North Tyneside Council

Audit Committee

12 November 2018

Wednesday 21 November 2018 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 25 July 2018.	

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4.	**Annual Audit Letter** To give consideration to the Audit Completion Report for the year ended 31 March 2018.	**6.**
5.	**Audit Committee Briefing: External Audit Transition November 2018** To give consideration to a report which details the steps which have been taken to implement a smooth transition of the external audit service from the previous provider to the new provider following a recent procurement exercise. The report also provides details of the new external audit team.	**30.**
6.	**Local Government Audit Committee Briefing** To give consideration to a briefing which provides details of technical issues relevant to the Local Government Sector along with issues which may be of interest to the Authority and/or the Audit Committee.	**37.**
7.	**Annual Statement of Accounts 2018/19** To give consideration to a report which updates the Audit Committee on the process in respect of the closure of the 2018/19 accounts	**53.**
8.	**Internal Audit Plan 2018/19 Interim Monitoring Statement** (to follow) To consider the interim monitoring statement in respect of the Internal Audit Plan 2018/19	**-**
9.	**Key Outcomes from Internal Audit Reports issued April – October 2018** (to follow) To consider a report which sets out the key outcomes of internal audit reports which have been issued between April and October 2018.	**-**

10. **Exclusion Resolution**

The Committee will be requested to pass the following 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.

11. **Corporate Risk Management Summary** (to follow) **-**

To consider a report which sets out the corporate risk which have been identified for monitoring and management by the Authority's Senior Leadership Team

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

25 July 2018

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

AC13/07/18 Apologies

An apology for absence was submitted on behalf of Councillor N Craven.

AC14/07/18 Substitute Members

There were no substitute members reported.

AC15/07/18 Declarations of Interest and Dispensations

There were no declarations of interest or dispensations reported.

AC16/07/18 Minutes

Resolved that the minutes of the meeting held on the 23 May 2018 be confirmed as a correct record and signed by the Chair.

AC17/07/18 2017/18 Audit Completion Report

The Committee was presented with the Audit Completion Report which provided details of the outcome of the external audit of the 2017/18 Financial Statement.

It was explained that under the Accounts and Audit Regulations 2015 the Authority was required to produce draft accounts by the 31 May 2018 and to publish audited accounts by the 31 July 2018.

Gareth Davies and Diane Harold of Mazars, the Authority's external auditors, presented the up to date Audit Completion Report to the Committee which showed that there had been no material errors identified in the financial statements.

It was explained that Mazars had identified a number of significant risks as part of its Audit Strategy Memorandum which had previously been reported to the Committee and it continued to assess whether any further risks had emerged during the course of the year.

Reference was particularly made to:

- Management Override of Controls;
- Property, Plant and Equipment Valuations;
- Revenue Recognition;

- Defined Benefits Liability Valuation; and
- Restatement of Comprehensive Income and Expenditure Statement.

It was explained that subject to the completion of any outstanding works appropriate assurance had been obtained and there had been no significant matters arising. Details of the significant matters which had been discussed with management were outlined together with the management's response.

It was explained that the Building Cost Information Service produced indices which were used in the preparation of the value of assets and these indices had shown a significant increase, of approximately 20% for North Tyneside. As a result it had been necessary to revalue the assets within the Authority's portfolio, which had been valued at the Depreciated Replacement Cost, and this had resulted in an increase in the net book value of £87.686M. The procedures put in place to ensure correct and up to date valuations were outlined.

Clarification was sought on the reasons for the undervaluation of the assets and the steps taken to prevent it happening again. Details of the measure put in place to tighten up the system were also outlined.

Resolved that the Audit Completion Report, the Value for Money Conclusion and the draft Letter of Representation be noted

Annual Audit Letter

North Tyneside Council

Year ending 31 March 2018

North Tyneside Council

CONTENTS

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for North Tyneside Council (the Council) for the year ended 31 March 2018. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 27 July 2018 included our opinion that the financial statements: • give a true and fair view of the Council's financial position as at 31 March 2018 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
Other information published alongside the audited financial statements	Our auditor's report issued on 27 July 2018 included our opinion that: • the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 10 August 2018 we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts (WGA) return.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	**Unqualified**

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2018 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statements materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee and full Council. We call this our trivial threshold.

The table below provides details of the materiality levels applied to the audit of the financial statements for the year ended 31 March 2018.

Financial statement materiality	Our financial statement materiality is based on 1.2% of gross revenue expenditure.	£6.604 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.198 million
Specific materiality	We applied a lower level of materiality to the following areas of the accounts: - exit packages; - Members' allowances; and - remuneration of senior employees.	25% of the value disclosed

Our response to significant risks and key areas of management judgement

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks and key areas of management judgement identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks and judgements, the work we carried out on these and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we considered there to be a risk of material misstatement due to fraud and thus a significant risk to the audit.	We addressed this risk through performing audit work over: • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; • the selection and application of accounting policies; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Our work provided the assurance sought, with no significant matters arising.
Property, plant and equipment valuations The financial statements contain material entries and disclosure notes in relation to Property, Plant and Equipment (PPE). As the value of the Council's PPE is material to the accounts and involves management judgements over the valuations and useful lives of assets, we considered PPE valuations to be a significant risk.	We: • assessed the Council's arrangements for ensuring that PPE values are reasonable including the accuracy of data provided to the Valuer; • assessed the data provided by our consulting Valuer, Gerald Eve, as part of our challenge of the reasonableness of the valuations provided by the Council's Valuer. When challenging the Council on how the valuation indices used compared to those in the Gerald Eve national trends report, discrepancies were identified. As a result of follow-up, it was identified that valuations of certain categories of PPE had not been reviewed at the year-end for significant changes by the Property Team (Capita). Due to significant changes in the underlying indices, this resulted in a material misstatement of PPE. • assessed the competence, skills and experience of the Valuer and the instructions issued to the Valuer; and • where necessary, performed further audit procedures on individual assets to ensure the basis of valuations was appropriate.	Audit work identified that valuations of certain categories of Property, Plant and Equipment (PPE) had not been reviewed for significant changes in the underlying indices at the end of the year by the Property Team (Capita). As a result, PPE was understated by £87.7 million. We raised a level 1, 'high' priority recommendation in this area.

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
Revenue recognition There is a risk of fraud in financial reporting relating to income recognition due to the potential to inappropriately record revenue in the wrong period. ISA 240 allows the presumption of fraud relating to revenue recognition to be rebutted in exceptional circumstances, but given the Council's range of revenue sources we concluded that there were insufficient grounds to rebut this risk.	We undertook a range of substantive procedures including: • testing revenue items recorded to ensure they had been recognised in the appropriate year; • testing adjustment journals; and • for significant income from grants, agreeing amounts to third party documentation.	Our work provided the assurance sought, with no significant matters arising.
Defined benefit liability valuation The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and include estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We: • evaluated the Council's arrangements, including their controls over the accuracy of data provided to the Pension Fund and Actuary, for making estimates in relation to pension entries within the financial statements; and • challenged the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office.	Our work provided the assurance sought, with no significant matters arising.
Restatement of Comprehensive Income and Expenditure Statement (CIES) The Council was proposing restatement of its CIES to allow for a better presentation of support charges ('central costs' line).	We discussed the proposed restatement with management who ultimately decided that the existing presentation remained appropriate and did not restate the CIES. As part of the review, the Council made a minor amendment to the overheads and support services accounting policy. As part of our work, we considered variances on the central costs line and other lines of the CIES. Follow-up of variances identified that capital charges had been incorrectly allocated. In response, the Council has restated the 2016/17 CIES, with an adjustment of £37.293m to the central costs line, offset by adjustments to the other service lines. There was no net impact on total gross expenditure as a result of this restatement.	Following restatement of the CIES, the assurance sought was obtained.

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified key area of management judgement	Our response	Our findings and conclusions
Provision for impairment of bad and doubtful debts The Council set aside a sum of £16.034m in respect of bad and doubtful debts in 2016/17 and highlighted this as an area of significant estimation uncertainty, due to the inherent risk in the current economic environment that the amount provided would be insufficient.	We: • considered the completeness and accuracy of the provision for bad and doubtful debts in 2017/18 of £17.176 million; and • tested the basis of calculation.	Our work provided the assurance sought, with no significant matters arising.
Provisions The Council provided for probable liabilities totalling £5.270m in 2016/17, covering a number of areas. This provision was also highlighted by the Council as an area of significant estimation uncertainty.	We: • reviewed the completeness and accuracy of the provisions made totalling £5.583m in 2017/18; and • considered whether all known liabilities had been correctly provided for based on our knowledge of the Council. Our work included challenging management as to the completeness of the provision in respect of NNDR appeals; management asserted they were satisfied that the existing provision was sufficient to cover probable NNDR appeals, including those arising from the latest valuation.	Our work provided the assurance sought, with no significant matters arising. There were non-material amendments required to both the provisions note in respect of insurance liabilities and also the earmarked insurance reserve (no net impact). We noted also a trivial overstatement of the provision (£0.139 million).

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Priority ranking	Description	Number of issues 2017/18
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	1
2 (medium)	In our view, there is a need to strengthen internal controls or enhance business efficiency. The recommendations should be actioned in the near future.	3
3 (low)	In our view, internal controls should be strengthened in these additional areas where practicable.	5

Summary of internal control recommendations

1. Level 1: Property, Plant and Equipment valuations: ensuring valuations are reviewed for significant changes at the year-end.
2. Level 2: journal controls – lack of evidenced review of journals greater than £500k.
3. Level 2: key monthly reconciliations - a number of systems where there is no evidenced second person review of key monthly reconciliations between systems, namely Accounts Receivable, Accounts Payable, NDR, Council Tax and Payroll.
4. Level 2: payroll walkthrough issue: employees starting work before signed contract in place.
5. Level 3: minor discrepancies in the Adult Social Care system and Accounts Payable reconciliation.
6. Level 3: IT general controls: change management – same person requesting and approving change.
7. Level 3: IT general controls: logical access – password security.
8. Level 3: IT general controls: change management – lack of evidence for change.
9. Level 3: property lease database not being updated for annual rent review changes.

2. AUDIT OF THE FINANCIAL STATEMENTS

Description of deficiency: **Property, Plant and Equipment valuations - level 1**	Audit work identified that valuations of certain categories of Property, Plant and Equipment (PPE) had not been reviewed as required for significant changes in the underlying indices used to value them at the end of the year by the Property Team (Capita). As a result, PPE was misstated. It is common practice for valuations in local government to be made as at 1 April. However, the general requirement to ensure that transactions and balances are not materially misstated might make necessary a valuation as at some other date. It should be noted that whatever the date of the valuation (including those at 1 April), the Code's adoption of IAS 16 requires the carrying value of non-current assets in local authority balance sheets to be materially accurate at 31 March.
Potential effects	Misstatement of Property, Plant and Equipment. Non-compliance with the Code of Practice.
Recommendation	There should be controls in place for the Council to revisit valuations at the year-end, checking to see if there have been any significant changes in underlying indices and whether valuations therefore require updating.
Management response	This will be actioned.

Description of deficiency: **journal controls - level 2**	There was a lack of evidenced review of journals greater than £500k. We noted this monthly control was being carried out, however the evidence was not being retained.
Potential effects	Journal controls are key controls. Lack of audit trail for second person authorisation of material journals with potential for fraud or error.
Recommendation	Ensure there is an audit trail maintained to evidence the review of journals greater than £500k, including all of 2017/18.
Management response	This has been actioned.

Description of deficiency: **key monthly reconciliations - level 2**	There were a number of systems where there is no evidenced second person review of key monthly reconciliations between systems, namely Accounts Receivable, Accounts Payable, NNDR, Council Tax and Payroll. This second person review is done in other key areas, e.g. the bank reconciliation, loans and investments and Housing Benefits.
Potential effects	Monthly reconciliations are a key control which should be evidenced as reviewed by a second person as part of detecting fraud and error.
Recommendation	Ensure there is evidence of a second person's review and authorisation of key monthly reconciliations.
Management response	We have reviewed our reconciliations in light of this recommendation.

2. AUDIT OF THE FINANCIAL STATEMENTS

Description of deficiency: **payroll walkthrough issue: employees starting work before signed contract in place - level 2**	Our planning stage payroll walkthrough identified a new employee within catering in a school where there was no signed contract in place before they started work. The payroll key controls we tested did all operate as designed, in that the employee was in post for some weeks without being paid due to there being no signed contract of employment in place (delays due to the employee). Whilst the specific controls we tested did not fail, we note that it is possible for an employee to be in post for some weeks without any signed contract which poses potential risks to the Council. We would highlight that in this particular case, the required DBS check had been correctly obtained before employment started.
Potential effects	Employees starting work before signed contract in place – potential issues of legal liability and also associated risks.
Recommendation	Procedures should be clarified to ensure that no member of staff starts work before a contract has been both issued, signed and returned.
Management response	The payroll section (Employee Services) has recently implemented a practice review with the Council and will consider this as part of that review. The Council is satisfied there are no wider legal liability issues and efforts are being made to ensure this kind of delay is minimised. We would also highlight that the individual in question was not paid until a signed contract of employment was in place.

Description of deficiency: **minor discrepancies in the Adult Social Care system and Accounts Payable reconciliation - level 3**	Our planning stage walkthrough identified minor discrepancies (e.g. 20p, differences in number of payments) between ContrOCC the finance module of Liquid Logic (new ASC system) and Accounts Payable due to figures being input manually versus it being automated as in the past.
Potential effects	Inefficiencies due to the time required to resolve the trivial differences identified. Risk of error and fraud due to differences in a key reconciliation of this system to Accounts Payable.
Recommendation	The Council should review this control and consider whether it can be fully automated to reduce minor errors and ensure a clear reconciliation from ContrOCC to Accounts Payable.
Management response	A fully automated control report is now in place.

Description of deficiency: **IT general controls: change management - level 3**	Testing identified an IT change which was requested and approved by the same person. This was not however a significant IT change; all other such changes in our sample were requested and approved by different people.
Potential effects	Changes to systems may not align with business requirements or may be fraudulent.
Recommendation	The Council should ensure all IT changes are requested and approved by different people.
Management response	An IT change was requested and approved by the same person in a unique set of circumstances which ICT will not allow in the future. This change was identified and reviewed at the following meeting and the person was reminded of the appropriate procedure.

2. AUDIT OF THE FINANCIAL STATEMENTS

Description of deficiency: **IT general controls: logical access – password security - level 3**	Our testing showed that password security for one system was not as strong as for other systems.
Potential effects	Unauthorised access to applications with resulting risk of fraud.
Recommendation	Ensure there is a consistent approach to password security (e.g. length / format of passwords) across all systems.
Management response	The Northgate system does not allow complex passwords to be enforced. Users are advised to use a complex password when re-setting their password, and the system does prevent the user from setting a password that includes a sequence of characters that has been used in a previous password.

Description of deficiency: **IT general controls: change management - level 3**	Sample testing identified one IT change where the minutes approving the change were not available; we understand this was due to a system issue. We were able to obtain compensating assurance.
Potential effects	Changes to IT systems are not approved in line with the Change Management Procedure.
Recommendation	Ensure that evidence to support IT changes is retained.
Management response	Minutes of the one sample change were not available due to the document being corrupted. We do not expect access to the minutes being an issue in the future.

Description of deficiency: **property lease database not being updated - level 3**	Testing of the leasing disclosure note in the financial statements identified that the property lease database (Uniform) was not being updated with annual rent review information as required.
Potential effects	Inadequate record-keeping and potential for errors in the amounts being charged or payable.
Recommendation	The Council should ensure the property database Uniform is updated annually or as required. As part of this, the Council should review controls in place and update them so that there are clear controls in place to ensure the database is updated.
Management response	The Council will work with the Property Team (Capita) to ensure annual rent review information is appropriately recorded.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	**Unqualified**

Our approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision-making;
- sustainable resource deployment; and
- working with partners and other third parties.

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified two significant Value for Money risks, being:

- the level of savings required over the period of the medium-term financial strategy; and
- arrangements in place for delivering capital projects.

Overall Value for Money conclusion

Our auditor's report, issued to the Council on 27 July 2018, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

3. VALUE FOR MONEY CONCLUSION

Significant Value for Money risk: ***scale of savings required over the period of the medium-term financial strategy***

Description of risk

The Council continues to face financial pressures from reduced funding, increasing demand and changing responsibilities. The Council is responding to these challenges via a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services, encapsulated in its 'Target Operating Model' and 'Creating a Brighter Future' programme. The level of savings the Council needs to achieve over the period of its medium-term financial strategy, on top of savings already achieved in recent years, represents a significant risk to the value for money conclusion.

Work undertaken

We carried out audit procedures reviewing the robustness of:

- the medium-term financial strategy (MTFS);
- budget monitoring reports and other finance updates; and
- a sample of the savings plans and assumptions underlying their delivery.

MTFS: the medium-term financial strategy (MTFS) approved by the Council earlier in the year covers a two-year period up to and including 2019/20 for the revenue budget due to the latest local government funding settlement covering a two-year period only. Whilst the settlement covered two years, and there is uncertainty on the funding regime beyond 2020, good practice would suggest that a medium-term financial strategy should cover at least three to five years, to inform good decision-making. The Council has, in July 2018, produced an updated draft MTFS covering a longer-term period to 2022/23 and it should ensure that the MTFS covers at least a three year period going forward.

Budget monitoring and finance reports: the Council projected an overspend of approximately £7m earlier in the financial year due to on-going financial pressures, including Adult and Social Care demand. However it has managed this position during the year, via a number of actions, resulting in a year-end outturn of an underspend of £0.722m. The Council's unearmarked General Fund balance is £6.804m and it has earmarked General Fund balances of £39.789m, including a strategic reserve of £14.472m as at 31 March 2018. School balances have reduced from £6.983m to £4.997m.

Savings: the Council achieved savings of £14.540m versus a target of £18.338 for 2017/18 (2016/17 actual of £14.508m versus a target of £15.737m). Despite this shortfall, the Council has successfully delivered its budget for 2017/18, making up the shortfall in planned savings via mitigating actions, some of them non-recurrent. In addition, some of the shortfall was due to the timing of delivery of projects where the full year effect will take place in 2018/19. Our work identified that there is currently a potential shortfall against the planned savings required for 2018/19; this is not un-common in the early part of the financial year but could indicate potential pressures in the delivery of the 2018/19 budget.

Conclusion

Overall we have obtained the assurance sought over the significant risk in respect of the scale of savings required over the period of the medium-term financial strategy, however there are a number of key recommendations the Council needs to address, namely:

- ensuring the medium-term financial strategy covers a period of at least three years to inform good decision-making; and
- continuing to critically reviewing its approach for the identification and delivery of savings given the increasing financial pressures.

3. VALUE FOR MONEY CONCLUSION

Significant Value for Money risk: capital programme: *arrangements in place for delivering capital projects*

Description of risk

The Council has a number of large capital projects on-going (e.g. Spanish City). Successful delivery of the Council's capital projects is fundamental to the main policy aims of its 'Our North Tyneside' Plan, in particular the continued investment in the Borough's future, as part of reducing inequalities.

Work undertaken

We:

- reviewed the overall arrangements in place for delivery of the capital (investment) programme; and
- reviewed the arrangements for monitoring and delivery of individual projects, focusing on the larger projects central to the delivery of the Our North Tyneside Plan and their progress against plans.

Arrangements for delivery of the investment plan

Business cases are agreed for all capital projects, with review by the Investment Programme Board. On average, General Fund capital projects have been 45%-50% funded by external grants and contributions. There is appropriate monitoring and reporting of capital projects and we note the useful RAG summary taken to the Investment Programme Board.

In the last few years, the Council introduced a gateway process in place for assessing capital projects which is good practice. This has been supplemented by a new scoring mechanism to be used from 2018/19 onwards. The gateway process is still relatively new and the Council is reviewing how well it is working and refining the approach. An area of focus should be on ensuring Gateway Stage 4 completion documents are as robust as possible to support a clear assessment of benefits realisation against that planned. The Council's larger regeneration capital projects (e.g. Swan Hunters and Whitley Bay Seafront) are governed by separate internal boards and each have a masterplan. Whilst these projects have led to some significant improvements, the Council has experienced challenges in delivery of these projects against planned timescales. It should consider periodic reviews of larger projects against the relevant masterplan to ensure that they remain on course to deliver value for money.

The Council has three PFI schemes for delivery of capital investment, which were entered into some years ago. The Council should ensure that it continues to benchmark its PFI schemes, reviewing them for value for money.

In recent years, the Council has also set up a number of trading companies, to contribute to its affordable homes programme. We have discussed with the Council the importance of maintaining strong governance arrangements over these subsidiaries.

Conclusion

Overall we have obtained the assurance sought over the significant risk in respect of the adequacy of arrangements in place for delivery of the investment plan; there are a number of key recommendations, namely:

- continuing to critically evaluate the new gateway review process, ensuring there is robust evaluation of realised benefits;
- ensuring longer-term large projects spanning a number of years are subject to periodic evaluation of whether they are providing value for money (both in qualitative and quantitative terms); and
- continuing to ensure there are strong governance arrangements in place for the Council's subsidiaries, including segregation of duties between those preparing capital bids to the Council and those approving them.

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Matters to report
Informed decision-making	***Financial and performance information and reliable and timely financial reporting*** Our consideration of the Council's medium-term financial strategy (MTFS) and budget monitoring is set out earlier in this section (significant risk), along with our recommendation in respect of the MTFS covering a longer-term period of at least three years going forward. ***Achievement of savings*** As part of addressing the significant risk identified (see previous section), we reviewed a sample of savings in order to assess the reasonableness of plans in place and their deliverability. Based on our sample testing, we noted the shortfall in respect of 2018/19 targeted savings. In the context of the continuing pressures and the shortfalls in savings of the last few years, we recommended the Council continues to critically review its approach to identifying and delivering savings. ***Balances*** The Council's General Fund unearmarked balance is £6.8m (prior year £6.6m) As financial pressures continue, the Council should keep under consideration the adequacy of this balance. We note also the strategic reserve totalling £14.472m (prior year £13.930m). The key challenges, as recognised by the Council itself include: • continued growth in demand in Adult and Children's Social Care Services; and • delays in delivery of some aspects of the Creating a Brighter Future Programme to the extent that achievement of some savings may be at risk. School balances have reduced from £4.987m to £3.356m as at 31 March 2018. Some individual schools continue to face significant financial challenges, with ten schools reporting a deficit in 2017/18. The Council's overall bad debt provision (impairment allowance) has increased from £8.1m in 2012/13 to £17.176m in 2017/18. Approximately half is accounted for by the provision made for business rates, council tax and housing rents. ***Managing risks effectively and maintaining a sound system of internal control*** The Council's governance framework is set out in its Annual Governance Statement along with how the effectiveness of that framework is reviewed throughout the year. Regular risk management reports are presented to Members. The Council received an overall 'satisfactory' internal audit opinion for 2017/18. We note the 'limited' assurance assessment in respect of Information Governance; it is important that appropriate resources are in place to strengthen arrangements..	None - noting the recommendations raised in respect of the Value for Money conclusion.

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Matters to report
Sustainable resource deployment	***Effective planning of finances*** The Council approved a balanced budget in its latest refresh of its Medium-Term Financial Strategy (MTFS) earlier this year. Our consideration of the robustness of the MTFS is set out earlier in this report, noting the recommendation made that the MTFS should cover a longer-term period of at least three years. ***Organisational development*** The Council recognises the importance of a robust workforce strategy and having a sustainable workforce in the future to support its strategic priorities, which may be increasingly made up of a mix of public, private and voluntary support. Separate strategies are in place for key areas, such as Children's Services for which the Council has invested in a variety of programmes, partnerships and initiatives that aim to create an environment in which its workforce can flourish.	None - noting the recommendations raised in respect of the Value for Money conclusion.
Working with partners and other third parties	The Council is party to an increasingly wide range of partnerships and recognises the importance of these in delivering on its objectives. Its Annual Governance Statement highlights partnerships as a governance issue to be closely monitored and the need to continue to embed and review partnership governance arrangements, as well as ensuring boundaries and responsibilities remain clear and are robustly managed. Given the use of service organisations, the Council's financial and performance reporting includes updates on its key partnerships with Capita, Engie and Kier, supported by the monthly Operational Partnership Board. Benchmarking of the Capita and Engie contracts have taken place in recent months. The decision to bring the Kier services back in-house from 1 April 2019 was made last September and work is underway in this respect. The health sector system-wide Sustainability and Transformation Plans (STPs) have continued to develop over the last year, as part of the new model for transformation. The North East and North Cumbria are working towards the development of an Integrated Care System (ICS) with several local Integrated Care Partnerships (ICPs) to succeed the existing STP approach. The Council is carefully monitoring the impact upon its services and its work with NHS partners. Progress continues in respect of the North of Tyne Combined Authority.	None

3. VALUE FOR MONEY CONCLUSION: RECOMMENDATIONS

Recommendations arising from our Value for Money conclusion work are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to the Council and, hence, our recommendation in terms of the urgency of required action.

Priority ranking	Description	Number of issues 2017/18
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	1
2 (medium)	In our view, there is a need to strengthen internal controls or enhance business efficiency. The recommendations should be actioned in the near future.	3
3 (low)	In our view, internal controls should be strengthened in these additional areas where practicable.	1

Description of issue arising: *medium-term financial strategy revenue budget only covering a two-year period - level 1*

The Council's medium-term financial strategy (MTFS) includes a revenue budget covering two years only. An updated draft MTFS covering a four-year period has been prepared.

Potential effects

Decision-making not informed by a MTFS covering the medium-term.

Recommendation

The Council should ensure the MTFS going forward always covers a period of at least three years to inform good decision-making.

Management response

Officers have prepared an updated MTFS covering a four year period. Informal discussions with lead members have been held regarding this updated plan.

3. VALUE FOR MONEY CONCLUSION: RECOMMENDATIONS

Description of issue arising: ***review of approach for the identification and delivery of savings - level 2***

Our work identified that there is currently a potential shortfall against the planned savings required for 2018/19; whilst not unusual in the early part of the financial year, this highlights potential pressures already in the delivery of 2018/19 budget.

The Council has found it increasingly difficult to deliver its planned savings in the last three years. Although the Council has been able to identify alternative means of reaching budgeted spending levels, there is some evidence of increasing financial pressures, indicating the Council should review its approach to delivering savings.

Potential effects

Increased financial pressures where savings are not achieved, resulting in short-term actions potentially being necessary in order to balance the budget including the use of reserves earmarked for other strategic objectives.

Recommendation

The Council should continue to critically review its approach for the identification and delivery of savings given the increasing financial pressures.

Management response

Officers have completed a 'lessons learned' exercise already and actions identified include consideration of the approach to the development of budget proposals for the 2019/20 budget and MTFS.

Description of issue arising: ***critical evaluation of new gateway review process, in particular realisation of benefits- level 2***

In the last few years, the Council introduced a gateway process in place for assessing capital projects which is good practice. This has been supplemented by a new scoring mechanism to be used from 2018/19 onwards. The gateway process is still relatively new and the Council is reviewing how well it is working and refining the approach. An area of focus should be on ensuring Gateway Stage 4 completion documents are as robust as possible to support a clear assessment of benefits realisation against that planned.

Potential effects

The gateway review process is not as robust as it can be and anticipated benefits are not realised upon completion of capital projects.

Recommendation

The Council should continue to critically evaluate the new gateway review process, including ensuring there is robust evaluation of realised benefits.

Management response

There has been continued reflection and review of the new process since it was introduced and this will be continued. There is already considerable work done to establish benefits realisation but there is scope for improvement in how this is captured as part of the gateway process.

3. VALUE FOR MONEY CONCLUSION: RECOMMENDATIONS

Description of issue arising: *periodic evaluation of longer-term large projects for value for money - level 2*

The Council's larger regeneration capital projects (e.g. Swan Hunters and Whitley Bay Seafront) are governed by separate internal boards and each have a masterplan. Whilst these projects have led to some significant improvements, the Council has experienced challenges in delivery of these projects against planned timescales. It should consider periodic reviews of larger projects against the relevant masterplan to ensure that they remain on course to deliver value for money.

Potential effects

Continued investment in capital projects which are no longer providing value for money.

Recommendation

The Council should ensure longer-term large projects spanning a number of years are subject to periodic evaluation of whether they are providing value for money (both in qualitative and quantitative terms).

Management response

Officers do consider periodic evaluation of projects and this is something that already happens in various ways; we will consider ways of making this more transparent including linking back to original master plans.

Description of issue arising: *governance arrangements in place for the Council's subsidiaries - level 3*

Sample testing identified that bids for capital investment by the Council in its subsidiaries were prepared by the Company Secretary for the subsidiaries and also approved by another Council officer who has a role in the subsidiaries. There was however further approval by an officer not involved in the subsidiaries.

Potential effects

Inadequate governance arrangements in place and / or segregation of duties between Officers of the Council and the operation of its subsidiaries.

Recommendation

The Council should continue to ensure there are strong governance arrangements in place for the Council's subsidiaries, including segregation of duties between those preparing capital bids to the Council and those approving them.

Management response

Council Officers will continue to ensure there are strong governance arrangements in place given the significance of the transactions with the subsidiaries.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**Consistent**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings.

Matters which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Council which must be responded to publically.

We have not exercised any of these statutory reporting powers.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We submitted this information to the NAO on 10th August 2018.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in March 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£135,765	£135,765*
Certification of Housing Benefit Subsidy Claim	£16,970	£16,970
Other non-Code work**		
Teachers' Pensions	£4,500	£4,500
School Centred Initial Teacher Training	£2,000	£2,000
Pooling of housing capital receipts	£1,800	£1,800

*provisional additional fee to be charged, subject to approval by Public Sector Audit Appointments Limited, as a result of the additional work required in respect of the Property, Plant and Equipment valuations update.

**being grant/return assurance work which we anticipate being engaged to carry out, with provisional fees shown subject to detailed guidance being issued.

Services provided to other entities within the Council's Group

We also anticipate being separately engaged again to carry out the external audit of the Council's subsidiaries. The fees for the two subsidiaries subject to audit in 2016/17 totalled £3,750. The subsidiaries subject to external audit in 2017/18 are:

- North Tyneside Trading Company Limited;
- North Tyneside Trading Company (Development) Limited; and
- Aurora Properties (Sale) Limited.

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

6. FORWARD LOOK

Financial outlook

The Council successfully achieved a small underspend for the 2017/18 financial year, however it is projecting a deficit for 2018/19.

As set out earlier in this report, delivery of planned savings is inevitably becoming harder and for at least the last few years, the Council has projected an overspend at the start of the year, in part due to demand and other pressures and in part due to a shortfall in planned savings, including from the previous year.

We have highlighted several key recommendations in respect of the Council's financial resilience, namely:

- ensuring the medium-term financial strategy covers at least a three-year period to inform decision-making; and
- continuing to critically review the approach to the identification and delivery of savings.

Strategic and operational challenges

The key challenges, as recognised by the Council itself include:

- continued growth in demand in Adult and Children's Social Care Services; and
- delays in delivery of some aspects of the Creating a Brighter Future Programme to the extent that achievement of some savings may be at risk.

Other key challenges facing the Council, as set out in its 2017/18 Annual Governance Statement include:

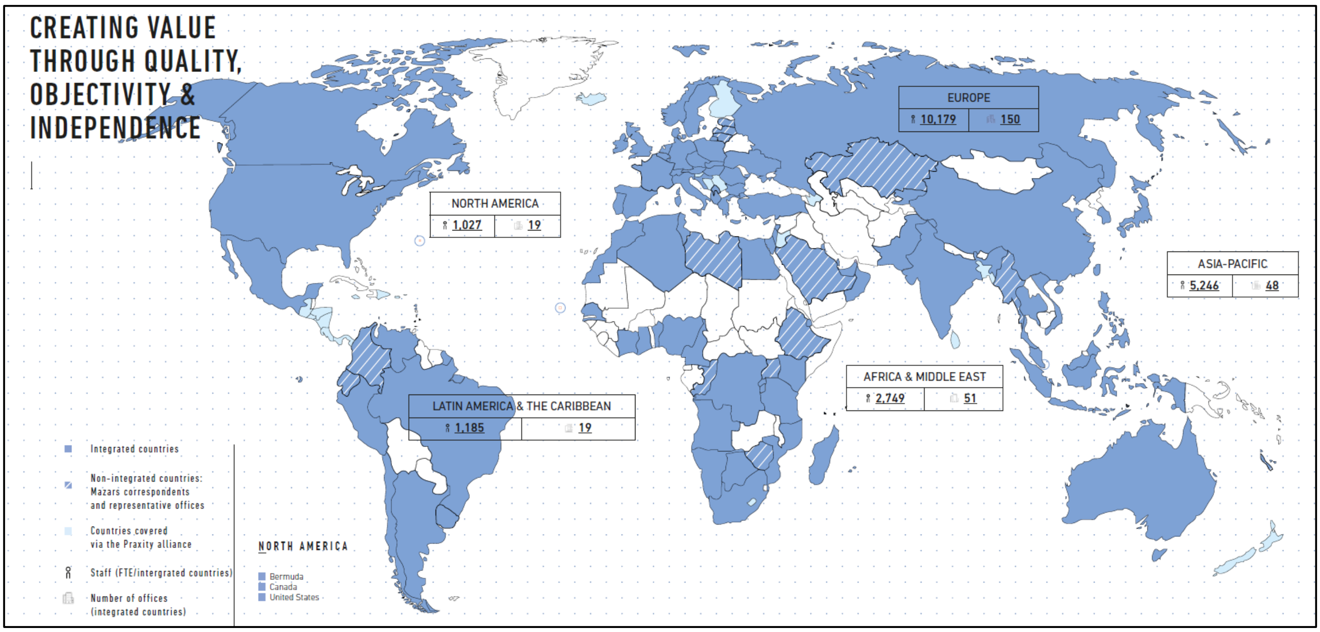
- the impact of welfare reform including the roll-out of full service Universal Credit in 2018/19;
- the Kier contract being terminated at the end of 2018/19 and the transfer back in-house of housing repairs and maintenance services;
- the impact of the Northumberland, Tyne and Wear and North Durham Sustainability and Transformation Plan as it evolves;
- on-going discussions in respect of the implementation of 100% business rate retention by local authorities;
- information governance including the impact of General Data Protection Regulations which came into force in May 2018;
- risks in respect of the key partnerships the Council has, including Capita and Engie;
- changes to national education policies, including the new funding formula;
- the exit from the European Union; and
- devolution i.e. the new North of Tyne Combined Authority which will present both challenges and opportunities.

MAZARS AT A GLANCE

Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

Mazars Internationally



Mazars in the UK

£173.6m

turnover 2016-17

27% in respect of audit services

▲8.5%

increase on prior year

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MAZARS

North Tyneside Council

Audit Committee Briefing: External Audit Transition

November 2018

Building a better working world

Contents

Background

Change in Auditor

For the financial year ended 31 March 2019, EY will take over as the external auditors for North Tyneside Council following the tendering of the Council's External Audit contract.

EY Credentials

Nationally, EY are responsible for the audit of 131 local government audits and are one of the leading firms currently auditing local government bodies.

In the North East public sector external audit market, we are auditors to 8 local government bodies and 3 local government pension funds.

Your audit team

Your audit team will consist of members of the specialist Government & Public Sector assurance team based in Newcastle and will be led by Stephen Reid, Nicola Wright and Stuart Kenny. Stephen, Nicola and Stuart all have a passion for working with the public sector and are able to meet regularly with the Council's officers and Committee members when required.

A summary of the team's experience is included on the following page.

Building a better working world

Your audit team

Stephen Reid

Partner

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Associate Partner

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Mobile: 07341 078397
Email: nwright1@uk.ey.com

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Senior Manager

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- Stephen will be your audit Engagement Partner and will sign the opinion on your financial statements. He will have overall responsibility for ensuring that you receive a high quality audit, which not only provides robust assurance, but which delivers value to the Council.
- He has over 20 years' experience in the delivery of external and internal audit, advisory and other assurance services across the public and not-for-profit sectors, including grant claims and VfM assessments. Sector experience includes: local government, health, central government, higher education, further education, housing associations and national and international charities, covering clients of all sizes and complexities.
- Stephen leads our Government and Public Sector assurance practice covering the North East of England and Scotland. He is the lead partner for our services to Audit Scotland and the Accounts Commission for Scotland.
- He is a member of both the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Chartered Accountants of Scotland (ICAS). In 2008 Stephen was identified by the Chartered Institute of Public Finance and Accountancy as one of only 10 future leaders across the UK.

- Nicola will have responsibility for ensuring that our audit delivers high quality and value to the Council.
- She has over 21 years' experience of working with a range of public sector and not for profit organisations undertaking a range of assurance related engagements.
- Nicola currently leads the external audits of South Tyneside Council, Middlesbrough Council, Darlington Borough Council, Hambleton District Council and Richmondshire District Council.
- She also leads all of the housing benefit certification work for of our local government portfolio in the North East.
- Nicola completed an 18-month secondment to the Audit Policy and Practice directorate of the former Audit Commission where she worked on a number of projects, including preparation of the Commission's discussion paper World Class Financial Management.

- Stuart will be responsible for ensuring delivery of the audit to timetable and will be the main day to day contact for the finance team.
- He has specialised in public sector external audit for over 10 years across local government, local government pension schemes and housing sector bodies.
- Stuart's current external audit portfolio includes Middlesbrough Council, Darlington Borough Council, Teesside Pension Fund and Tyne and Wear Pension Fund.
- He has a strong technical understanding of local government finances and reporting, and is currently part of EY's local government technical network.
- Stuart regularly provides interactive training to Audit Committee members in relation to the Statement of the Accounts.

Implementing a smooth transition

Initial document reviews

We have reviewed the Council's Statement of Accounts 2017/18, the Financial Plan and Budget and other information on the Council's website to develop a detailed understanding of the key issues facing the Council.

We are meeting with Mazars, the Council's previous external auditor, to obtain access to their working papers and copies of key documents such as the audit plan, report to those charged with governance at the end of the audit and the annual audit letter. This will allow us to obtain an understanding of complex transactions undertaken in previous years that will continue to have an impact on the accounts such as PFI transactions.

Set up introductory meetings

We have held introductory meetings with Janice Gillespie, Claire Emmerson, Allison Mitchell and Mary Gascoigne to begin to understand the challenges facing the Council this financial year and are beginning to consider the impact of these issues on our audit plan.

Communicating with the Audit Committee

Stephen and Nicola will aim to attend all Audit Committee meetings and will be supported by Stuart should they be unable to attend.

We will provide you with the reports which we are required to produce in line with auditing standards and the NAO code of practice, including:

- Audit Plan
- Report to those charged with governance
- Annual Audit Letter

We will also share any insightful publications produced by our technical team and would be happy to provide training on any topic that the Audit Committee would find helpful.

Effective implementation of the audit approach

Planning and risk identification	Strategy and risk assessment	Execution	Conclusion and reporting

Knowledge and enabling technology

Independence and objectivity

Planning and risk identification

We will review the CIPFA Code of Practice and relevant LAAP bulletins to identify any changes that will have a significant impact on the audit.

We will review key documents such as minutes of Council and Cabinet meetings and the Financial Plan and Budget.

We will meet with the Senior Management Team to understand the future direction of the Council and consider the impact of developments on our audits.

We will review the statement of accounts for 2017/18 against the CIPFA guidance and provide feedback to management on any areas of initial concern.

Strategy and risk assessment

We will review and test the key processes and controls around the significant risks identified at the planning stage.

We will perform walkthroughs of the key financial systems of the Council to understand the transaction flows, engaging our IT audit colleagues if necessary.

We will meet with Internal Audit to understand if we can place any reliance on their work.

We will perform a final risk assessment and present our Audit Plan to the Audit Committee in March 2019.

We will produce a schedule of final audit deliverables for management in advance of our final audit visit.

Execution

We will review the accounts against the relevant CIPFA guidance and provide prompt feedback to management.

We will execute our audit strategy through a mix of reliance on controls, substantive testing and data auditing.

We will perform our detailed work to support the value for money aspect of our audit opinion.

We will review the annual governance statement and provide feedback to management.

Conclusion and reporting

We will hold weekly meetings with the finance team to discuss matters arising during the audit on a timely basis.

We will hold a formal clearance meeting with the Head of Finance at the end of the final audit visit.

We will produce concise and insightful reports for the Audit Committee setting out the findings from our work.

We will produce an annual audit letter which summarises the results of our work in a more user friendly format for the public.

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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.

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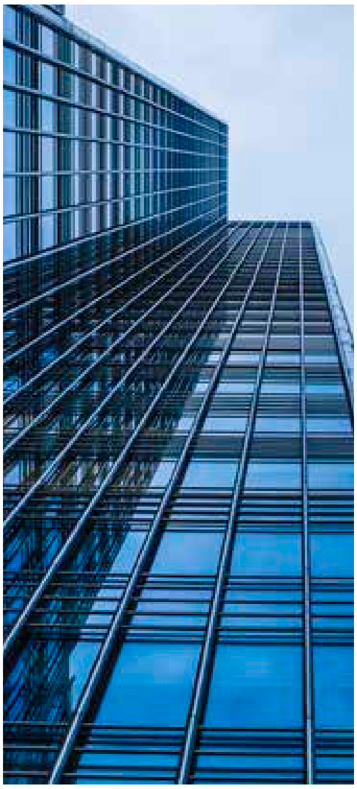
Local government audit committee briefing

Building a better working world

Contents at a glance



This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.

Government and economic news

EY ITEM Club — Local Government Economic Briefing Q3

The outlook for the UK economy appears to be worsening in 2018, as challenges continue for consumption, investment and trade. Local authorities are increasingly under pressure to deliver local economic growth and improved services within this uncertain environment.

A cloudier outlook for the UK economy may impact local authority MTFPs

The UK has witnessed a recovery in services output and consumer activity, partially in response to the sunny weather and the World Cup; however, weaker overseas growth (exacerbated by escalating fears of global trade disputes) has contributed to a slowing momentum in some sectors.

The ultimate impact is a continued slowdown in real GDP growth during 2018, with the EY ITEM Club revising its forecast for GDP growth to 1.4% in July 2018, down from the 1.6% expected in April 2018. The increasingly uncertain global outlook has led the EY ITEM Club to also renew its interest rate position, predicting that there will be only one rate rise in 2018 rather than the two forecasted previously. Local authority short-term borrowing increased by 31% in 2017/18, meaning that such a delay in interest rate hikes will likely be positive news to many local authorities. On August 2018, the Bank of England has since raised the interest rate by a quarter of a percentage point, from 0.5% to 0.75% – the highest level since March 2009, which will be re-considered by the EY ITEM Club in our next forecast.

Whilst it is still early days as far as predicting 2018/19's fiscal performance, a downgraded forecast for GDP growth this year and next, compared to the expectation three months ago, implies a bigger fiscal deficit.

On the whole, a weaker outlook for the UK economy should signal caution for local authorities. Increased pressure on real incomes and affordability has dampened activity in the housing market, with house price inflation slowing to 2%. However the ratio of prices to average earnings is still stretched by historical standards. Despite a record high employment rate, annual pay growth has not responded in turn, falling to 2.5% in April. These dynamics suggest that pressure on social housing will continue in the medium-term.

Slower growth should be considered in the light of local authorities' proposed or existing commercial activity. Dampened economic activity may also impact local businesses, leading to an increase in high street vacancies. Furthermore, local authorities should also factor a more negative economic outlook into its supply chain risk assessments, with the potential of it increasing the chances of firms collapsing.

How do local authorities respond to the struggling retail sector?

As the retail sector undergoes significant structural change, local authorities need to consider how they can respond to this and adapt both their regeneration and investment plans accordingly.

The increasing drive towards online shopping along with rising operating costs for retailers has led to decreasing footfall in shopping centres and high streets as well as record levels of shop closures. Noteworthy retailers, including House of Fraser, Poundworld, Maplin and Toys R Us as well as a number of chain restaurants, have proposed restructures or shop closures, or have fallen into administration. There are concerns that the number of shops is too high as sustained vacancy rates continue.

Over the past two years, local authorities in England have made debt funded investment of around £1.7bn in commercial property assets. This has included a number of investments in shopping centres and other retail focused assets. These investments are likely to see a period of underperformance, with estimations suggesting a potential 10% fall in shopping centre capital value, driven by higher vacancy rates. Yields are likely to be lower than anticipated, along with there being a requirement for an increase in active management of these units, further eating into returns.

Local authorities need to consider the changing retail sector in light of their regeneration plans. There is a consensus that too much high street and town centre space is dedicated to retail. The think tank Centre for Cities has stated that shops take up twice as much space as offices in struggling town centres, whilst successful town centres tend to have three times as much office space than retail. Local authorities need to ensure that regeneration plans have appropriately considered the medium and longer term outlook for the retail sector.

The structural changes evident in the retail sector shouldn't deter local authorities from maintaining an active role in driving town centre regeneration nor in retail investment. Rather, local authorities should be integral to undertaking active investment ensuring the aim is focused on socio-economic regeneration as opposed to merely revenue generation. It is vital that local authorities are at the helm of repurposing town centres, ensuring that the public realm centres on public spaces, homes and community assets, rather than retail. This will help to ensure the sustainability of our town centres, whilst at the same time helping local authorities to achieve their regeneration and financial goals.

Brexit

A CIPFA survey has found that three quarters of public service leaders feel that central government is not engaged or has not communicated sufficiently over Brexit. CIPFA's Brexit Advisory Commission has commented that in order for local authorities to plan effectively and identify opportunities, communication channels need to be open between the government and public service leaders. Anticipating an increase in cost, public service leaders are purchasing more from suppliers now to prevent potential higher costs in the future.

Public service leaders are also anticipated a staffing pressures. Nationally it is estimated that 7% of the social care sector's workforce are non-UK EU nationals. However, in some regions of the UK non-UK EU nationals make up a significantly larger proportion.

Another major concern is regarding replacement of EU funding which is currently worth £8.4bn. In a recent white paper the Government has proposed a UK Shared Prosperity Fund (UKSPF) to replace the existing EU regional funding. Details of how local authorities can bid to secure this funding has yet to be determined.

Accounting, auditing and governance

EY's response to CIPFA consultation on its proposed local authority financial resilience index

On 24 August CIPFA closed its consultation on its plans to launch an authoritative measure of local authority financial resilience through the creation of a new index. CIPFA's proposals include using a range of indicators for the index and a dashboard enabling comparison with similar authorities. CIPFA has reported that it has had an unprecedented number of responses- not a surprise given the current profile of local authority financial resilience and the noise in the sector over CIPFA's proposals. We summarise EY's response below.

Whilst we support CIPFA's ambition to support senior officers and members with an early warning system for financial resilience issues we are unconvinced that the proposed indicators provide sufficient depth and sophistication to reflect the complexities of local authorities. In particular it is unclear how the indicators take account of the different type of reserves (earmarked, un-earmarked, usable and unusable), general fund and housing balances, income generated from other sources and borrowing plans (including recognising the different types of borrowing). Reference should also be made to the scale of borrowing to invest in commercial property, as well as exposure to material outsourcing contracts and associated supplier risk, noting that current focus on the risk that these issues are generating in the sector. There is no reference to how the culture of an organisation impacts it financial plans and its appetite for risk. In addition, many authorities work significantly in partnership with others. In our experience, whilst the proposed indicators may provide a crude indication of financial resilience, senior officers and members would value an output that takes into account these other major influencers of financial resilience.

We have suggested that the proposed index could be treated as the first step to developing a more sophisticated index, using some of the same principles but taking into account the complexities outlined above. While CIPFA have stated that the index is not designed to predict financial issues, we would welcome the development of forward looking indicators using information from an authority's medium term financial plan as well as taking into account historic performance in achieving planned savings, unplanned use of un-earmarked reserves as well as an assessment of forward looking demographic and economic forecasts for a locality. In addition, a developing index can incorporate important changes in the way local authorities operate, for example greater integration between health and social care and the impact of CQC reviews on local health systems.

We supported the proposal for a single dashboard showing the individual authority and the relevant comparator group performance. However, we questioned the use of the terms 'best' and 'worst' performers if the index is to avoid 'naming and shaming' authorities.

We look forward to seeing CIPFA's response to the consultation and will share our views of their next steps.

EY's response to CIPFA consultation on implementation of the new adoption of IFRS 16

On 7 September CIPFA closed its consultation on proposals for developing the new edition of the Local Authority Accounting Code for 2019/20 in relation to implementing the new leasing accounting standard, IFRS 16.

IFRS 16 aims to increase the transparency of financial reporting on leases. It removes the previous lease classifications of operating and finance leases for lessees and it requires that a right-of-use asset (i.e., a lessee's right to use an asset over the life of a lease) be recognised for all leases (there are exemptions for short-term and low value leases) with a corresponding lease liability representing the lessee's obligation to make lease payments for the asset. This will be a significant change for local authorities and present practical challenges for processes, systems and data collection.

IFRS 16 will mean that current value depreciation and depreciation is charged to the Surplus or Deficit on the Provision of Services. It will also impact on the statutory reporting and capital finance requirements for leased assets which currently refer to finance leases. The recognition of right-to-use assets will bring leases into the scope of the Prudential Framework. The cost (on initial recognition) of the right-to-use asset will meet the definition of capital expenditure in contrast to the current revenue treatment of operating leases.

We generally support the CIPFA proposals with the following matters to highlight:

- **Clarification of what 'low value' is.** There are exemptions under IFRS 16 for 'low value' leases but there is no clear definition. The proposals do not make reference to assets that may be of low value, but are only used or used to maximum effect by being part of a network e.g., photocopiers can be used off-line but are more usually used on-line; laptops could have a similar position. The Code needs to clarify what low value is and what being part of a network is as this would be a potential area of disagreement and inconsistency. A number of clients have suggested using their de minimis level for capitalisation as the 'low value'. The Code should emphasise that these are two different concepts.
- **Measurement of the lease liability.** The lease liability is calculated from the present value of the lease payments payable over the lease term. This is discounted at the interest rate implicit in the lease or the authority's incremental borrowing rate. In our experience many authorities do not have information on the rate implicit in their operating leases. For consistency and cost effectiveness mandating the use of the incremental borrowing rate for all leases would be a positive step.
- **Subsequent measurement.** To measure the right-of-use asset we support the approach of current value measurement with materiality based practical expedients. This would be consistent with the current approach for PPE assets. It would be unsupportable to have different valuation models for the same asset types based on whether they were controlled directly or controlled via lease.
- **Housing authorities and the Capital Financing Requirement (CFR).** The HRA CFR was effectively capped following HRA self-financing under Regulation. As many HRA authorities are at their HRA CFR limit the addition of right-of-use assets would lead to breaches of the HRA CFR cap. Given the categorisation of such assets as capital in nature this change will restrict the ability of HRA authorities to enter such leases which in some cases may severely impact on their 30 year HRA financial plan. Amending Regulations could be laid that allow the HRA CFR cap to be increased by the value of any right-of-use assets identified. This would maintain the integrity of the current system regarding capital expenditure but also maintain the current flexibility in respect of operating leases. We have suggested that CIPFA should seek discussions with the Ministry of Housing, Communities and Local Government to address this issue.

Consultation on proposed statutory overrides for IFRS 9

Local authorities will be required to implement the new IFRS 9 Financial Instruments standard for the 2018/19 financial year. The sector has made representations to government on the anticipated negative impacts of the new standard which could result in income statement volatility, earlier recognition of impairment losses on receivables and loans and significant new disclosure requirements. Ministry of Housing Communities and Local Government (MHCLG) has set a response date of 28 September 2018 for the following matters:

Time limited statutory override on fair value movements for pooled investment funds

One of the consequences of IFRS 9 is that fair value changes in pooled investments fund will be accounted for at fair value through profit and loss which will impact non-ringfenced revenue reserves, annual balanced budget calculations and ultimately mean there is less money available to fund services.

MHCLG is proposing a three year grace period to adapt to the accounting changes, requiring local authorities to reverse out fair value movements on pooled investments to unusable reserves until 1 April 2021. MHCLG believes this should give local authorities sufficient time to divest themselves of these types of funds or alternatively build up sufficient revenue reserves to mitigate the impact. To aid in transparency, fair value movements relating to IFRS 9 should be separately disclosed in the Unusable Reserves note.

Earlier recognition of impairments on loans and trade receivables

MHCLG does not intend to mitigate the impact of early impairment recognition of loans and receivables, owing any substantial impairment a direct result to the authorities risk appetite. Local authorities will need to keep a close eye on the budgetary position to accommodate this accounting change.

Disclosure Requirements

MHCLG does not intend to reduce any disclosure requirements, despite the administrative burden that may arise in first time implementation, as the new and enhanced disclosure requirements will benefit the users of the accounts.

The first year of local government faster close

After almost two years preparation, numerous discussions between auditors and finance teams, several reminders to audit committees and a significant amount of hard work, the end of July, the new deadline for local authorities to publish audited accounts, came and went. Across the 150 EY local authority audit portfolio, the new deadline was me at 132 authorities (88%). Nationally, we hear, and it's an unaudited figure, the outcome was 15% missed the earlier deadline, compared with 5% that missed the previous year's end of September deadline.

Auditors are already meeting with finance teams to de-brief and learn lessons for FY19. We outline below our immediate views on the key factors for both authorities and auditors that contributed to meeting the faster close deadlines.

1. **Project management:** Authorities with a clear, well thought through, detailed and actively managed action plan, involving their auditors, were more likely to be successful in delivering closedown, accounts preparation and the audit to time. Project plans that made preparation of supporting working papers an integral part of the process resulted in better quality financial statements. When things were going off track, decisive action was taken to make a change and get progress moving in the right direction. Often project management resided with one or two key individuals in finance and audit teams who had the ability to influence others and make decisions on priorities and resource allocation.
2. **Communication:** Early and honest communication on progress, key judgements and potential problems enabled officers and auditors to find solutions and agree on matters promptly and efficiently rather than having limited time to deal with late and unexpected issues.
3. **Capacity and contingency:** The shorter period between accounts preparation and publication of audited accounts increased pressure on teams and squeezed the time to deal with late issues. Successful delivery was more likely where officers and auditors built capacity and contingency into their respective scheduling plans.

4. **Dealing with accounting estimates:** Authorities and auditors need to be clearer on their approach to preparing and auditing accounting estimates. Notably in respect of the two biggest estimates an authority makes relating to pensions and the valuation of property, plant and equipment. Both rely on the work of a specialist and are determined by an authority as part of closedown. Both are also estimates that auditors will always challenge and draw on the latest available information.
5. **Streamlining the accounts:** We were surprised that we didn't see much evidence of authorities using the opportunity to review their accounts and taking out non-material disclosures. This may be an area that authorities and auditors would find it helpful to discuss as part of planning for 2018/19.

We encourage audit committees to consider the five key factors in relation to their plans for preparing their 2018/19 statement of accounts and supporting the associated audit.

CIPFA Governance Guidance for LEPs

Over the years, the amount of public expenditure that Local Enterprise Schemes (LEPs) are responsible for has increased and the role of the section 151 officer has become of greater importance in the LEP assurance model. CIPFA, in collaboration with the Cities and Local Growth Unit, has developed five key principles for LEP section 151 officers which would result in more proportional financial governance for LEPs. The five key principles are as follows:

1. **Enshrining a corporate position for the section 151 officer in LEP assurance.**
    - This will result in a shared responsibility arrangement between the chair, the chief executive, and the section 151 officer. Section 151 officers will also be required to provide an Annual Assurance Statement.
2. **Creating a formal/structured mandate for the section 151 officer.**
    - This will allow the section 151 officer to attend board meetings and provide recommendations on financial administration.
3. **Embedding good governance into decision making.**
    - This will result in section 151 officers taking an active role in the financial and risk-based decision making.
4. **Ensuring effective review of governance.**
    - Internal audit will need to include a risk-based audit plan which will provide assurance to the board and the section 151 officer. Where there are serious concerns, such as non-compliance with legal requirements or fraud, the section 151 officer will be required to report these to the Cities and Local Growth Unit.
5. **Appropriate skills and resourcing.**
    - This will ensure LEPs have the appropriate skills and resources, including audit, to enable the Section 151 officer to carry out their function.

Other

Social Care Spending

Age UK has published a report on a study conducted by health policy and communication specialists, Incisive Health, which shows that the social care system in the England 'lags behind' other countries. The report states that countries such as Germany and Japan have made sustainable social care policy changes in 1995 and 2000, respectively; whilst the social care system in England has remained largely unchanged despite several government consultations and green or white papers.

In response to this report, the Local Government Association (LGA) has attributed the delay in progression of adult social care system to underfunding, a rise in demand and increased cost for care and support. The LGA has estimated that there is a £3.5bn funding gap facing adult social care by 2025 to maintain the existing standards of care.

Research conducted by the Association of Directors of Adult Social Services has estimated that English councils in 2018/19 have cut social care spending by £700m which is equivalent to 5% of the total £14.5bn budget and that since 2010 social care spending has decreased by £7bn. The survey also found that half of councils in England overspent on adult social care budgets in 2017/18, half of which have drawn on council reserves to meet overspends. This is a concerning statistic given that the National Audit Office (NAO) has warned that 10% of councils will exhaust their reserves at the current rate of use.

To help bridge the funding gap, the LGA is currently consulting on its own proposals which includes an increase to national insurance by 1% on the basic rate and an additional social care premium for over-40s.

Social housing

There are 1.2 million people on waiting lists for social housing and for these people affordable housing is becoming more and more unaffordable as their incomes are squeezed. To address this issue the Government has released a consultation green paper which has proposed the building of new affordable housing by 'exploring flexibilities' on how local authorities spend the money from homes sold under the Right to Buy (RTB) scheme. Current funding allows for local authorities to keep one third of each RTB receipt to build a replacement RTB home; but does not allow authorities to borrow money to make up the shortfall for financing the replacement RTB home. The green papers also contains proposals to allow tenants to purchase as little as 1% of their property each year through shared ownership.

The LGA response to the Government's green paper was that the consultation showed positive signs, however the government could do much more for example allowing local authorities to keep all of the RTB receipts to allow councils to more easily finance replacement RTB homes and scraping the housing borrowing cap. The current proposals do not directly allocate funding to local authorities to build more social housing.

Organisational Transformation Guidance for Audit Committees

Transformation plans of any organisation can be highly complicated and risky, even more so for large organisations. Transformation plans can be broad in scope, evolve over time and it can be difficult to measure the impact of transformational change. The exercising of good governance by Audit Committees is essential for the success of major transformation projects. To aid Audit Committees, the NAO has issued guidance which sets out the initial questions that could be asked of officers in the 'set up' phase, 'delivery' phase and 'live running and benefit realisation' phase.

Further details of this guidance can be found through the link in the **Find Out More** section below.

EY cybersecurity strategies

There's a new way of thinking about cybersecurity. New security approaches are moving from thinking about cybersecurity as a defensive approach, to thinking about it as a source of transformation. Here are some ways to position your cybersecurity strategies for a distinct advantage.

Make it a team sport that everyone is a part of

The number one cause of large security breaches remains phishing, according to the EY 2017/18 Global Information Security Survey of over 1,200 companies. On mobile devices, phishing attacks have increased by an average of 85% year on year for the last seven years, so you are still more likely to be made vulnerable by a member of staff opening a rogue email than anything else.

This is often the result of a lack of cybersecurity awareness — whether about generic malware, scams related to fake LinkedIn profiles, or hacks on public Wi-Fi.

Therefore, developing a culture where staff at all levels understand how to protect data and systems, including mobile devices, through up-to-date training, drills and regular communication, will help build and maintain a cybersecurity advantage.

Cyber policies are vital as a living, breathing reference to help manage a fraught and fast-moving situation, yet these aren't effective if staff outside of the cyber function don't know about them.

Embedding a cyber conscious culture that heightens awareness and behaviours amongst all employees can help you pull ahead of the competition, instead of scoring an own goal.

Keep to a small window for damage control

The UK's national cyber security centre recently described a need to act collaboratively and collectively against cyber threats, urging organisations to raise the bar.

Cyber threats don't respect borders, jurisdictions or organisational boundaries, and there is a small window in which to minimise the damage.

Under GDPR, the new mandatory 72-hour breach reporting could be too long a timeline in the court of public opinion, and focusing on the first 2 to 5 hours instead could provide a much needed advantage.

Outlining key stages of your breach response in the first few hours across functions from IT, security, PR to legal, and identifying at which points to get an external view, could make the difference between a forgiving public or not.

As we start to see more threats and regulations emerge across the world, how organisations come together, under extreme time pressures, will provide much needed collaborative gains.

Use different approaches for evolving risks

Cyber risks aren't constant. The nature of the risks are always changing — which means resources to fight them can't be allocated on a set basis.

Increasingly, cybersecurity requires bringing together a wide range of capabilities to deliver value.

Whether that be through enhancing cyber resources with new skillsets, leveraging emerging technology from hardware authentication, virtualised intrusion detection, or using AI and machine learning.

With cybersecurity increasingly becoming a competitive battleground, that's all the more reason to start thinking about how your organisation can build an effective cybersecurity advantage.

Key questions for the Audit Committee

Brexit

Has your authority considered the implications of Brexit? What plans does your authority have in plan to mitigate potential risks associated with Brexit?

CIPFA Financial Resilience Index

Does the proposed CIPFA financial resilience index provide your authority with the support needed to achieve a balanced budget?

Consultation on the adoption of IFRS 16

How prepared is your Fire Authority for the changes in processes, systems and data collection as a result of CIPFA implementation of IFRS 16?

Consultation on proposed statutory overrides for IFRS 9

Has your authority assessed the impact of the new accounting standard IFRS 9 Financial Instruments and the potential statutory overrides on your budgets?

LEP Governance

Is your local authority part of a LEP? If so, what arrangements are in place to ensure that the authority has sufficient assurance over the governance of the LEP?

Social Care

Given the spending pressures on social care and the sustainability of funding sources, what is the authority's strategy to ensure the sustainability of social care? How does the authority ensure that it maximises value for money from its social care services and ensures that the quality of care provided is appropriate?

Social Housing

What plans does your local authority have to ensure that there is sufficient social housing in the area? Has your authority responded to the Government's green paper consultation?

Transformation

Is your local authority considering or does your local authority have plans to transform its business? If so, how will the audit committee exercise good governance over these arrangements? Have you used the NAO transformational guidance?

EY cybersecurity strategies

Is your organisation still thinking about cybersecurity as a defensive approach or a source of transformation and distinct advantage?

Find out more

EY Item Club

https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections

Brexit

https://www.publicfinance.co.uk/news/2018/06/government-failing-engage-over-brexit

https://www.publicfinance.co.uk/news/2018/07/brexit-will-hit-public-finances-conference-hears

https://www.local.gov.uk/about/news/lga-responds-brexit-white-paper

CIPFA consultation on its proposed local authority financial resilience index

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-launches-consultation-on-new-index-to-measure-councils%E2%80%99-financial-resilience

Consultation on the adoption of IFRS 16

https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/local-authority-leasing-briefings

Consultation on proposed statutory overrides for IFRS 9

https://www.gov.uk/government/consultations/local-authority-budget-setting-mitigating-the-impact-of-fair-value-movements-on-pooled-investment-funds

LEP Governance Guidance

https://www.cipfa.org/policy-and-guidance/reports/principles-for-section-151-officers-working-with-leps

Social care

https://www.publicfinance.co.uk/news/2018/08/england-lags-behind-other-countries-social-care

https://www.local.gov.uk/about/news/lga-responds-age-uk-report-care-funding-comparison

https://economia.icaew.com/news/august-2018/lga-proposes-tax-increase-to-support-social-care

https://www.theguardian.com/society/2018/jun/12/adult-social-care-services-collapse-survey-england-council

Social Housing

https://www.local.gov.uk/about/news/lga-responds-social-housing-green-paper

https://www.publicfinance.co.uk/news/2018/08/social-housing-paper-fails-provide-cash-needed-homes1

Transformation Guidance (from the NAO)

https://www.nao.org.uk/report/transformation-guidance-for-audit-committees/

EY cybersecurity strategies

https://www.ey.com/uk/en/services/advisory/cybersecurity/ey-four-cybersecurity-strategies

Notes

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ED None

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North Tyneside Council
Report to Audit Committee
Date: 21 November 2018

ITEM 7.

Title: Annual Statement of Accounts 2018/19

Report from Service:	Finance	
Report Author:	Janice Gillespie, Head of Finance	(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 the plan 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 the plan for 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 2017/18 was the first year of the new regulations in respect of the production of the Authority's Annual Statement of Accounts. The Chief Finance Officer was required to sign and certify that the Statement of Accounts presented a true and fair view of the Authority's financial position for the year ended 31 March 2018 no later than 31 May 2018 and the audited set of accounts to be approved and subsequently published by 31 July 2018. These deadlines were met with the draft set of accounts signed and certified on the 31 May 2018 and an unqualified set of accounts published on the 26 July 2018.

Preparation of the 2018/19 Annual Statement of Accounts

1.5.2 Although the deadlines were met for the 2017/18 accounts the process was quite intense due to issues around valuation. As part of the Audit Completion Report several internal control recommendations were agreed by management and valuation are fully engaged with the process of implementing these recommendations. The report also highlighted adjustments that were required to the draft set of accounts as a result of audit findings. A review has taken place of these issues– this has been in conjunction with the external auditor responsible for the 2017/18 audit, key finance staff and the Chief Finance Officer.

1.5.3 A session was held during October with key staff to work through the process that was undertaken for the production of the 2017/18 accounts, and to identify where improvements could be made together with what went well and what didn't.

1.5.4 Key risks associated with achieving the statutory deadlines were also identified, and will continually be monitored throughout the process. Work is on-going in finding appropriate solutions to ensure that any risks are mitigated as much as possible. A risk log is maintained and reviewed as part of the regular meetings held with both key finance staff and the Chief Finance Officer.

1.5.5 A detailed timetable has been prepared outlining the main tasks and actions that need to be taken – together with who is responsible and the agreed date for completion of each item. There are currently over 430 items on the timetable with approximately 270 of them due for completion in the six week period from the beginning of April 2019 to the middle of May 2019. Progress against each of the tasks is reviewed regularly, individuals are tasked with ensuring if there are going to be any problems in meeting the agreed dates that this is reported back to the project lead as soon as possible so that appropriate action can be taken and any impact on other deadlines is determined.

1.5.6 A new set of external auditors – Ernst Young, will be responsible for the audit of the 2018/19 accounts. We are working closely with them to ensure that we agree an appropriate course of action that will assist in any early testing they wish to do i.e. in early 2019 several areas of the Accounts can be reviewed and audited.

1.5.7 Regular meetings will be held with the external auditors so that any issues raised are resolved quickly, new working protocols are identified and a good working relationship is established.

1.5.8 We will continue with the good workings practices that were established for the 2017/18 accounts and did assist in the closedown process:

1.5.8.1 Regular meetings with Valuation - a key area of the accounts due to the high value of the assets;
1.5.8.2 Involvement of all areas of the Authority – articles will be in teamwork from the Chief Finance Officer outlining the role everyone has in ensuring the Accounts are produced on time and also the importance of responding to any audit queries on a timely basis; and
1.5.8.3 Continued improvement of working papers – it is key that all of the working papers are of the same high standard to assist in the audit of the accounts.

1.5.9 Throughout the whole process regular meetings will be held with the Chief Finance Officer so that any issues, risks or concerns are raised on a timely basis and appropriate action can be taken to resolve them.

1.5.10 A date of the 21 May 2019 has been set as the deadline for achieving a set of Accounts that can be reviewed and quality assured prior to the publication date of 31 May 2019.

1.5.11 An update of the progress made and any issues in respect of meeting these deadlines will be taken back to the Audit Committee in March 2019.

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:

Claire Emmerson – Senior Manager Financial Strategy and Planning - Tel: 643 8109
Cathy Davison – Principal Accountant – Tel 643 5727
Mary Gascoigne – Principal Accountant – Tel 643 5731

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.