Local Government Audit Committee Briefing

Consideration was given to a report which provided a briefing on the issues which may have an impact on the authority or on local government generally. The briefing brought together technical issues relevant to the local government sector and matters of potential interest to North Tyneside Council. Reference was made to the Local Government Economic Briefing for the third quarter which covered the impact of the slowdown of the economy on local authorities' medium term financial plans, the impact of the turbulence in the retail sector and the potential impact of Brexit.

Reference was also made to the responses to the CIPFA (Chartered Institute of Public Finance and Accountancy) consultations on the proposed local authority financial resilience index, the implementation of the new adoption of IFRS (International Financial Reporting Standards) 16 in relation to leasing standards and the proposed statutory overrides of IFRS 9 covering financial instruments. The briefing also provided an overview of the lessons learned across the country in relation to the earlier closure of the accounts and also referred to guidance in relation to Local Enterprise Schemes (LEPS).

The briefing also identified a number of key questions for consideration by an audit committee covering such topics as the CIPFA Financial Resilience Index, resilience in relation to Social Care, Social Housing, governance in relation to the transformation process and cyber security strategies. It was explained that EY had significant experience in dealing with the retail sector, along with many other sectors, and would be happy to share any information or insight it had on topics of interest to the authority or the committee.

Resolved that the report be noted

AC25/11/18 Annual Statement of Accounts 2018/19

Consideration was given to a report which set out the process for the closure of the 2018/19 accounts. It was explained that a detailed timetable had been prepared which outlined the key tasks required to be taken to meet the deadline for the closure of the accounts. Progress against each of the tasks was regularly reviewed so that appropriate action could be taken in relation to any slippage. Regular meetings would be held with the new external auditors to ensure that any issues raised could be dealt with quickly and a good working relationship established.

It was explained that the good working practices which had been established for the closedown of the 2017/18 accounts would be continued including regular meetings with Valuation, the involvement of all areas of the authority and the continued improvements made to the working papers to ensure that they were all of an appropriate high standard. Regular meeting would also be held with the Chief Finance Officer to ensure that any issues, risks or concerns were raised and dealt with in a timely manner.

Resolved that the work outlined in the plan for the closure of the 2018/19 accounts be noted.

AC26/11/18 Internal Audit Plan 2018/19 Interim Monitoring Statement

Consideration was given to a report which provided an interim monitoring statement in respect of the Strategic Audit Plan for 2018/19. At the mid-point of the year 24 of the original 42 assignments had either been completed or were in progress. In addition work had been undertaken to finalise seven assignments from 2017/18. It was also reported that internal audit had undertaken special investigations or additional management requests. It was also explained that the Strategic Audit Plan for 2018/19 would be kept under review and progress reported to future meetings of the Audit Committee.

Reassurance was provided that the service was on course to deliver the Strategic Audit Plan 2018/19.

Resolved that the progress, set out in the Strategic Audit Plan Monitoring Statement, and the planned level of coverage achieved by internal audit at this stage of the year be noted.

AC/27/11/18 Key Outcomes from Internal Audit Reports Issued April – October 2018

Consideration was given to a report which set out the key outcomes of internal audit reports issued between April and October 2018. It was noted that, based on the outcomes of the audits undertaken, the Authority's framework of governance, risk management and control was considered to be satisfactory overall.

For each of the reports issued the main points of concern were outlined together with the progress made or action taken to address any concerns. In addition the report also provided examples of good practice.

Reference was made to the issues identified in relation to the review of the business continuity plans and clarification was sought in relation to the timescale for their review. It was suggested that a rolling program of review would provide an effective level of challenge. It was explained that an audit provided a snapshot of a specific moment in time and that suitable plans were in place to provide an appropriate level of challenge. It was also acknowledged that systems in place could always be improved upon. It was suggested that it might be appropriate for a member of the Emergency Response Leadership Group to attend a future meeting of the Committee. It was also suggested that an update be provided to the next meeting.

Members sought clarification in relation to:

- The checks in place for monitoring use of payment cards and agency payments. It was explained that all of the expenditure had been legitimate but the control systems in place could be strengthened.
- The systems and procedures in place for obtaining, recording, transmitting and retaining cardholder data. It was explained that there were plans in place to mitigate any risk and that the responsibility for the overall governance of payment card industry data security standards had been incorporated in to a specific role in finance.
- The School Website Review. It was noted that schools were aware of the issues and appropriate information from the central team had been disseminated.

Resolved that (1) the key findings, good practice identified and the management action taken in response to Internal Audit Reports be noted; and
(2) the opinion of the Chief Internal Auditor, that the framework of governance, risk management and control was satisfactory overall, be noted.

AC28/11/18 Exclusion Resolution

Resolved that under Section 100A (4) of the Local Government Act 1972 (as amended) and having applied a public interest test as defined in Part 2 of Schedule 12A of the Act, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act.

AC29/11/18 Corporate Risk Management Summary

Consideration was given to a report which outlined the corporate risks that had been identified for monitoring and management by the Council's Senior Leadership Team, as of 5 September 2018. The report provided detailed information on each of the corporate risks including the cause of the risk, the consequences if the risk were to materialise, the existing and new controls in place to address the risks and an assessment of their likelihood and potential impact.

Resolved that the report be noted.

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

Members of the Audit Committee
North Tyneside Council
Quadrant, The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

29 November 2018

Dear Members

Results of certification work 2017/18

As the Council's appointed auditor, we acted as an agent of Public Sector Audit Appointments (PSAA) who have responsibilities to make certification arrangements for specified claims and returns. For 2017/18 the only claim or return within this regime was the Housing Benefits subsidy return. This letter reports the findings from this work.

In 2017/18 the prescribed tests for our Housing Benefits work were set out in the HBCOUNT module and BEN01 Certification Instructions issued by PSAA. For the Housing Benefits subsidy return, on completion of the specified work we issue a certificate. The certificate states whether the return has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter. Where we issue a qualification letter or the return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

The 2017/18 Housing Benefits return was subject to amendment and a qualification letter. Detailed findings, including the extrapolation of errors identified, were reported in our qualification letter to the Department for Work and Pensions (DWP) issued on 15 November 2018. The table below details our findings.

Return	Value of return (original)	Value of return (revised)	Amended (1)	Qualified (2)
Housing Benefits subsidy	£69,290,149	£69,290,180	Yes	Yes

1. Amendments

There was one small amendment only made to the return in respect of a technical issue also reported in our qualification letter.

2. Qualification issues

Where an error was identified from sample testing and it is not possible to quantify the error, the matter is reported as an extrapolated error in a qualification letter to the Department.

Our sample testing is split between initial testing and additional testing. Initial testing tests a random sample of 20 cases from each headline cell on the subsidy claim form for each of the benefit types (non-HRA rent rebates, rent allowances and rent rebates).

Our initial testing identified an error on one case where state retirement pension had not been taken into account when determining income and therefore the benefit awarded was too high. This had occurred following a change in the claimant's circumstances which meant they were no longer entitled to full benefit, however a "marker" within the housing benefits system used to identify such cases had not been removed. The Council was able to identify all cases where this marker was incorrectly in place and have corrected all such cases in 2018/19. This matter has been included within the "observations" section of our qualification letter as amendments have already been made within the housing benefits system.

I would like to express my thanks for the assistance of the Council's housing benefits team during the certification work.

Fees

PSAA set an indicative fee for our work on the Council's Housing Benefits subsidy return. The indicative fee and the final fee charged for 2017/18 are detailed in the table below.

Return	2017/18 indicative fee	2017/18 final fee	2016/17 final fee	2015/16 final fee
Housing Benefits subsidy	£16,970	£16,970	£12,075	£16,970

Yours faithfully

Gareth Davies
Partner
Mazars LLP

This letter is prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

North Tyneside Council Audit Planning Report

Year ending 31 March 2019

March 2019

Building a better working world

Private and Confidential

March 2019

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

Dear Audit Committee Members

We are pleased to attach our 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 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the committee's service expectations.

This Audit Planning Report summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

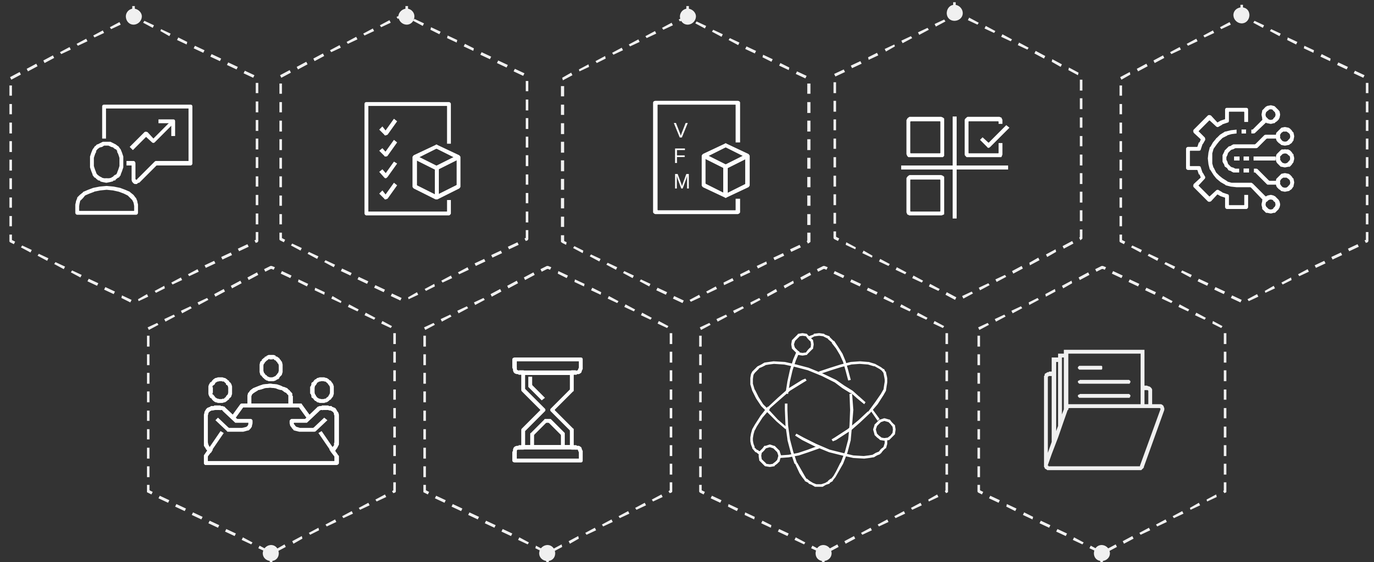
This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 27 March 2019, 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
Enc

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 2018/19 audit strategy

Overview of our 2018/19 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 when compared to those identified by your previous auditor.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	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.
Misstatements due to fraud or error	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	Significant risk	No change in risk or focus	The fair value of Property, Plant and Equipment (PPE) 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 judgemental inputs and apply estimation techniques to calculate the year-end balance recorded in the balance sheet.
Pension liability valuation	Inherent risk	Reduced risk	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.
Group financial statements	Inherent risk	New risk in 2018/19	In previous years, the Council has not produced group financial statements on grounds of materiality. However, due to increasing activity in the Council's subsidiaries, we believe that it is important the Council reassess their group boundary and consider the need to potentially produce group financial statements in 2018/19.
Implementation of new accounting standards	Inherent risk	New risk in 2018/19	The 2018/19 CIPFA Code of Practice on Local Authority Accounting has adopted the requirements of International Financial Reporting Standard (IFRS) 9 – financial instruments and IFRS 15 – Revenue from contracts with customers. These standards may impact the way in which the Council accounts for its financial instruments and revenue as well as introducing a number of new disclosure requirements for consideration.

Overview of our 2018/19 audit strategy

Audit risks and areas of focus			
Risk / area of focus	Risk identified	Change from PY	Details
Opening balances	Inherent risk	New risk in 2018/19	2018/19 will be the first year that we have completed the Council's external audit, and as such the requirements of ISA (UK) 510 apply. The basic objectives of an initial audit are similar to those of any audit engagement. However, when performing an initial audit, we report on the current period's assets, liabilities, and reserves, which are dependent upon the appropriateness of the opening balances. Therefore we are required to perform additional procedures in order to gain assurance that the opening balances are free from material misstatement.

Value for money risks and areas of focus			
Risk / area of focus	Risk identified	Change from PY	Details
Financial sustainability	Value for money risk	New risk in 2018/19	The Council continues to operate in a challenging financial environment. The main risks to the Council's finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and demand for services. These circumstances have resulted in the Council forecasting a pressure against budget of £2.1 million at the end of November 2018.

Materiality

Planning materiality

£5.9m

Materiality has been set at £5.9 million, which represents 1% of the prior year's gross expenditure on provision of services.

Performance materiality

£2.9m

Performance materiality has been set at £2.9 million, which represents 50% of materiality.

Audit differences

£0.29m

We will report 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 £0.29 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2018/19 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of North Tyneside Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

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.

02 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*

Financial statement impact

Misstatements that may occur in relation to the risk of fraud in revenue and expenditure recognition affect the income and expenditure accounts. These accounts had the following values in the 2017/18 financial statements:

Gross income: £605.9 million

Gross expenditure: £591.1 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 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.

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 posting of year end accruals. 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:

- Review and test revenue and expenditure recognition policies, including consideration of the recognition of grant income;
- Review and discuss with management any accounting estimates relating to revenue or expenditure recognition, such as manual accruals, for evidence of bias;
- Test 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; and
- 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.

Our response to significant risks (continued)

Misstatements due to fraud or error*	What is the risk?	What will we do?
	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.	We plan to perform the following procedures to address the risk: • Identify fraud risks during the planning stages; • Inquiry of management about risks of fraud and the controls put in place to address those risks; • Understand 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; • Determine an appropriate strategy to address those identified risks of fraud; and • Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

Our response to significant risks (continued)

Valuation of land and buildings	What is the risk?	What will we do?
	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.	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 and investment properties have been valued on an annual basis as required by the CIPFA Code of Practice; • Review assets not subject to valuation in 2018/19 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; and • Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

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

What is the risk?	What will we do?
Pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Tyne and Wear Pension Fund. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018, this totalled £466 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.	We plan to perform the following procedures to address the risk: • Liaise with the audit team of Tyne and Wear Pension Fund, to obtain assurances over the information supplied to the actuary in relation to North Tyneside Council; • Assess the work of the Pension Fund actuary (AON Hewitt) including the assumptions they have used, by relying on the work of PwC, the consulting actuaries commissioned by the PSAA for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to the pension disclosures.
Group financial statements In previous years, the Council has not produced group financial statements on grounds of materiality. However, due to increasing activity in the Council's subsidiaries, we consider that it is important the Council reassess their group boundary and the need to potentially produce group financial statements in 2018/19.	We plan to perform the following procedures to address the risk: • Review the Council's group boundary assessment to ensure that it is complete and all group entities have been identified; • Review the Council's assessment of qualitative factors, such as whether the Council is exposed to any commercial risk through its involvement with the group entity, in order to ensure the assessment is appropriate; and • Test the Council's quantitative assessment by agreeing all values included in the assessment to audited financial statements for each of the group entities.

Other areas of audit focus (continued)

What is the risk?	What will we do?
IFRS 9 financial instruments This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets is calculated; and • The disclosure requirements for financial assets. There are transitional arrangements within the standard and the 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 9.	We plan to perform the following procedures to address the risk: • Assess the Council's implementation arrangements, that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • Consider the classification and valuation of financial instrument assets; • Review new expected credit loss model impairment calculations for assets; and • Check additional disclosure requirements.
IFRS 15 Revenue from contracts with customers This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of local government revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.	We plan to perform the following procedures to address the risk: • Assess the Council's implementation arrangements, that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • Consider application to the Council's revenue streams, and where the standard is relevant test to ensure revenue is recognised when it satisfies a performance obligation; and • Check additional disclosure requirements.

Other areas of audit focus (continued)

What is the risk?	What will we do?
Opening balances 2018/19 will be the first year that we have completed your audit, and as such the requirements of ISA (UK) 510 apply. The basic objectives of an initial audit are similar to those of any audit engagement. However, when performing an initial audit, we report on the current period's assets, liabilities and reserves, which are dependent upon the appropriateness of the opening balances. Therefore, we are required to perform additional procedures in order to gain assurance that the opening balances are free from material misstatement. These procedures cover all balance sheet items, including for example key judgement areas and Private Finance Initiative (PFI) assets and liabilities.	We plan to perform the following procedures to address the risk: • Review the work of the predecessor auditor, to identify any issues identified that may impact upon the opening balances; • Review the work of the predecessor auditor to ensure the audit has been completed to an appropriate standard to allow us to place reliance on their audit opinion; • Substantively test all opening balances to ensure that they agree both to the prior year audited accounts and closing trial balance; • Review key judgement areas and PFI models to ensure that prior year disclosures in relation to these areas are materially correct.

03 Value for money risks

Value for money risks

Background

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

For 2018/19, this is based on the overall evaluation criterion:

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

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

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

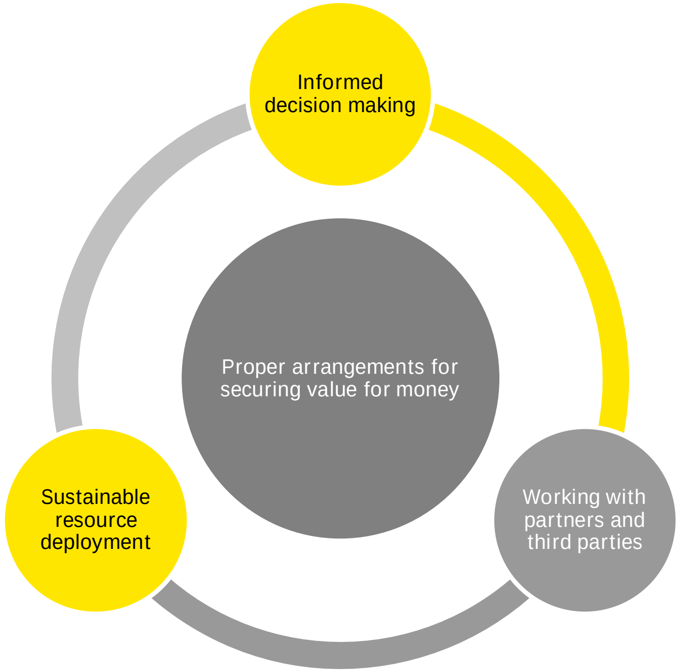
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your Annual Governance Statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money, and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks, there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following pages which we view as relevant to our value for money conclusion.



Value for money risks

Financial sustainability	What is the risk?	What will we do?
	The Council continues to operate in a challenging financial environment. The main risks to the Council's finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and demand for services. At the end of November 2018, the Council was forecasting a pressure against budget of £2.1 million. This pressure is largely due to significant overspends in Health, Education, Care and Safeguarding. In addition, over the next four years the Council estimates it is required to make £26.9 million of savings. There is therefore significant pressure on the Council's finances over the coming years.	We plan to perform the following procedures to address the risk identified: • Select a sample of savings plans and assess their reasonableness, including testing of the assumptions used; • Review the specific plans in place for Health, Education, Care and Safeguarding to understand how the Council plans to control the overspends in this area; • Review the level of reserves to ensure they are sufficient to cover the Council's assessment of the minimum required to provide its statutory services; and • Review the Medium Term Financial Plan and test the reasonableness of a sample of the assumptions used.

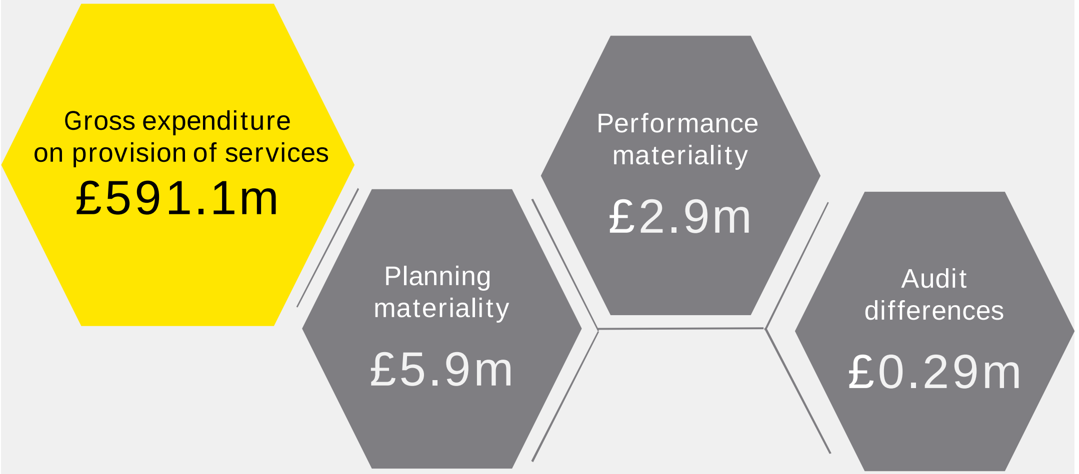
04 Audit materiality

Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £5.9 million. This represents 1% 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 £2.9 million which represents 50% of planning materiality. We have used a threshold of 50% as this is the first year we will be completing the audit of the Council.

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 £0.29 million.

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.

05 Scope of our audit

Our audit process and strategy

Objective and scope of our audit

Under the Code of Audit Practice, our principal objectives are to review and report on the Council's financial statements and 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 statements audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading the other information contained in the financial statements, and reporting whether it is inconsistent with our understanding and/or the financial statements; and
- Auditor independence.

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

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

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources.

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 2018/19, 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.

Internal audit

We will meet regularly with Allison Mitchell, Chief Internal Auditor, and Kevin McDonald, Group Assurance Manager, 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.

06 Audit team

Audit team

The engagement team is 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 Nicola Wright (Associate Partner) and Stuart Kenny (Senior Manager), who will be responsible for the day-to-day direction of audit work and are the key points 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 will provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Capita (management's valuation specialist) EY Valuations Team
Pensions disclosure	AON Hewitt (management's actuarial specialist) EY Actuaries
Private Finance Initiative (PFI)	EY PFI specialist

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 2018/19.

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	December		
Walkthrough of key systems and processes	January		
	February		
Interim audit testing	March	Audit Committee	Audit Planning Report
	April		
	May		
Year end audit testing	June		
Year end audit testing (continues) Audit completion procedures	July	Audit Committee	Audit Results Report Audit opinions and completion certificates
	August		Annual Audit Letter

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance” require 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 June 2016, 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**
► 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; and ► Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	► 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 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; ► Written confirmation that all covered persons are independent; ► Details of any inconsistencies between the FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of any contingent fee arrangements for non-audit services provided by us or our network firms; 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 also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

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 leader 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 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, there are no long outstanding fees, there are no non-audit fees other than those relating to certification of claims and returns, and there are no business relationships. Therefore 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.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

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

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

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

EY Transparency Report 2018

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 ended 30 June 2018 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

09 Appendices

Fees

Our audit fees are set out in the table below. For 2018/19, the fees are in line with our engagement contract signed in October 2017, whilst the 2017/18 fees are based on the scale fees set by Public Sector Audit Appointments Limited and relate to the fees charged by the predecessor auditor.

	Planned fee 2018/19	Final fee 2017/18
	£	£
Total Fee – Code work	85,200	135,765
Total Fee – Housing Benefit certification work	6,550	16,970
Total Audit fee	91,750	152,735
Non-audit work – Other certification work*	7,387	8,300
Total other non-audit services	7,387	8,300
Total fees	99,137	161,035

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our financial statement 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 scale fee.

* Fees for other certification work include the Housing Pooling Return, the Teachers' Pension Return and the Skills for Funding Agency Return.

The fee in the table above is the base audit fee that was agreed in our engagement contract; however there are also one-off transactions in 2018/19 we will need to consider, including the implementation of new accounting standards, the revaluation of the Council's shares in Newcastle International Airport Limited and potential production of Group Accounts which may have additional fee implications.

We will agree all variations to the base fee in advance with management as we progress through the audit and report back to the Audit Committee.

Appendix B

Required communications with the Audit Committee

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

Required communications	What is reported?	Our reporting to you 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	• 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

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • 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
Misstatements	• 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	• 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 • A discussion of any other matters related to fraud	Audit Results Report
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • 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	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement associate partner's consideration of independence and objectivity such as: • 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	• 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	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • 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	• Significant deficiencies in internal controls identified during the audit	Audit Results Report and Annual Audit Letter

Appendix B

Required communications with the Audit Committee (continued)

		Our reporting to you
Required communications	What is reported?	When and where
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
Auditor's report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report
Fee reporting	• Breakdown of fee information when the Audit Planning Report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit Planning Report Audit Results Report
Certification work	Summary of certification work undertaken	Certification 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 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. • Reading other information contained in the financial statements, including the statement that the annual report is fair, balanced and understandable, and that the Audit Committee's 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.

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 accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Appendix D

Transition update

In our External Audit Transition briefing paper presented to the Audit Committee on 21 November 2018, we detailed our approach and progress with ensuring the Council received a smooth transition between your previous auditors and ourselves. We provide a further update below in relation to our transition progress and the work we have so far completed.

Meetings

Since producing our external audit transition paper, we have met with the following officers to continue the transition process:

- Brett Devenish, Head of Property – Capita, and Melanie Brown, Senior Surveyor – Capita, to discuss the valuations process at the Council, including arranging a separate meeting with EY's internal valuers to discuss a number of difficult to value assets.
- Allison Mitchell, Chief Internal Auditor, and Kevin McDonald, Group Assurance Manager, to discuss the latest developments in Internal Audit work and agree a protocol to help the sharing of work.
- Louise Watson, Interim Monitoring Officer, to discuss any potential litigation at the Council.

Technical Training

On 11 December 2018, two members of our central technical team visited the Newcastle EY office and provided a training session on the latest accounting developments in the local government sector. The training included areas such as:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from contracts with customers

Four members of the Council's finance team attended the training, which also provided a useful insight into the way other councils in both the North East and further afield are dealing with local government specific issues.

Review of Financial Statements

We have reviewed the 2017/18 financial statements and provided comments to the finance team. This review has focussed on identifying areas where we believe amendments are required to the financial statements in order to ensure compliance with the CIPFA Code of Practice.

We believed it was important to complete this review early so any outcomes can be addressed when preparing the 2018/19 financial statements.

Walkthroughs and early testing

During our visits to the Council we have undertaken the following work, both to help us gain a better understanding of the Council, and also to facilitate a more efficient audit in the summer:

- Walkthroughs – we have completed system walkthroughs for all material financial systems
- Property, Plant and Equipment additions and disposals testing – we have selected a sample of additions and disposals for the period April to December 2018
- Income and Expenditure testing – we have selected a sample of income and expenditure items for the period April to December 2018 in order to allow us to perform early testing

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world
over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

North Tyneside Council
Report to Audit Committee
Date: 27 March 2019

ITEM 6

Title: Annual Statement of Accounts 2018/19

Report from Service:	Finance	
Report Author:	Janice Gillespie, Head of Resources	(Tel: 643 5701)
Wards affected:	All	

PART 1

1.1 Executive Summary:

1.1.1 The purpose of this report is to provide the Audit Committee with an update in respect of the closure of the 2018/19 accounts.

1.2 Recommendation(s):

1.2.1 It is recommended that the:

(a) Audit Committee note the work outlined in respect of the closure of the 2018/19 accounts.

1.3 Forward plan:

1.3.1 This report is included within the annual workplan for the Audit Committee.

1.4 Council plan and policy framework:

1.4.1 The Annual Statement of Accounts covers all the service responsibilities as identified within the Council Plan.

1.5 Information:

1.5.1 The Chief Finance Officer is required, no later than 31 May 2019, to sign and certify that the Statement of Accounts present a true and fair view of the Authority's financial position for the year ended 31 March 2019. The audited set of accounts is required, no later than 31 July 2019, to be approved and subsequently published.

Update on the preparation of the 2018/19 Annual Statement of Accounts

1.5.2 Communication has gone to all members of the Senior Leadership Team detailing the process for the closure of the 2018/19 accounts. This took the form of a briefing note which outlined the main tasks and actions required to be taken by services and reiterated the responsibilities of senior management in ensuring that all staff are fully aware of the deadlines associated with the closure of the 2018/19 accounts.

1.5.3 Detailed guidance notes have been published on the Council's intranet site outlining the key dates for the closure of the accounts. In addition an article has been published in Teamwork from the Head of Resources reminding staff of the importance of meeting deadlines and that any concerns that individuals may have should be raised as soon as possible with their relevant finance contact.

1.5.4 The Authority has a new set of external auditors, Ernst & Young (EY), and we are working with the auditors to understand their working paper requirements and overall approach to the audit of the Authority's accounts.

1.5.5 Work is underway on an assessment of whether group accounts will be required for 2018/19. It is possible that the value of the Trading Company together with the fact that the Authority is the main equity holder in the Company could lead to the necessity to produce group accounts. If this is the case additional disclosures will be required in the accounts and the timetable will have to reflect the additional steps required to produce group accounts.

1.5.6 Regular meetings are being held with Valuation as this is a key area of the accounts due to the high value of assets and changes in valuation techniques especially in relation to the valuation of the Authority's schools.

1.5.7 Guidance has been issued to schools on the areas that they need to focus on to ensure that they closedown on time. Training sessions with schools have also been held covering year-end requirements.

1.5.8 Regular meetings continue to be held with finance staff and valuation to address any issues that arise. The Head of Resources is updated on a regular basis on progress being made.

1.5.9 Work is progressing towards meeting the deadlines that are required in order for the Authority to be able to publish the Statement of Accounts by the statutory date of 31 May 2019. Currently we are not foreseeing any issues that will prevent the Authority achieving this date, however there is always the risk of unforeseen events that may impact on our ability to do so.

1.6 Decision options:

The options available are:

(a) To accept the recommendations made in section 1.2.1.

1.7 Reasons for recommended option:

The production of an Audited Annual Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015.

1.8 Appendices:

None.

1.9 Contact officers:

Janice Gillespie – Head of Resources - Tel: 643 5701
Cathy Davison – Principal Accountant – Tel 643 5727

Peter Weir – Principal Accountant – Tel 643 8066

1.10 Background information:

The following background papers and reports have been used in the compilation of this report and are available for inspection at the offices of the author:

(a) Accounts and Audit Regulations 2015

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no financial implications as a result of the recommendations within this report.

2.2 Legal

The Annual Statement of Accounts is produced annually in accordance with the Accounts and Audit Regulations 2015.

2.3 Consultation / community engagement

Consultation will take place with the key personnel and interested parties involved in the closedown process.

2.4 Human rights

There are no Human Rights implications as a result of the recommendations in this report.

2.5 Equalities and diversity

There are no Equalities and Diversity implications as a result of the recommendations in this report.

2.6 Risk management

A risk log has been set up which identifies the key risks and issues associated with the closedown process. The management of these risks are part of the overall process.

2.7 Crime and disorder

There are no crime and disorder implications as a result of the recommendations in this report.

2.8 Environment and sustainability

There are no environment and sustainability implications as a result of the recommendations in this report.

North Tyneside Council
Report to Audit Committee
Date: 27 March 2019

Agenda Item 7
Accounting Policies to be used in the compilation of 2018/19 Annual Statement of Accounts

Report from Service:	**Finance**	
Responsible officer:	**Janice Gillespie, Head of Resources**	**Tel: 643 5701**
Wards affected:	**All**	

PART 1

1.1 Executive Summary:

1.1.1 In the Annual Statement of Accounts, the Authority is required to disclose how the accounting statements have been prepared. The preparation of the statements should be in accordance with the accounting concepts and policies as per the 'Code of Practice on Local Authority Accounting in the UK 2018/19' (The Code).

1.1.2 Under the terms of reference of the Audit Committee, the Committee has the responsibility to review the Accounting Policies that will be used to compile the Annual Statement of Accounts.

1.1.3 The purpose of this report is to provide the Audit Committee with details of the proposed Accounting Policies that will be used in the compilation of the 2018/19 Annual Statement of Accounts.

1.2 Recommendations:

1.2.1 It is recommended that the Audit Committee endorse the Accounting Policies to be adopted by the Authority and used to compile the Authority's Annual Statement of Accounts for the financial year 1 April 2018 to 31 March 2019.

1.3 Council plan and policy framework.

1.3.1 The Accounting Policies cover all the service responsibilities as identified within the Council Plan.

1.4 Information - Executive Summary

1.4.1 The purpose of the Accounting Policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts of the Authority. The Code defines Accounting Policies as "the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements". The Accounting Policies disclosed are those material policies that are significant to the understanding of the Authority's Annual Statement of Accounts.

1.4.2 The Code requires that a change in Accounting Policies should only be made if the change:

(a) is required by The Code; or,

(b) will result in financial statements providing reliable and more relevant financial information about the effects of transactions, other events or conditions on an authority's financial position, financial performance and cash flows.

1.4.3 Significant changes in Accounting Policies, other than those specified in The Code, will be relatively rare.

1.4.4 The proposed Accounting Policies for 2018/19 are attached as Appendix A. The only changes recommended are to the accounting policies for:

(a) Property, Plant and Equipment (Appendix A page 11) – minor revision to more accurately reflect estimated assets lives used;
(b) Property, Plant and Equipment (Appendix A page 13) – updated to include reference to the potential use of capital receipts to generate on-going revenue savings as outlined in the budget setting report to full Council in February 2018; and,
(c) Financial Instruments (Appendix A pages 16 to 20). This is the most significant change and has arisen as a result of changes to International Financial Reporting Standard 9. The changes are required mainly to disclosures and are unlikely to have any bottom line impact on the Authority's accounts. Although work is still on-going to confirm this.

1.5 Decision options:

1.5.1 Audit Committee can agree to endorse the recommendations as set out in Section 1.2 of this report. Alternatively the Audit Committee can decline to endorse the proposals and require further details and amendment.

1.6 Reasons for recommended option:

1.6.1 Audit Committee is recommended to endorse the proposals set out in section 1.2 of this report as the production of the Accounting Policies is a requirement of the Accounts and Audit Regulations 2015.

1.7 Appendices:

Appendix A	Draft Accounting Policies
Appendix B	Glossary of Terms

1.8 Contact officers:

Janice Gillespie, Head of Resources, Tel 643 5701
Claire Emmerson, Senior Manager, Financial Strategy and Planning, Tel 643 8109

Cathy Davison, Principal Accountant Investment (Capital) and Revenue, Tel 643 5727

1.9 Background information:

1.9.1 The following background papers and research reports have been used in the compilation of this report and are available at the offices of the author:

(a) Code of Practice on Local Authority Accounting in the UK 2018/19.

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

2.1.1 There are no financial implications arising from this report.

2.2 Legal

2.2.1 The Authority has a duty to ensure that it produces an Annual Statement of Accounts by 31 May 2019 in accordance with the Accounts and Audit Regulations 2015. Part of this process is the agreeing of the Accounting Policies by the Audit Committee.

2.3 Consultation/community engagement

Internal consultation

2.3.1 Internal consultation has taken place with the Cabinet Member for Finance, Head of Resources, relevant Finance staff and the External Auditor.

2.4 Community engagement

2.4.1 There are no community engagement implications arising from this report.

2.5 Human rights

2.5.1 There are no human rights implications arising from this report.

2.6 Equalities and diversity

2.6.1 There are no equalities and diversity implications arising from this report.

2.7 Risk management

2.7.1 There are no risk management implications arising from this report.

2.8 Crime and disorder

2.8.1 There are no crime and disorder implications arising from this report.

2.9 Environment and sustainability

2.9.1 There are no environmental and sustainability implications arising from this report.

1 Accounting Policies

General Principles

Accounting Policies explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts. They are the principles, bases, conventions, rules and practices applied by the Authority that specify how the effects of transactions and other events are to be reflected in the financial statements through recognising, selecting measurement bases for and presenting assets, liabilities, gains, losses and changes in reserves. The Accounting Policies cover material transactions within the Statement of Accounts.

The Statement of Accounts summarises the Authority's transactions for the ~~2017~~2018/~~18~~ 19 financial year and its position at the year-end of 31 March ~~2018~~2019. The Authority is required to prepare an annual Statement of Accounts in accordance with proper accounting practices by the Accounts and Audit Regulations 2015.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom ~~2017/18~~2018/19 (the Code), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the 2015 Regulations.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. Generally, the majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions in the year in which they are identified, and are accounted for accordingly.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract unless the difference is immaterial; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Overheads and Support Services

The costs of overheads and support services are shown within the Central Costs line on the Comprehensive Income and Expenditure Statement in accordance with the Authority's arrangements for accountability and financial performance.

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until there is reasonable assurance that the conditions attached to the grant or contribution will be satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied or for which there is not reasonable assurance that they will be satisfied are carried in the Balance Sheet as creditors (revenue grants) or capital grants receipts in advance (capital grants). When conditions are satisfied or reasonable assurance is achieved, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and

- Amortisation of intangible assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations to General Fund Assets. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance, the Minimum Revenue Provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by MRP in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. The Minimum Revenue Provision policy is approved annually by Council as part of the budget setting process.

Under the Item 8 debit and credit determination from April 2017 depreciation for Housing Revenue Accounts assets is calculated in accordance with proper accounting practice and charged to the Housing Revenue Account. Impairment and revaluation adjustments are reversed out the Housing Revenue Account and will not impact on Housing Rents.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

<u>The Authority as Lessee</u>

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

<u>The Authority as Lessor</u>

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant service (Other Operating Expenditure) line in the Comprehensive Income and Expenditure Statement. Rental income is recognised on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Employee Benefits

Benefits Payable during Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu, flexi balances) earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or where applicable, to the Central costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises the costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits (Retirement Benefits)
Employees of the Authority are primarily members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE); and
- The Local Government Pensions Scheme (Tyne and Wear Pension Fund), administered by South Tyneside Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees of the Authority/Schools.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Commissioning & Investment line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pensions Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Tyne and Wear Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees; and

- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.

The assets of the Tyne and Wear Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price;
- Unquoted securities – professional estimate;
- Unitised securities – current bid price; and
- Property – market value.

The change in the net pensions liability is analysed into the following components:

<u>Service cost</u>

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement; and

- Net Interest on the net defined benefit liability (asset) i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; and
- Contributions paid to the Tyne and Wear Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The notes to the Core Financial Statements provide further details on contributions made.

Discretionary Benefits
The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities

estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

The freehold and leasehold properties which comprise the Council's portfolio are valued by Capita Property and Infrastructure Limited acting as the Council's internal Chartered Surveyors.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price; and
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure and community assets– depreciated historical cost;
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective; and,
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value. Assets under the course of construction are recorded at cost during the construction period. Once the asset becomes operational a valuation is undertaken as relevant to the asset's type.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. However, where the increase reverses a revaluation decrease on the same asset that was previously charged to the Surplus or Deficit on Provision of Services, all or part of the revaluation gain is credited to the Surplus or Deficit on Provision of Services up to the amount of the previously recognised loss, net of depreciation that would have been charged had the loss not been recognised.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

<u>De-Minimis Levels</u>
The Authority has set a de minimus level for the recognition of capital assets of £0.010m for land, buildings and infrastructure and £0.006m for equipment.

Assets below the de-minimis level are charged to the revenue account i.e. the asset is not included in the balance sheet unless it is part of an overall project costing more than the de-minimis level.

The Authority may capitalise particular items of expenditure that are below its de-minimis limit (e.g. because the terms of a grant require it to be applied to capital expenditure), as this brings the Authority back in line with proper practices for the particular item. The treatment of items below the limit in this way has no material impact on the accounts.

<u>Impairment</u>

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

<u>Depreciation</u>

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, Heritage Assets and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

- Council Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer (generally ~~30~~10-~~60~~ 50 years);
- Vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset (generally 3-10 years); and
- Infrastructure – straight-line allocation over the useful life of the asset (generally 10-120 years).

Where an item of Property, Plant and Equipment asset has major components whose ~~cost~~ life is significant in relation to the total ~~cost~~ asset~~of the item~~, the components are depreciated separately. For buildings valued over £0.500m consideration will be given as to whether or not there is any significant part which requires a separate component~~, such as the roof~~ or any specialist item of plant or equipment.

The land element will continue to be considered as a separate asset with its own valuation which, except in very unusual circumstances, will not be subject to depreciation.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £0.010m are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. Capital Receipts may also be used under the Flexible Use of Capital Receipts which allows Local Authorities to fund revenue expenditure incurred to generate on-going savings.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Heritage Assets

Heritage Assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

Recognition and Measurement

Assets have been valued at cost or insurance valuation if this information is readily available. Where neither is obtainable at a cost commensurate with the benefits of doing so the assets are not recognised on the Balance Sheet.

Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment. Any impairment is recognised and measured in accordance with the Authority's general policy on impairment.

Disposals

Disposal proceeds are disclosed separately and accounted for in accordance with the statutory accounting requirements relating to capital receipts.

The Authority's museums are included and accounted for as operational assets within Property, Plant and Equipment.

Investment Property

Investment Properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment Properties are measured initially at cost and subsequently at fair value, based on the price that would be received from the sale of the property in an orderly transaction between market participants at the measurement date. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals received in relation to Investment Properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.010m) the Capital Receipts Reserve.

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being bale to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant services in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant services in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.010m) the Capital Receipts Reserve.

Interests in Companies and Other Entities

In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses. The Authority does not have material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities that require it to prepare group accounts.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will normally pass to the Authority at the end of the contracts, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment (See Note 19).

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment or revenue expenditure in the relevant service line of the Comprehensive Income and Expenditure Statement when the relevant works are eventually carried out.

Financial Instruments

Formatted: Indent: Left: 2 cm

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable (maximum 10 years) when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

Formatted: Indent: Left: 2 cm, Space After: 10 pt, Line spacing: Multiple 1.15 li, Bulleted + Level: 1 + Aligned at: 0 cm + Indent at: 0 cm

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Formatted: Indent: Left: 2 cm

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Authority has designated its investments in equity instruments to FVOCI for shares held in Newcastle International Airport Limited and North Tyneside Trading Company. This designation once made is irrevocable.

[

~~Financial Liabilities~~

~~Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.~~

~~The majority of the Authority's borrowing is held on the Balance Sheet as the principal outstanding (plus accrued interest) and interest is charged to the Comprehensive Income and Expenditure Statement as the amount payable for the year according to the loan agreement.~~

Formatted: Indent: Left: 2 cm, Space After: 10 pt, Line spacing: Multiple 1.15 li, Bulleted + Level: 1 + Aligned at: 0 cm + Indent at: 0 cm

Formatted: Indent: Left: 2 cm

~~Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.~~

~~Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable (maximum 10 years) when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.~~

~~Financial Assets~~

~~Financial assets are classified into two types:~~

- ~~Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and~~
- ~~Available-for-sale financial assets – assets that have a quoted market price and/or do not have fixed or determinable payments.~~

Formatted: Normal, Indent: Left: 2 cm, No bullets or numbering

~~Loans and Receivables~~

~~Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.~~

~~Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made,~~

~~the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.~~

~~Available-for-Sale Financial Assets~~

Formatted: Indent: Left: 2 cm, First line: 0 cm

~~Available-for-sale financial assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.~~

~~Assets are maintained in the Balance Sheet at fair value. Equity shares with no quoted market prices are based on an independent appraisal of company valuations. As such they are classified as a Level 2 inputs. That is, they are not quoted but are observable, either directly or indirectly.~~

~~Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.~~

~~Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).~~

~~Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).~~

Provisions and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. The nature of the Authority's main reserves and balances are shown in Note 31 to the Core Financial Statements. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent useable resources for the Authority – these reserves are explained in the relevant policies.

Estimation Techniques

Estimation techniques are the methods adopted to arrive at estimated monetary amounts for the values of assets, liabilities, gains and losses and changes in reserves in situations where there is uncertainty as to their exact value. Estimation techniques have been used to determine provisions (including redundancy payments and equal pay), reserves, pension liabilities and Business Rate Appeals, as there is uncertainty over the monetary amounts. Except where specified in the CIPFA Code, the Authority has determined the estimation techniques that most closely reflect the economic reality of the transactions.

Collection Fund Statement

Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. However, regulations determine the amount of Council Tax and Business Rates that must be included in the Authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund Balance Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of Council Tax and Business Rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and arrears.

Events after the Reporting Period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Joint Arrangements

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

Where the Authority has entered into a pooled budget arrangement under Section 75 of the National Health Service Act 2006, the Authority accounts for its share of the assets, liabilities, income and expenditure arising from the activities of the pooled budget, identified in accordance with the pooled budget agreement. The Authority only accounts for its share of the assets, liabilities, revenue and expenses of the arrangement.

Value Added Tax (VAT)

Income and Expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

Fair Value measurement

The Authority measures some of its non-financial assets such as surplus assets, assets held for sale and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date ;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or
- Level 3 – unobservable inputs for the asset or liability.

Schools

The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

<u>Trust Schools</u>
In accordance with accounting guidance land and buildings leased to the foundation trust are included on the Authority's Balance Sheet.

<u>Voluntary Aided Schools</u>
Land and buildings owned by the diocesan authorities are not included on the Authority's Balance Sheet.

Academy Schools
Land and buildings transferred to an Academy are removed from the Authority's Balance Sheet in the year that the transfer takes place.

Glossary of Terms

A

Accounting period: the period of time covered by the accounts, normally twelve months commencing on 1 April. The end of the accounting period i.e. 31 March is the balance sheet date.

Accounting policies: are the specific principles, bases, conventions, rules and practices applied in preparing and presenting these accounts.

Accruals basis: the method of including amounts in accounts to cover income or expenditure attributable to an accounting period but for which payment has not been received or made by the end of the accounting period. This is based on the concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Actuarial Gains and Losses: for a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation or;
- the actuarial assumptions have changed.

Amortised: reducing the value of a balance in an accounting period. The reduction in value is transferred from the balance sheet to the Comprehensive Income and Expenditure Statement.

Amortised Cost: is the amount at which an asset or liability is measured (usually at cost) plus or minus accumulated interest.

Appropriations: transferring of an amount between specific reserves in the Comprehensive Income and Expenditure Statement.

Asset: something of value which is measurable in monetary terms.

Authorised Limit: this is the limit beyond which borrowing is prohibited.

Authority: this is the corporate body of North Tyneside Council.

Available for Sale financial assets: financial instruments that either do not have fixed or determinable payments or whose prices are quoted on an active market.

B

Bad (and doubtful) debts: debts which may be uneconomic to collect or unenforceable in law.

Balances: the reserves of the Authority, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.

Balance Sheet: a statement of the recorded assets, liabilities and other balances at the end of an accounting period.

Billing authority: a local authority empowered to collect Non - Domestic Rates and Council Tax i.e. metropolitan authorities, unitary authorities, London Boroughs, district authorities and the City of London. North Tyneside Council is a billing authority.

Business Rates: **(also known as Non-Domestic Rates (NDR)):** a tax levied on business properties and is a means by which local businesses or organisations contribute to the cost of local authority services. The levy on businesses being based on a notional rate in the pound set by the government multiplied by the rateable value of the premises occupied. This multiplier is set annually by central Government, and comprises of a standard rates multiplier and a small business multiplier. The authority can now keep half of this revenue to invest in local services.

Budget: a statement of the Authority's expected level of service expressed as an amount of spending over a set period, usually one year.

C

Capital Adjustment Account: provides a balancing mechanism between the different rates at which assets are depreciated under The Code and are financed through the capital controls systems.

Capital expenditure: expenditure on the acquisition or enhancement of non current assets. Capital expenditure can be incurred in some instances (where no asset is created) if Secretary of State permission is granted (e.g. where grants are made to other organisations for capital projects).

Capital Financing Requirement: the capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the Authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.

Capital receipts: the proceeds from the sale of a fixed asset, or the repayment of some grants or loans made by the Authority.

Capitalised: transferred from revenue to capital.

Cash and cash equivalents: this comprises cash in hand, cash overdrawn and short term investments which are readily convertible into known amounts of cash.

Cashflow: movement in cash and cash equivalents by the Authority in the accounting period.

CIPFA: The Chartered Institute of Public Finance and Accountancy.

CIPFA Code of Practice on Local Authority Accounting (The Code): the code of practice applicable to preparing the accounts.

Collection Fund: this account reflects the statutory requirement contained in section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates (NDR).

Community assets: assets that the Authority intends to hold in perpetuity have no determinable finite useful life and in addition may have restrictions on their disposal. Examples of community assets are playing fields and parks.

Component: is a significant part of an asset (such as a roof or major item of plant or equipment), which has to be separately identified for the purposes of accounting and asset management.

Comprehensive Income & Expenditure Statement: the account, that sets out the Authority's income and expenditure for the year for non-capital spending. It is sometimes referred to as the Revenue Account.

Consistency: the concept that the accounting treatment of like items within an accounting period and from one period to the next should be the same.

Consolidated: added together with adjustments to avoid double counting of income, expenditure, or to avoid exaggeration, e.g. debtors, creditors as a result of trading between services within the Authority which are reported on as a whole in the section on consolidated financial accounts.

Consumer Price Index (CPI): the index has been designed as a macro-economic measure of consumer price inflation. The official measure is calculated each month by taking a sample of goods and services that a typical household might buy including food, heating, household goods and travel costs.

Contingent asset: a contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.

Contingent liabilities: arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingencies: sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

Council (or Full Council): the formal meeting of all Members of North Tyneside Council.

Creditors: amounts owed by the Authority for work done, goods received or services rendered to the Authority during the accounting period, but for which payment has not been made by the Balance Sheet date.

Council Tax: the main source of local taxation for local authorities. It is a banded property tax (using 1 April 1991 property values) which is levied on households within its area by the billing authority and is set annually for the properties in its area. Council Tax income is paid into the billing authority's Collection Fund for distribution to precepting authorities and for use by the billing authority's own General Fund.

Current assets: which will be consumed or cease to have value within the next accounting period, e.g. stock and debtors.

Current liabilities: amounts that the Authority owes to other bodies and due for payment within 12 months.

Current Service Cost (Pensions): the increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

Curtailment: for a defined benefit pension scheme this is an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service, examples being termination of employees service through redundancy or amendment of the terms affecting future benefits.

D

Debtors: amounts due to the Authority which relate to the accounting period and have not been received by the Balance Sheet date.

Deferred Credits including Deferred capital receipts: amounts derived from the asset sales which will be received in instalments over a period of a year (e.g. mortgages on the sale of Council houses).

Deferred Liabilities: these are liabilities which are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time, e.g. deferred purchase arrangements.

Depreciation: the reduction in value of an asset due to age, wear and tear, deterioration or obsolescence.

Defined Benefit Scheme: a defined contribution scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all the employees benefits relating to employee service in the current or prior periods. A defined benefit scheme is a pension or retirement benefit scheme other than a defined contribution scheme.

E

Earmarked reserves: these reserves represent the monies set aside that can only be used for a specific usage or purpose (see Reserves definition for more information).

Emoluments: all sums paid to or receivable by an employee and sums due by way of expenses or allowances (as far as those sums are chargeable to UK income tax) and the monetary value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Enterprise Zones: specific areas where a combination of financial incentives and reduced planning restrictions apply.

Equity instrument: a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Estimation Techniques: methods adopted by the Authority to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Events after the Balance Sheet Date: events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts are authorised for issue.

Exceptional items: are ones that are material in terms of the Authority's overall expenditure for example impairments and changes in accounting regulations.

Expenditure: costs incurred by the Authority for goods received, services rendered or other value consumables during the accounting period, irrespective of whether or not any movement of cash has taken place.

Extraordinary items: these are very rare. They are material items with a high degree of abnormality that arise outside the normal activities of the Authority and are not expected to recur.

F

Fair Value: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

Finance Lease: a lease that transfers substantially all the risk and rewards of ownership of a fixed asset to the body leasing the asset (see Leasing definition for more information).

Financial Asset: a right to future economic benefits controlled by the Authority that is represented by: cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity.

Financial Instruments: contracts that give rise to a financial asset of one entity and a financial liability of another entity.

Financial Liability: an obligation to transfer economic benefits controlled by the Authority that is represented by: a contractual obligation to deliver cash (or another financial asset) to another entity, or a contractual obligation to exchange financial assets/liabilities with another entity.

G

General Fund: the main revenue account of the Authority, which brings together all income and expenditure other than recorded in the Housing Revenue Account and the Collection Fund.

Government grants: grants made by the Government towards either revenue or capital expenditure to support the cost of the provision of local authority services. These grants may be specifically towards the cost of particular schemes or to support the general revenue spending of the Authority.

H

Historical cost: the actual cost of assets, goods or services, at the time of their acquisition.

Housing Benefits: a system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by central government.

Housing Revenue Account: a separate account that includes all income and expenditure arising from the provision of Council housing by the Authority.

I

Impairment: a reduction in the value of a fixed asset, measured by specific means, below its stated carrying amount in the Balance Sheet.

Income: amounts which the Authority receives or expects to receive from any source, including rents, fees, charges, sales and grants.

Infrastructure Assets: assets such as highways, bridges, street lights and footpaths.

Intangible Asset: identifiable non-monetary asset without physical substance e.g. computer licences.

Interest Cost (pensions): for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

International Accounting Standards (IAS): international accounting standards issued by the International Accounting Standards Board. They are authoritative statements of how particular types of transactions and other events should be reflected in financial statements.

Inventories: raw materials and consumable items which the Authority has procured to use on a continuing basis and have not been used by the end of the accounting period.

Investment Property: interests in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arm’s length.

Investments: items such as company shares, other securities and money deposited with financial institutions (other than bank current accounts).

L

Leasing: a method of acquiring the use of an asset by paying a rental for a specified period of time, rather than purchasing it outright. The two methods are:

- *Operating Leases* – may generally be described as those which do not provide for the property in the asset to transfer to the Authority, only the rental will be taken into account by the lessee; or
- *Finance Leases* – are leases that transfer substantially all of the risks and rewards of ownership of the asset to the lessee. The asset is recorded on the lessee's balance sheet.

Lender Option Borrower Option Loans (LOBO): borrowing whereby the lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty).

Levies: similar to precepts, these sums are paid to other bodies. However, these amounts are not collected through Council Tax as with precepting bodies; they are items of expenditure on the face of the Comprehensive Income and Expenditure Statement. The bodies that charge a levy on the Authority are the Tyne and Wear Integrated Transport Authority, the Environment Agency and the Tyne Port Health Authority and Northumberland Inshore Fisheries and Conservation Authority.

Liabilities: amounts due to individuals or organisations, which will have to be paid at some time in the future.

Long Term Assets: assets which have value to the Authority for more than one year, e.g. land, buildings, equipment (also known as non current assets).

M

Material: the concept that any omission from or inaccuracy in the statements of account should not be large enough to affect the understanding of those statements by a reader.

Minimum Revenue Provision (MRP): is the amount which must be charged to an authority's revenue account and set aside as a provision for credit liabilities (repayment of debt), as required by the Local Government Act 1989.

N

National Multiplier: the figure used to calculate a non-domestic rates bill from the rateable value.

Non-Domestic Rates (NDR) (also known as Business Rates): a tax levied on business properties and is a means by which local businesses or organisations contribute to the cost of local authority services. The levy on businesses being based on a notional rate in the pound set by the government multiplied by the rateable value of the premises occupied. This multiplier is set annually by central Government, and comprises of a standard rates multiplier and a small business multiplier. The authority can now keep half of this revenue to invest in local services.

Net Book Value: the amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided by depreciation.

Net Realisable Value: the open market value of the asset in its existing use (or open market value in the case of investment Property), less the expenses to be incurred in realising the asset.

Non Current Asset: assets which have value to the Authority for more than one year eg land, buildings, equipment (also known as Long Term Assets).

O

Operating Lease: a type of lease where the ownership of the asset remains with the lessor, and rental payments are recorded against services in the Comprehensive Income & Expenditure Statement (see Leasing definition for more information).

P

Pooled Funds: established to support partnership working. A pooled fund will receive funds from a variety of sources and will be administrated by the host partner.

Precept: the charge determined by precepting authorities on billing authorities. It requires the billing authority to collect income from Council taxpayers on their behalf. In the case of North Tyneside Council, the precepting authorities are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.

Prior Year Adjustments: material adjustments to the accounts of earlier years arising from changes in accounting policies or from the correction of prior year errors. A prior year error may include the effect of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of fact, and fraud. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provisions: amounts set aside in the accounts for liabilities or losses which are certain or very likely to occur but where there is uncertainty as to the amounts involved or the dates on which they will arise.

Private Finance Initiative (PFI): public authority/private sector partnerships designed to procure new major capital investment resources for local authorities.

Prudential Code: The current system on financial controls for capital financing introduced on 1 April 2004 that local authorities are required to operate by.

Public Works Loan Board (PWLB): a central Government agency which lends money to local authorities at lower rates than those generally available from the private sector. Local authorities are able to borrow for their requirements to finance capital expenditure from this source.

R

Remuneration: defined as sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Replacement Cost: cost of replacement of the asset at the balance sheet date.

Reserves: amounts set aside in the accounts to meet expenditure which the Authority may decide to incur in future period, but not allocated to specific liabilities which are certain or very likely to occur. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves are often described as balances, and usually arise as unplanned surpluses of income over expenditure.

Retail Price Index (RPI): measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.

Revaluation Reserve: records unrealised revaluation gains arising (since 1 April 2007) from holding property, plant & equipment. This reserve is matched by fixed assets within the Balance sheet; therefore they are not resources available to the Authority.

Revenue Contributions: method of financing capital expenditure directly from revenue.

Revenue Expenditure Funded from Capital under Statute: expenditure classified as capital for funding purposes but does not result in the creation of an asset (previously called deferred charges).

Revenue Support Grant: a central Government grant paid to each local authority to help to finance its general expenditure, as opposed to specific grants.

Ring-fenced: this refers to the statutory requirement that certain accounts such as the Collection Fund and Housing Revenue Account must be maintained separately from the General Fund.

S

Section 151 Officer: the Council officer designated under Section 151 of the Local Government Act 1972 to take overall responsibility for the financial administration of the Council.

Service Concession: an arrangement whereby the Authority contracts with a private operator to develop (or upgrade), operate and maintain infrastructure assets (in this case Schools and Street Lighting). The Authority controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the contract.

Strain on the Fund: An early payment of retirement benefits for members aged 55 or over and under 65 generates a 'Strain on the Fund' cost. This results in the Authority reimbursing the Tyne & Wear Pension Fund for the loss of employer and employee contributions and investment income which results from the employee retiring early.

T

Tangible assets: physical assets owned by the Authority, which can be seen or touched e.g. buildings and equipment.

U

Unuseable Reserves: reserves earmarked for specific accounting treatments which are not available to fund general expenditure (see Reserves definition for more information).

Useable Reserves: reserves that can be applied to fund expenditure or reduce local taxation (see Reserves definition for more information).

North Tyneside Council
Report to Audit Committee
Date: 27 March 2019

ITEM 8

Title: Proposed Audit Committee Work Programme 2019/20

Report from Service Area:	**Resources**	
Report Author:	**Allison Mitchell, Chief Internal Auditor**	**(Tel: 643 5720)**
Wards affected:	**All**	

PART 1

1.1 Purpose:

The purpose of this report is to propose a programme of core business, to be considered by the Audit Committee during 2019/20, in line with its Terms of Reference as set out in the Council's Constitution.

1.2 Recommendation(s):

It is recommended that the Audit Committee:

(a) agrees the proposed core business work programme set out within this report, for 2019/20,
(b) notes that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues, and to respond to emerging trends during the year, and
(c) notes that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference, in the usual way.

1.3 Council plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4 Information

1.4.1 The Council's Constitution, updated and agreed by Council each year, establishes the role and responsibilities of each full committee of Council. This includes the Audit Committee.

1.4.2 Having regard to the Audit Committee's responsibilities as set out in its Terms of Reference in the Constitution, a core programme of work has been developed. This is set out below and aims to ensure that the Committee is properly able to discharge its duties effectively and efficiently, strengthening the Council's governance arrangements, and to highlight when reports are planned for presentation to each meeting in 2019/20.

Some aspects of the Committee's work are time-bound in nature (e.g. relating to the Council's accounts of agreeing future plans of work), whilst other items can be considered at any point during the year allowing some flexibility in planning the work programme of the Committee.

1.4.3 The following programme of core business for the Audit Committee during 2019/20 is proposed. This sets out the suggested timing and frequency of reports in the coming year, allowing the responsibilities as set out in the Constitution to be met. 2019/20 will represent the first full year of engagement with Ernst & Young as local audit provider, so reports attributed to Ernst & Young are indicative only at this stage and will be confirmed as the year progresses.

Month	Item of Business
May 2019	<u>Internal Audit and Risk Management</u> • Annual Report from Chief Internal Auditor and Opinion on the Framework of Governance, Risk Management and Control • Final Outturn Report (showing performance in achieving the previous year's Strategic Audit Plan) • Key Outcomes from Internal Audit Reports (reporting the key outcomes of reports issued in the preceding six months and progress made with the implementation of audit recommendations) • Risk Management Update <u>Finance</u> • Draft Annual Governance Statement (and supporting information) <u>External Audit</u> • External Audit Progress Report • External Audit Fee Letter (including Terms of Engagement)
July 2019	<u>External Audit</u> • Audit Completion Report (annual governance report) <u>Internal Audit and Risk Management</u> • Annual Review of Audit Committee Effectiveness
November 2019	<u>Internal Audit and Risk Management</u> • Interim Outturn Report (showing profiled performance against the Strategic Audit Plan) • Key Outcomes from Internal Audit Reports (reporting the key outcomes of reports issued in the preceding six months and progress made with the implementation of audit recommendations) • Risk Management Update <u>Finance</u> • Annual Governance Statement Update (progress on previously identified actions and agreeing methodology for coming year) • Report on preparation of Annual Statement of Accounts 2019/20

	External Audit • Annual Audit Letter • Grants Report • External Audit Progress Report
March 2020	Internal Audit and Risk Management • Strategic Audit Plan (for the forthcoming financial year) • Annual Audit Committee Work Programme Finance • Report on accounting policies to be used in Compilation of Annual Statement of Accounts • Report on preparation of Annual Statement of Accounts 2019/20 External Audit • Audit Strategy Memorandum (audit plan)

1.4.4 In addition to these core business items, it may also be necessary to update the Audit Committee on an ad-hoc basis, as relevant and topical areas arise during the year. Accordingly, the Audit Committee will receive additional reports on emerging issues and trends as appropriate.

1.4.5 The proposed work programme should be treated as a helpful guide, and it may be necessary to alter or amend the proposed timing of reports during the year as work progresses. Where this is the case, the relevant report author will be responsible for informing the Chair of the Audit Committee, and Democratic Services, of any changes to proposed reporting.

1.5 Decision options:

It is recommended that the Audit Committee agrees the proposed programme of core business set out at 1.4.3 above; and notes that it may be necessary to alter the proposed timing of reports, and to add extraordinary reports, in order to respond to emerging issues arising throughout the year.

There are no other options available in relation to this report.

1.6 Reason for recommended option:

This recommendation will allow the Council to operate in line with the Constitution and good professional practice.

1.7 Appendices:

There are no appendices to this report.

1.8 Contact officers:

Kevin McDonald (Group Assurance Manager) Tel 643 5738

1.9 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

(a) North Tyneside Council Constitution, June 2017 (P)
(b) Financial Regulations, version 5a, September 2013 (P)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no direct financial implications arising from this report.

2.2 Legal

There are no direct legal implications arising from this report.

2.3 Consultation/community engagement

The proposed work programme of core business items has been proposed with reference to the Constitution, and discussion with lead report authors within the Council.

As emerging issues or trends arise during the year, the core business items will be supplemented with additional reports agreed in association with the Chair of the Audit Committee.

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

There are no equality and diversity issues arising from this report.

2.6 Risk management

There are no specific risks associated with this report.

2.7 Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit and the Audit Committee is a key strand in the Council's counter-fraud arrangements.

2.8 Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report authors Allison Mitchell
Kevin McDonald

North Tyneside Council
Report to Audit Committee
Date: 27 March 2019

ITEM 9

Title: Strategic Audit Plan 2019/20

Report from Service Area:	**Resources**	
Report Author:	**Allison Mitchell, Chief Internal Auditor**	**(Tel: 643 5720)**
Wards affected:	**All**	

PART 1

1.1 Purpose:

The purpose of this report is to advise the Audit Committee of the Strategic Audit Plan for 2019/20. This document outlines the planned work of Internal Audit during this period and is attached as **Appendix A**.

1.2 Recommendation(s):

It is recommended that the Audit Committee reviews and approves the Strategic Audit Plan 2019/20, attached as **Appendix A**, and the proposed Internal Audit coverage set out therein.

1.3 Council plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4 Information

1.4.1 The Strategic Audit Plan for the period 2019/20 is attached to this report as **Appendix A**. The Strategic Audit Plan helps to ensure that Internal Audit is able to provide an independent and objective opinion to the organisation on the framework of governance, risk management and control, and sets out Internal Audit's objectives in the medium term.

1.4.2 The Council's Financial Regulations recognise that Internal Audit must be independent in its planning and operation, that Internal Audit shall have an unrestricted range of coverage of the Council's operations, and that the Chief Internal Auditor will have freedom to determine the priorities of Internal Audit in consultation with the Chief Finance Officer and chief officers.

1.4.3 For the 2019/20 Strategic Audit Plan, Internal Audit has performed an assurance mapping exercise, mapping the Authority's key risks to details of assurance sources across three levels. These three levels are often referred to as a 'three lines of defence' approach, which include management, corporate oversight and independent assurance.

1.4.4 The Strategic Audit Plan has been prepared in consultation with: the Chief Executive; Head of Resources (Chief Finance Officer) and all Heads of Service, before presentation to the Audit Committee as a final document for review.

1.4.5 The Strategic Audit Plan for the period 2019/20 details those areas planned to be subject to audit coverage during this period, and has been prepared in accordance with Public Sector Internal Audit Standards (PSIAS). The Plan outlines:

(a) the approach taken to risk assessment and audit planning;
(b) the respective roles of management and of Internal Audit with regard to internal control;
(c) the relationship between Internal and External Audit, and the approach which Internal Audit is planning to adopt in respect of key financial systems audit;
(d) quality standards with which Internal Audit will comply when delivering the Strategic Audit Plan;
(e) the resourcing of the Internal Audit team; and
(f) key themes in the Strategic Audit Plan.

1.4.6 Internal Audit provision is delivered by means of a shared service between the two partner local authorities on North Tyneside Council and Northumberland County Council. Separate audit plans have been established for both North Tyneside Council and Northumberland County Council, but have been completed in conjunction with each other. This has allowed the available resources and specialist skill sets to be deployed across both Authorities in the most advantageous way according to the specific risks and requirements of each Authority. Each Authority still retains a statutory responsibility to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes" and the Strategic Audit Plan for North Tyneside Council attached as **Appendix A** has been prepared in accordance with this requirement.

1.4.7 The Strategic Audit Plan 2019/20 sets out in detail the planned assurance coverage for the coming year. The Plan is kept under review throughout the year, and a half year progress update is scheduled to be reported to the Audit Committee in November 2019. A full outturn on the 2019/20 Annual Audit Plan will be reported to the Audit Committee in May 2020. Regular monitoring and adjustment of the Plan is performed as a matter of course within the Internal Audit team, in accordance with relevant professional standards.

1.5 Decision Options:

It is recommended that the Audit Committee reviews and approves the annual Strategic Audit Plan, attached as **Appendix A**, and the Internal Audit coverage set out therein.

There are no other options available in relation to this report.

1.6 Reasons for recommended option:

This recommendation will allow the Council to operate in line with legislation, good practice and professional guidance.

1.7 Appendices:

Appendix A: Internal Audit Service – Strategic Audit Plan 2019/20

1.8 Contact officers:

Kevin McDonald (Group Assurance Manager) Tel 643 5738

1.9 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

(a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 (P)
(b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors (P)
(c) Financial Regulations C24 - C35, version 5a, September 2013 (P)
(d) Shared Internal Audit and Risk Management Service Strategic Statement 2018/19 (P)
(e) Strategic Audit Plan 2018/19, March 2018 (P)
(f) Corporate, Service Strategic, Service Operational, Projects and Strategic Partnerships Risk Registers (C)
(g) The Accounts and Audit Regulations 2015, April 2015 (P)
(h) The 'Our North Tyneside' Council Plan 2018/21, March 2018 (P)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

The Internal Audit service supports the Chief Finance Officer in discharging the requirements of section 151 Local Government Act 1972, which requires that local authorities ‘make arrangements for the proper administration of their financial affairs’. Internal Audit examines the Authority’s systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed.

There are no financial implications arising from the recommendations set out in this report.

2.2 Legal

The Accounts and Audit Regulations 2015 require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. Public Sector Internal Audit Standards, and accompanying Local Government Application Note, require Internal Audit’s work to be properly planned, resourced, monitored and based upon thorough documented assessment of the risks facing the organisation.

2.3 Consultation/community engagement

The Strategic Audit Plan 2019/20 was prepared following consultation with: the Chief Executive; Head of Resources (Chief Finance Officer) and all Heads of Service.

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

There are no equality and diversity issues arising from this report.

2.6 Risk management

There are no specific risks arising from this report.

2.7 Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.

2.8 Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report authors Allison Mitchell
Kevin McDonald

Internal Audit Service

Strategic Audit Plan 2019/20

March 2019

North Tyneside Council

1 Introduction

1.1 Internal Audit is "*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*"[1]. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

1.2 The Internal Audit team is an independent resource available to assist the organisation to explore areas of potential efficiency, and matters of probity and internal control. We seek to use our business intelligence and knowledge of the Authority to make sensible, informed recommendations for improvement, and thus contribute to the effective running of the organisation.

1.3 Internal Audit provides assurance to the organisation that controls established to manage risks to the achievement of the Authority's objectives are operating effectively. This has a positive impact on the risk environment, informing management whether the action which they are taking to control and manage risks is working as it should.

1.4 The Strategic Audit Plan has been prepared in accordance with the Public Sector Internal Audit Standards (PSIAS) and a specific Local Government Application Note on the Standards. These were introduced in 2013 (revised in subsequent years) and build upon the good practice set out in previous professional regulations, including audit planning requirements, and have the force of law. Preparation has involved establishing a risk-based plan (based on an assurance map) to determine the priorities of internal audit activity, consistent with the organisation's goals; and a focused programme of engagement on the aspirations of key stakeholders, with regard to assurance activity for the Authority.

1.5 The Strategic Audit Plan, the detail of which is included in section 9, helps to ensure that Internal Audit is able to meet its objectives as an independent assurance function for the Authority and to provide an independent and objective opinion to the organisation on the adequacy and effectiveness of the framework of governance, risk management, and control. Internal Audit must be independent in its planning and operation. Accordingly, in producing the Strategic Audit Plan, the Chief Internal Auditor is required to determine the priorities of Internal Audit, following consultation with stakeholders and assessment of risk, and to present this Plan to senior management and the 'Board' for review and approval.

2 Period Covered by the Strategic Audit Plan

2.1 The Strategic Audit Plan sets out in detail the assurance coverage which Internal Audit will deliver within the coming financial year, 2019/20. The Plan

[1] Public Sector Internal Audit Standards, CIPFA / IIA, 2013 (updated 2017)

needs to be realistic and achievable, and sufficiently flexible to respond to changing priorities as they occur.

2.2 On an annual basis, the areas which may benefit from audit review, and the risk associated with the Authority's operations are reassessed. Every year, an updated Strategic Audit Plan is presented to the Audit Committee for approval.

2.3 The key objectives for the audit reviews identified to take place during 2019/20 are shown in section 9 of this document. In addition, each audit profiled in the Strategic Audit Plan has been mapped to the Authority's change programme, to demonstrate that assurance is not provided in isolation but instead contributes directly to the achievement of the organisation's main goals.

3 Risk Assessment and Audit Planning

3.1 It is important that audit resources are targeted at areas in which audit coverage will produce greatest benefit. Risk Based Internal Auditing requires Internal Audit to understand and analyse management's assessment of risk, and base audit efforts around this assessment of risk to the organisation.

3.2 For the 2019/20 Strategic Audit Plan, Internal Audit has performed an assurance mapping exercise to assess the level of confidence the authority can have in its service delivery, management of risks, operation of controls and performance. Taking the corporate risk register, details of assurance sources have been mapped across three levels often referred to as 'the three lines of defence', i.e. management, corporate oversight and independent assurance. This provides information on assurances the Council has on areas of the business that matter most, and highlighting where there may be potential deficiencies.

3.3 Consultation has been undertaken with: the Chief Executive; Head of Resources (Chief Finance Officer); all Heads of Service and Audit Committee members. Potential assurance requirements for each service area were discussed, and views were sought on any additional areas considered worthy of audit review over the course of the Strategic Audit Plan.

3.4 Those auditable areas identified as most risk-sensitive by this process have been prioritised for audit in the Plan. Risk and progress against the Plan will continue to be monitored and assessed throughout the year, and the results of this assessment used to inform in-year (emerging risks) and future audit priorities. This ensures that the Plan remains flexible and reflects the risks facing the Authority.

3.5 The Strategic Audit Plan has therefore been based on an assessment of the Authority's objectives and business goals, risks facing the organisation and its achievement of these goals, known strengths and weaknesses in the internal control system, the requirements of the Council's responsible financial officer (Chief Finance Officer (Head of Resources)) and the Accounts and Audit

Regulations 2015, and the views of the Chief Executive, all Heads of Service and Audit Committee members.

4 Internal Control: Roles of Management and of Internal Audit

4.1 It is a management responsibility to establish effective internal controls, in order that activities are conducted in an efficient and well ordered manner. Internal control comprises the whole system of controls and systems, financial and otherwise, established by management to:

- safeguard assets and prevent fraud;
- ensure the completeness and reliability of records;
- monitor adherence to laws, regulations, policies and directives;
- promote operational efficiency and good value for money; and
- manage risk.

4.2 Amongst its responsibilities, Internal Audit examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit assists management in delivering the objectives of the Authority through assessing exposure to risk and recommending, where appropriate, practical improvements to the control environment. Internal Audit's remit includes:

- assessing if operations are being carried out as planned, and if objectives / goals are being achieved;
- assessing the adequacy of systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by the management of the organisation or externally;
- assessing the completeness, reliability and integrity of information, both financial and operational;
- assessing the extent to which the Authority's assets, data and interests are properly accounted for and safeguarded from losses of all kinds, including fraud, corruption, waste, extravagance, abuse, ineffective management and poor value for money; and
- assessing the economy, efficiency and effectiveness with which resources are deployed.

4.3 It is usual that a project brief is produced and distributed prior to the audit starting so that the objectives of the audit and approach to be adopted are understood by both Internal Audit and the audit client.

5 Relationship with External Audit

5.1 Internal Audit is a management tool. As such, its remit is wide and it may be called upon by management for support and assistance in a variety of situations. The duties of the External Auditor are more prescriptively defined in the relevant Codes of Practice and legislation. In summary, the External

Auditor's principal objectives are to review and report on the audited body's financial statements and arrangements for securing economy, efficiency and effectiveness in the use of resources[2].

5.2 Although the emphasis of internal and external audit is different, both are concerned with the financial well-being of the Authority, the stewardship of public funds, and the systems of internal control in place. Internal Audit will continue to co-ordinate its work with the Authority's External Auditor for the benefit of the Authority, where ever possible.

6 Quality Standards

6.1 Under the Accounts and Audit Regulations 2015, the Authority must "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance". The Department for Communities and Local Government (DCLG) has determined that this will comprise both the PSIAS and the specific Local Government Application Note. The Chartered Institute of Public Finance and Accountancy (CIPFA) has been designated the relevant Internal Audit Standard Setter for local government bodies under the new PSIAS.

6.2 The PSIAS incorporate a Code of Ethics for internal auditors, and a number of clear standards with which Internal Audit functions are required to comply.

7 Resource Management

7.1 The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Internal Audit's establishment currently comprises the equivalent of 5.5 full time employees and the shared Chief Internal Auditor. Reporting lines within the Internal Audit and Risk Management team have been structured to ensure there is a genuine separation of duties between Internal Audit and Risk Management with separate line management arrangements for each assurance function. This ensures compliance with the Public Sector Internal Audit Standards and prevailing good practice regarding assurance. Our specific service delivery model (i.e. a shared service) allows both partner Councils to access specialist skills and where appropriate additional resources, as the need to do so arises. This also facilitates greater independence and objectivity.

7.2 In addition to the 5.5 FTEs there is a dedicated counter fraud post within the team, to support the Authority's counter fraud work.

7.3 An advantage of the shared working arrangement for the delivery of Internal Audit services with Northumberland County Council is the opportunity for shared learning across the two authorities. Both authorities can benefit from this approach through sharing of good practice, subject to compliance with

[2] Code of Audit Practice, National Audit Office April 2015

ethical walls procedures, and achieving resource efficiencies in, for example, research time, preparation and planning for an audit area.

7.4 The shared services arrangement additionally enables the Chief Internal Auditor to respond to skills and short term resourcing demands for both local authorities, by redirecting resources where required.

8 Key Themes in the Strategic Audit Plan, 2019/20

8.1 This Strategic Audit Plan aims to increase the benefits of the Shared Service by optimising the leverage of shared learning between the two partner authorities. The objectives of audit assignments have been developed to incorporate opportunities for shared learning where beneficial and appropriate. This follows a comparison of new and emerging risks facing both councils and their services, and the aspirations of consultees for Internal Audit coverage. Based on Internal Audit's assessment of risk, including knowledge of the Authority's internal controls, areas of strength and weakness and the Authority's priorities, the Strategic Audit Plan bears the following key themes.

Advice & Programme Assurance

Project Assurance

8.2 The Strategic Audit Plan recognises Internal Audit's Project Assurance role. This increasing role involves advising on, and challenging, the approach to internal control within new or improved systems and methods of service delivery. By undertaking this role, the Internal Audit Service proactively acts as a partner to the business and adds maximum value to service improvement, in order to assist the Authority's Senior Leadership Team and the organisation to achieve objectives. This aspect of Internal Audit's role has increased in prominence over recent years and this trend continues to be reflected in this Strategic Audit Plan.

Advice and Consultancy, and Contingencies

8.3 During the year Internal Audit will be approached by management for advice, or requested to examine ad-hoc areas, systems or irregularities. A contingency has been set aside in order that Internal Audit is able to respond efficiently to such requests. The required number of contingency days is difficult to predict and can by its very nature be subject to variation as it includes responding to potential irregularities and performing special investigations. For the purposes of resource planning, historic data on the ad-hoc requests previously made to Internal Audit, and the time required, have been reviewed and used to inform the allocation set out.

Audit and Assurance

Corporate and Cross Cutting Activities

8.4 Areas which are important throughout all of the Authority's services in respect of which audit review helps give assurance to the organisation or highlights aspects in which improvement could be made. During 2019/20 these audit activities will include:

- Follow up on implementation of Internal Audit recommendations;
- Pre-submission review of grant claims;
- The Chief Internal Auditor's Annual Opinion;
- Governance reviews; and
- Value for Money reviews.

Service Area Assurance / Schools

8.5 From time to time it will be appropriate to undertake work within specific departments of the authority, and the Strategic Audit Plan reflects this. Regarding schools, Internal Audit will address risk issues within a school environment through a thematic approach, auditing key risk areas in a sample of schools and cascading key messages and learning points throughout the wider school environment. The audit plan has been prepared on this basis and further updates will be brought to Audit Committee in due course.

Computer Audit

8.6 The Authority invests heavily in computer based systems to aid delivery of services and to undertake the majority of financial processing tasks. In coming years there will be greater use and integration of information and communications technology (ICT) within the Authority. As well as improved economy, efficiency and effectiveness, computer based systems involve a different set of risks which require a specific audit approach.

8.7 Computer audit is a specialist audit area, requiring detailed knowledge and skills associated with information and communications technology. Accordingly, computer audit resources are in place to undertake a continuous programme of audits on the Authority's ICT systems over the course of the Strategic Audit Plan.

Counter Fraud and Internal Control & Probity

Key Financial Systems

8.8 A key role of the Internal Audit Service is the assessment of internal control in the Authority's key financial and strategic systems. Key financial systems comprise those major systems by which the Authority makes payments (payroll and creditor payments), and the major systems through which income is received (cash or debtor account). Strategic systems are fundamental to the payment or collection of money to or from the Authority, including housing benefit / council tax support, council tax, business rates and housing rents. These areas continue to be the subject of planned changes at a national level. These changes, such as universal credit and business rate retention, are considered as part of the planned work in these areas.

8.9 The key systems are fundamental to internal financial control and management, as they are the systems by which much of the Authority's income is received and disbursed. The Authority needs to be assured that high standards of probity are present in these systems.

Counter Fraud

8.10 The establishment and maintenance of effective controls in the Authority's key financial systems and strategic systems is a major strand in our organisation's counter fraud arrangements. Such controls proactively prevent the opportunity for many types of fraud, and the evaluation of the existence and application of suitable controls within these systems is therefore given due prominence in Internal Audit's planned workload.

8.11 The management of fraud and corruption is the responsibility of management and the Chief Internal Auditor is required to make arrangements to be notified of all suspected or detected fraud, corruption or impropriety, to inform her annual Internal Audit opinion and the risk-based Plan. Internal Audit's work assists management to fulfil their responsibilities through the strengthening of internal control.

8.12 All members and officers of the Authority are responsible for the prevention of fraud and corruption. Internal Audit assist in this by undertaking pro-active anti-fraud work during the year, linked to work on the key financial systems, the content of which is determined through an ongoing risk assessment process.

8.13 Internal Audit acts as a key contact for the Cabinet Office in respect of the National Fraud Initiative (NFI). The NFI is the Cabinet Office's data matching exercise that tackles a broad range of fraud risks faced by the public sector. The NFI has been embedded in the statutory external audit process for audited and inspected bodies since 1998.

Reprogrammed Work

8.14 Professional auditing guidance states that internal audit plans should be flexible to accommodate work not originally included in the plan which has arisen as a result of external and internal factors. This is a normal part of the audit planning and management process and reflects that audits are undertaken on a continuous rolling programme, according to the optimum timing for each piece of work.

9 Annual Audit Plan 2019/20

Advice & Programme Assurance

Heading	Auditable Area	Description / Audit Objectives	Link to Creating a Brighter Future programme
Advice, Contingencies & Assurance	• Advice & Guidance • Contingencies & Work Requests • Fraud & Special Investigations	Responding to ad-hoc queries and requests for advice; responding to requests for one-off audit assignments, where it is considered that audit involvement is necessary; responding to allegations of fraud (*see also proactive anti-fraud work in counter fraud & internal control and probity section below*); project assurance and assuring appropriate consideration has been given to internal control & governance issues when new systems are introduced.	Corporate & Enabling
Programme Assurance	• New Systems / Methods of Service Delivery	Internal Audit will add value by providing assurance on aspects of the approach and work undertaken, and assessing the robustness of arrangements for benefits realisation. The systems, programmes and new initiatives to be supported will include providing assurance to the Senior Leadership Team on the Authority's change programme.	Corporate & Enabling

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Link to Creating a Brighter Future programme
Corporate and Cross Cutting	• Pre Submission Review of Grant Claims	To undertake grant claim certification in respect of external funding regimes on behalf of the Council, to ensure that grant funding requirements have been met and grant claims are submitted in accordance with grant conditions, to maximise available grant income.	Ready for School Ready for Work & Life Cared for, Safeguarded & Healthy Great Place to Live, Work & Visit

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Link to Creating a Brighter Future programme
Corporate and Cross Cutting	• Annual Opinion	An annual opinion on the 'adequacy and effectiveness of the framework of governance, risk management and control' will be drafted and presented to the Chief Executive, Head of Resources (Section 151 Officer), Senior Leadership Team and Audit Committee, outlining the audit work performed during the year and summarising key themes. This will be timed to support production of the Council's Annual Governance Statement.	Corporate & Enabling (Governance item)
	• Follow up on Recommendations	Monitoring the implementation of Internal Audit recommendations, in consultation with the service areas which have received these recommendations. During the year, Internal Audit will review the process benefitting from shared learning within the Internal Audit and Risk Management Service and against best practice to ensure recommendations are followed up and reported upon to Audit Committee in a timely, efficient and effective manner.	Corporate & Enabling (Governance item)
	• Governance and value for Money Reviews	To review whether appropriate internal controls exist within a sample of significant business arrangements within North Tyneside Council. Where it is possible to assess the economy, efficiency and effectiveness of specific aspects of these arrangements, this will also be undertaken. Areas to be reviewed under this heading in 2019/20 include: • Risk Management arrangements • Construction Partner in-sourcing • Section 106 / Section 278 Arrangements • Treasury Management arrangements • Fundamental workforce workflows • Information Governance	Corporate & Enabling (Governance item)

Audit and Assurance – Service Area Specific

Heading	Auditable Area	Description / Audit Objectives	Link to Creating a Brighter Future programme
Children, Young People and Learning	• Primary & First Schools, Middle Schools and Secondary Schools • Schools' Financial Value Standard (SFVS)	To assess, on a thematic basis, the application of controls associated with the discharge of responsibilities relating to delegated school budgets, within a sample of schools on a risk assessed basis. On behalf of the Head of Resources (Section 151 Officer), Internal Audit will co-ordinate Schools' Financial Value Standard submissions, for all of the Council's grant-maintained schools, and provide assurance to the Section 151 Officer relating to her annual report to the Department for Education.	Ready for Work & Life Ready for Work & Life
Tyne Port Health Authority	• Tyne Port Health Authority	On behalf of North Tyneside Council, as the Accountable Body for the administration of Tyne Port Health Authority, to undertake the internal audit requirements associated with the annual Small Bodies Return for this entity. This will involve acting independently and on the basis of an assessment of risk, performing a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year ending 31 March 2019. To determine an appropriate level of internal audit coverage in accordance with the body's needs, and on the basis of findings in the areas examined to summarise conclusions and report these in an appropriate form to the body.	A Great Place to Live, Work and Visit

Audit and Assurance – ICT

Heading	Auditable Area	Description / Audit Objectives	Link to Creating a Brighter Future programme
ICT	• System Reviews	To determine whether the systems and procedures in operation are functioning satisfactorily and are in accordance with legislation and council policy. In particular, to determine whether: • The systems comply with good practice and all legal, statutory and regulatory body requirements, and meet business need; • All transactions are completely and accurately recorded and traceable; • Access to information and facilities is controlled and restricted to authorised users according to their needs; • The potential for fraud and error are minimised; • The systems are effectively administered and supported; • All staff using the systems have been correctly trained to the level that will allow them to properly fulfil their duties; • The systems are continually available during working hours; • The systems provide complete and accurate management information; and • Upgrades to the systems are properly resourced and managed to meet clearly stated and agreed business objectives. For 2019/20, specific ICT audit coverage will be prioritised in the following areas: • Accuserv System (Construction Group system) • Payment Card Industry Data Security Standards (PCIDSS) Compliance • Office 365 & SharePoint • Business Continuity Planning / Disaster Recovery • Leisure Management System • Customer Relationship Management System • Email • Internet	Cross-cutting & Enabling: Customer Insight & ICT Digitisation

Audit and Assurance – ICT

Heading	Auditable Area	Description / Audit Objectives	Link to Creating a Brighter Future programme
ICT	• Public Service Network (PSN) Compliance	To undertake the annual independent review of the Authority's compliance with the Public Service Network Code of Connection, to support the Authority's submission to the Public Services Network Authority for accreditation.	Cross-cutting & Enabling: Customer Insight & ICT Digitisation

Counter Fraud and Internal Control & Probity

Heading	Auditable Area	Description / Audit Objectives	Link to Creating a Brighter Future programme
Counter Fraud	• Pro-active anti-fraud work	To undertake pro-active anti-fraud and corruption work (including participation in the Cabinet Office's National Fraud Initiative and performing internal data matching exercises); and to raise the awareness of counter fraud and corruption measures across the organisation.	Corporate & Enabling (Governance item)

Counter Fraud and Internal Control & Probity

Heading	Auditable Area	Description / Audit Objectives	Link to Creating a Brighter Future programme
Internal Control & Probity	• Core Financial Systems: - Business Rates; - Council Tax; - Payroll; - Creditor Payments; - Cash and Bank; - Debt and Income Management; - Housing Rent Assessment & Collection; - Housing & Council Tax Benefit	The core financial systems encompass the main ways in which the Authority either pays money out (Creditor Payments, Payroll, Housing & Council Tax Benefit) or receives monies in (Business Rates, Council Tax, Debt and Income Management, Rent Assessment and Collection). Each of these areas will be given some audit coverage in each financial year, with emphasis dictated by the organisation's risk profile determined on an annual basis.	Corporate & Enabling (Core Financial systems)

The Internal Audit service will be performing some specific audit work in respect of North Tyneside Council's trading companies. An assessment of governance flows between entities within the 'accounting group boundary' will be undertaken as part of this work.

Shared Internal Audit and Risk Management Service Strategic Statement 2019/20

The Accounts and Audit Regulations 2015 provide that each Council shall undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

The regulations further state that any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit –
(a) Make available such documents and records; and
(b) Supply such information and explanations;
As are considered necessary by those conducting the internal audit. In this regulation, it is clear that “documents and records” includes information recorded in an electronic form.

In North Tyneside Council, this requirement is discharged by the Shared Internal Audit Service. Internal Audit is “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”[3].

The overall objective of Internal Audit is to provide a comprehensive, professional assurance service to the Council, which adds value to the organisation, rigorously challenges and assesses the adequacy of the control environment and assists management in achieving organisational goals. Internal Audit seeks to undertake its work in compliance with all professional auditing standards (Public Sector Internal Audit Standards, together with an Associated Local Government Application Note). Internal Audit’s Audit Charter will be updated annually. In doing so, Internal Audit will identify and address local and national issues and risks. Change Programme priorities are clearly identified alongside each auditable area prioritised for coverage, and the specific objectives to be included in scope, in the Strategic Audit Plan.

Assurance for the Annual Governance Statement will be obtained from a number of information sources within the Council, the Internal Audit Service being a major component of such assurance. The Chief Internal Auditor will use the outcomes and findings of Internal Audit work undertaken throughout the year to prepare an annual Internal Audit report, detailing her opinion on the Council’s framework of governance, risk management and control. This opinion will be presented to the Council’s Audit Committee and timed to support preparation of the Annual Governance Statement, in order that the outcomes of the work of the Internal Audit Service can inform the Annual Governance Statement.

The Internal Audit Service uses a risk-based approach in preparing the Strategic Audit Plan, utilising information available from the Council’s risk management processes and Internal Audit’s own assessment of risk. This assessment of risk and preparation of the ‘risk universe’ involves identifying significant local and national

[3] Public Sector Internal Audit Standards, CIPFA / IIA, revised April 2017

issues and risks for further assessment, in order that Internal Audit resources are deployed in areas of greatest benefit to the Council.

An assessment of the resources necessary to deliver this strategy is kept under constant review. The Internal Audit Service is delivered as part of a shared arrangement with a neighbouring authority, Northumberland County Council.