

Annual Audit Letter

North Tyneside Council



North Tyneside Council

For the year ended 31 March 2017



MAZARS

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

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Executive summary

Purpose of this report

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 2017. 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 detailed 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 work	Summary
Financial statements opinion	On 28 September 2017 we issued our opinion that the financial statements give a true and fair view of the Council's financial position as at 31 March 2017 and of its financial performance for the year then ended.
Opinions on other matters	On 28 September 2017 we issued our opinion that the Narrative Statement published with the financial statements, is consistent with those financial statements.
Value for Money conclusion	On 28 September 2017 we issued our conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
Whole of Government Accounts	In line with instructions issued by the NAO, on 28 September we issued our assurance certificate which reported that the Council's consolidation pack was consistent with the audited financial statements.
Matters that we report by exception	<p>We have not identified any matters to report in relation to:</p> <ul style="list-style-type: none">• whether the Annual Governance Statement is in line with our understanding of the Council and the requirements of the Delivering Good Governance in Local Government Framework 2016;• reports in the public interest or written recommendations made under s24 of the 2014 Act;• exercise of other powers under the 2014 Act.

As we have discharged all of our responsibilities under the 2014 Act for the 2016/17 audit, we certified the closure of the audit on 28 September 2017.

Audit of the financial statements

Financial statements opinion

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 2017 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 for the UK and Ireland (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 statement 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. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2017:

Financial statement materiality	£6.604 million
Specific materiality	We have applied a lower level of materiality to the following items of account: <ul style="list-style-type: none">• Senior Officers' Remuneration - £367k• Members' Allowances - £193k• Exit Packages (correct banding used)
Trivial threshold	£198k

Our response to significant risks

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 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, the work we carried out on those risks and our conclusions.

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control</p> <p>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 overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by performing work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates affecting amounts included in the financial statements; • 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. 	<p>Our work provided the assurance we sought and did not highlight any significant issues to bring to your attention, other than the internal control recommendations detailed further in this report.</p>
<p>Revenue recognition</p> <p>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 there were insufficient grounds for rebuttal in 2016/17.</p>	<p>We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing revenue items recorded to ensure they have been recognised in the appropriate year; • testing adjustment journals; and • for major grant income, agreeing amounts to third party documentation. 	<p>Our work provided the assurance we sought and did not highlight any significant issues to bring to your attention, other than the internal control recommendations detailed further in this report.</p>
<p>Valuation of property, plant and equipment (PPE)</p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of PPE.</p>	<p>We:</p> <ul style="list-style-type: none"> • considered the Council's arrangements for ensuring that PPE values are reasonable; 	<p>Our work provided the assurance we sought and did not highlight any significant issues to bring to your attention, other than the internal control recommendations detailed further in</p>

Significant risk	How we addressed the risk	Audit conclusion
The value of the Council's PPE is material to the accounts and involves management judgements over the valuations and useful lives of assets.	<ul style="list-style-type: none"> engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer (where appropriate); 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 is appropriate. 	<p>this report, the amendments to the prior period adjustment and the unadjusted misstatements.</p> <p>See also our follow-up of the previous year recommendation in respect of valuations.</p>
<p>Valuation of defined benefit pension scheme</p> <p>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 includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and considered the reasonableness of the Actuary's assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office. 	<p>Our audit provided the assurance we sought and did not highlight any significant issues to bring to your attention.</p>

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. Our audit did not identify any significant deficiencies in internal control, however we highlighted some internal control recommendations, as well as following-up previous year internal control recommendations. Internal control recommendations identified are detailed below.

Description of deficiency	Adult social care (ASC) underpayment of direct payments (priority 2 - medium)
	Our testing at the planning stage identified underpayment of ASC direct payments relating to controls not working as designed to ensure payment rates matched the agreed support plan.
Potential effects	Understatement of expenditure and ASC clients are underpaid.

Recommendation	The Council reviews controls and processes to ensure they are operating as designed.
Management response	The Council immediately took action earlier in the year when this issue was highlighted and we obtained assurance there was no material underlying error. The Council is running a monthly report to allow it to check any breaks in payment result in the correct care rate subsequently being used.

The previous year recommendations we followed-up are summarised below.

1. **Members interests:** ensuring changes to interests are declared within 28 days as required by the Code of Conduct **(priority 2 - medium);**
2. **Adult Social Care:** ensuring there is adequate evidence to support rates paid for care **(priority 2 - medium);**
3. **Property, Plant and Equipment:** Valuer's judgement **(priority 2 - medium);**
4. **Private Finance Initiative:** retention monies **(priority 3 - low);**
5. **Cut-off testing:** recommendation arising from testing **(priority 3 - low);**
6. **Property:** ensuring there is a signed tenancy agreement in place **(priority 3 - low);**
7. **Journals:** maintaining an audit log of deleted journals **(priority 2 - medium);**
8. **IT audit review:** security - leavers process **(priority 2 - medium);** and
9. **IT audit review:** security - Axis Income Management periodic user review **(priority 2 - medium).**

Value for Money conclusion

Value for Money conclusion

Unqualified

Summary of our work

We are required to form a conclusion as to whether the Council made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (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:

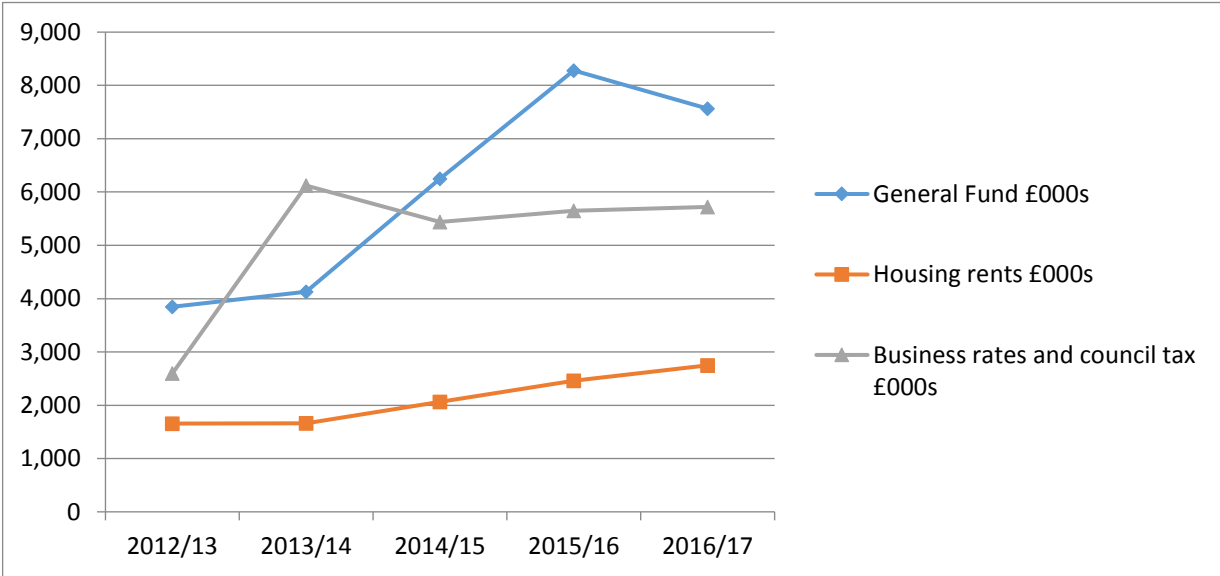
- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

The following table provides commentary of our findings in respect of each of the sub-criteria and an indication as to whether proper arrangements are in place.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	Financial and performance information and reliable and timely financial reporting	Yes
	The Council has continued to regularly report on its financial performance via regular reports to Cabinet and the Finance sub-committee.	
	The Council's finance reports contain a summary of financial performance, which is crucial to facilitate Members' oversight of financial performance and this clarity will be increasingly important in the coming year as financial pressures emerge.	
	The Council's performance is reported to Cabinet by way of regular updates on the recently refreshed 'Our North Tyneside Plan'. The Overview and Scrutiny Committee also receives updates on the 'Our North Tyneside Plan' and challenges officers on performance where appropriate. This strategic performance reporting is supplemented by service-level reporting. Included within the finance reports are regular updates on the 'Creating a Brighter Future' Council-wide transformation plan.	

Sub-criteria	Commentary	Arrangements in place?																								
	<p>Achievement of savings</p> <p>As part of addressing the significant risk identified (see next section), we reviewed a sample of savings in order to assess the reasonableness of plans in place and their deliverability. Overall, we obtained sufficient appropriate evidence of the robustness of the Council’s arrangements in this regard.</p> <ul style="list-style-type: none">• In respect of 2016/17, we considered the actual savings delivered: we noted the shortfall of £1.2m in savings required out of a total of £15.737m.• We also considered 2017/18 planned savings and carried out sample testing.• Finally, we considered the progress being made in respect of savings for 2018/19 onwards; inevitably, at this stage, future plans are not fully quantified although we note there is a project plan in place, with potential areas of savings which are to be quantified. <p>The Creating a Brighter Future (CBF) transformation programme includes regular detailed traffic-light reports to Overview & Scrutiny, which are summarised for inclusion in the regular finance reports to Cabinet. There is scope to further enhance the reporting of progress on the CBF programme by quantifying the value of savings achieved or any shortfall, so there is clarity on progress. We note the new style Quarter 1 finance budget report does include a clear summary of savings against target; it is important that this reporting also quantifies the value of savings not achieved from previous years, so that there is clarity on the overall progress of the programme.</p> <p>We set out below the financial performance over the last three years, both in terms of the overall budget and in respect of savings.</p> <table><tr><th></th><th>Net budget</th><th>Year-end outturn: under (over) spend</th><th>Savings – target</th><th>Savings – actual</th><th>Savings not achieved</th></tr><tr><td>15/16</td><td>156,757</td><td>1,573</td><td>14,158</td><td>13,631</td><td>527</td></tr><tr><td>16/17</td><td>155,684</td><td>- 426</td><td>15,737</td><td>14,508</td><td>1,229</td></tr><tr><td>17/18 projected*</td><td>154,106</td><td>- 8,842</td><td>18,338</td><td>14,176</td><td>4,162</td></tr></table> <p>* as per July 2017 Cabinet report</p> <p>The first budget monitoring report for 2017/18 showed a projected overspend of £8.8m, of which approximately half is in respect of savings required for 17/18 which may not be achieved. The Council is being prudent in not recognising savings until they are fully achieved, however the scale of savings yet to be achieved for 2017/18 represents a key risk area.</p>		Net budget	Year-end outturn: under (over) spend	Savings – target	Savings – actual	Savings not achieved	15/16	156,757	1,573	14,158	13,631	527	16/17	155,684	- 426	15,737	14,508	1,229	17/18 projected*	154,106	- 8,842	18,338	14,176	4,162	
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Sub-criteria	Commentary	Arrangements in place?
	<p><i>Budget reports and the medium-term financial strategy</i></p> <p>In addition, we also reviewed budget monitoring and the overarching medium-term financial strategy (MTFS).</p> <p>The Council has continued to report regularly on its financial performance to both Cabinet and the Finance sub- Committee. The 2016/17 outturn was an overall net overspend of £0.426m (2015/16 underspend of £1.573m) as compared to a much higher projected overspend of approximately £5m part-way during the year. We carried out work to understand the actions taken by the Council during the year to reduce this overspend.</p> <p>Capital spend in the year totalled £122m. We note that the level of slippage to 2017/18 and future years is higher than in previous years at £34m. This is down to two main schemes – Swan Hunter and Coastal Regeneration. The Council has recognised that the level of reprogramming is high and has taken to address this, including profiling ‘review and challenge’ sessions as part of ensuring there is a realistic and deliverable Investment Plan in place for 2017/18.</p> <p><i>Medium-term financial strategy (MTFS)</i></p> <p>The Council approved an updated MTFS in February 2017, covering 2017-2020, based on the refreshed ‘Our North Tyneside’ strategic plan and building on the previous year’s MTFS. The latest MTFS sets out the key challenges and risks facing the Council in delivering its refreshed transformation plan “Creating a Brighter Future”, which is predicated on the continued development of the ‘Target Operating Model’ in the coming years.</p> <p>We considered the robustness of the MTFS as a whole, critically challenging the assumptions it has been based on. Overall, our assessment is that the MTFS is robust, subject to the deliverability of the planned savings, which the Council itself acknowledges is a key financial risk to monitor.</p> <p><i>Key financial ratios</i></p> <p>We also considered key financial ratios for the Council, including the working capital ratio (current assets less current liabilities). In recent years, the Council has borrowed on a short-term basis, being most beneficial to it, therefore its levels of short-term borrowing have increased, offset by a decrease in long-term borrowing. The Council recognises this is a short-term strategy and its Treasury Management strategy has been designed to allow it to move to long-term borrowing when appropriate.</p> <p>The Council’s General Fund unearmarked balance remains at £6.6m. As financial pressures continue, the Council should keep under consideration the adequacy of this balance. We note also the strategic reserve totalling £13.930m.</p> <p>The key challenges, as recognised by the Council itself include:</p> <ul style="list-style-type: none"> • continued growth in demand in Adult and Children’s Social Care Services; 	

Sub-criteria	Commentary	Arrangements in place?																								
	<ul style="list-style-type: none">the timing of delivery of some aspects of the Creating a Brighter Future Programme to the extent that achievement of some savings may be at risk;on-going issues around agreeing adequate levels of contributions from the North Tyneside Clinical Commissioning Group for clients with health needs and to support social care;the impact of the National Living Wage on care providers, impacting on commissioning costs. <p>Bad debt provision</p> <p>The Council's overall bad debt provision (impairment allowance) has increased from £8.1m in 2012/13 to £16.034m in 2016/17. Approximately half is accounted for by the provision made for business rates, council tax and housing rents as set out in the figure below. Our audit work has not identified any issues in respect of the calculation of provisions, however we note the increase in recent years. We note also the increase in housing rent arrears; the yearly increase has not been significant at £0.279m, however over the last five years, housing rent arrears have increased by £1.2m or 51%, totalling £3.6m.</p> <p><i>Figure 1: the Council's bad debt provision over the last five years</i></p>  <table><caption>Data for Figure 1: the Council's bad debt provision over the last five years</caption><thead><tr><th>Financial Year</th><th>General Fund £000s</th><th>Housing rents £000s</th><th>Business rates and council tax £000s</th></tr></thead><tbody><tr><td>2012/13</td><td>3,800</td><td>1,600</td><td>2,500</td></tr><tr><td>2013/14</td><td>4,100</td><td>1,600</td><td>6,100</td></tr><tr><td>2014/15</td><td>6,200</td><td>2,000</td><td>5,400</td></tr><tr><td>2015/16</td><td>8,300</td><td>2,400</td><td>5,600</td></tr><tr><td>2016/17</td><td>7,500</td><td>2,700</td><td>5,600</td></tr></tbody></table>	Financial Year	General Fund £000s	Housing rents £000s	Business rates and council tax £000s	2012/13	3,800	1,600	2,500	2013/14	4,100	1,600	6,100	2014/15	6,200	2,000	5,400	2015/16	8,300	2,400	5,600	2016/17	7,500	2,700	5,600	
Financial Year	General Fund £000s	Housing rents £000s	Business rates and council tax £000s																							
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Sub-criteria	Commentary	Arrangements in place?
	<p><i>Managing risks effectively and maintaining a sound system of internal control</i></p> <p>The Council's governance framework is set out in its Annual Governance Statement (published as part of its Annual Report including financial statements) along with how the effectiveness of that framework is reviewed throughout the year. Regular risk management reports are presented to Members.</p> <p>The Council has received an overall 'satisfactory' internal audit opinion for 2016/17, with one limited assurance report in respect of IT business continuity and disaster recovery. A comprehensive internal audit plan is in place which takes into account the strategic priorities of the Council.</p> <p>The Audit Committee published its first annual report this year, following on from the review of the Committee at the end of the previous year, with the summary review reporting:</p> <ul style="list-style-type: none"> • how the Committee has the potential to be a real 'force for good'; and • that previously the Committee may have felt isolated in its operation but that significant steps have been undertaken during 2016/17 to develop the interaction between the Committee, Senior Leadership Team members and other Committees. 	
Sustainable resource deployment	<p><i>Effective planning of finances</i></p> <p>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.</p> <p><i>Organisational development</i></p> <p>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 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.</p>	Yes
Working with partners and other third parties	<p>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.</p> <p>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.</p> <p>2015/16 was the first year of the Better Care Fund Pooled Budget for North Tyneside and there were pressures in respect of the Clinical Commissioning Group's (CCG) own financial pressures which have continued in 2016/17. Since then, the</p>	Yes

Sub-criteria	Commentary	Arrangements in place?
	<p>new system-wide Sustainability and Transformation Plans have largely superseded Better Care Funds as the new model for transformation in the health sector. The Council is carefully monitoring the impact upon its services and its work with NHS partners.</p> <p>During 2016/17, the Council worked with the CCG and other partners in respect of a potential new Accountable Care Organisation; this has not progressed further following due diligence work in September of last year.</p> <p>The Council continues to engage with partners in respect of the local devolution agenda.</p>	

Significant Value for Money risks

As part of our continuous planning processes, we carry out work to identify whether or not a risk to the VFM conclusion exists. In our Audit Strategy Memorandum, we reported that we had identified a significant VFM risk. The work we carried out in relation to the significant risk is outlined below.

Value for Money conclusion risk	Work undertaken	Conclusion
<p>Level of savings required in medium term financial strategy</p> <p>The Council is facing continuing financial pressures from reduced funding, increased 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.</p> <p>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.</p>	<p>We carried out audit procedures reviewing the robustness of:</p> <ul style="list-style-type: none"> the medium-term financial strategy; budget monitoring reports and other finance updates; and a sample of the savings plans and underlying assumptions to their delivery. 	<p>Our work has provided the assurance we sought and has not highlighted any significant issues to bring to your attention.</p> <p>The table in the preceding section contains summary comments from our audit procedures to address this risk.</p> <p>The scale of financial challenges facing the Council is increasing each year. A robust Medium-Term Financial Strategy is in place, predicated upon the achievement of savings.</p> <p>2016/17 savings targeted of 15.737m were not achieved in full, with a carried forward impact on 2017/18 savings required of 18.338m.</p> <p>There is scope for a clearer trail and quantification of where savings are not achieved which has been addressed in the July 17 budget report.</p> <p>The Council is well aware that it needs to maintain a focus on robust underlying budget management as well as monitoring the achievement of savings and developing plans for future years' savings.</p>

Other reporting responsibilities

Exercise of statutory reporting powers	No matters to report
Annual Governance Statement	No matters to report
Whole of Government Accounts consistency with the financial statements	Consistent
Other information published alongside the 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 for each.

Matters which we report by exception

The 2014 Act provides us with specific reporting powers where matters come to our attention that require reporting to parties other than the Council.

We have the power to:

- report in the public interest; and
- make statutory recommendations to the Council, which must be responded to publicly.

In addition we must respond to any objections or questions on items contained within the accounts raised by a local government elector. We did not receive any objections or questions in the advertised period.

We are also required to report if, in our opinion, the Annual Governance Statement does not comply with the guidance issued by CIPFA in 'Delivering Good Governance in Local Government; Framework 2016' or is inconsistent with our knowledge and understanding of the Council.

We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to the Council in relation to the Annual Governance Statement.

Reporting to the NAO in respect of Whole of Government Accounts

The NAO requires us to report to them whether consolidation data that the Council has submitted is consistent with the audited financial statements, and to undertake specified procedures on that data. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

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 information in the Narrative Report was consistent with the audited financial statements.

Our fees

Fees for work as the Council's appointed auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in March 2017. Having completed our work for the 2016/17 financial year, we can confirm our final fees are as follows:

Area of work	2016/17 proposed fee	2016/17 final fee
Code audit work	£135,765	£135,765
Certification of Housing Benefit Subsidy return (<i>subject to completion of work</i>)	£12,075	£12,075

We confirm these fees are in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Fees for non-PSAA work

Area of work	2016/17 proposed fee*
Teachers Pensions	£3,750
School-Centred Initial Teacher Training (SCITT)	£2,000
Pooling of housing capital receipts	£1,800

**to be confirmed, noting there are new additional testing requirements in respect of Teachers' pensions for 2016/17*

We have also been engaged by the Council to carry out the external audit of North Tyneside Trading Company and North Tyneside Trading Company (Development) for a total fee of £3,500.

Future challenges

Financial outlook

The Council is well aware of the significant challenges that lie ahead and has a Medium-Term Financial Strategy in place designed to achieve the efficiencies needed to balance its budget.

As set out earlier in this report, delivery of the Medium-Term Financial Strategy via overall budget monitoring and the transformation programme reporting is vital. However, achievement of planned savings is inevitably becoming harder and for at least the last few years, the Council is facing a significant budget gap at an early stage of the year – in terms of the projected underspend and non-achievement of savings. Where savings are not achieved in any one year (as has been the case), this has resulted in additional pressure on subsequent years which requires continued close scrutiny and monitoring by officers and Members.

Operational challenges

As set out by the Council itself in its 2016/17 Annual Governance Statement, the key challenges facing it include:

- Welfare Reform and the impact on the Council's Housing Revenue Account;
- delivery of the challenging transformation programme – Creating a Brighter Future;
- impact of the regional Sustainability and Transformation Plan as it evolves;
- changes to the retention of business rates;
- Information Governance risks;
- delivery of key partnerships including of course the devolution agenda.
- national education policy changes; and
- the impact of the UK's exit from the European Union.

How we will work with the Council

We will focus our 2017/18 audit on the risks that these challenges present to the Council's financial statements and its ability to maintain proper arrangements for securing value for money. We will also share with the Council relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key focus in the coming year will be working with officers to prepare for the earlier accounts and audit timetable which will take effect from the 2017/18 financial year.

