Annual Audit Letter

North Tyneside Council

Year ending 31 March 2018

North Tyneside Council

MAZARS

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

2. AUDIT OF THE FINANCIAL STATEMENTS

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:

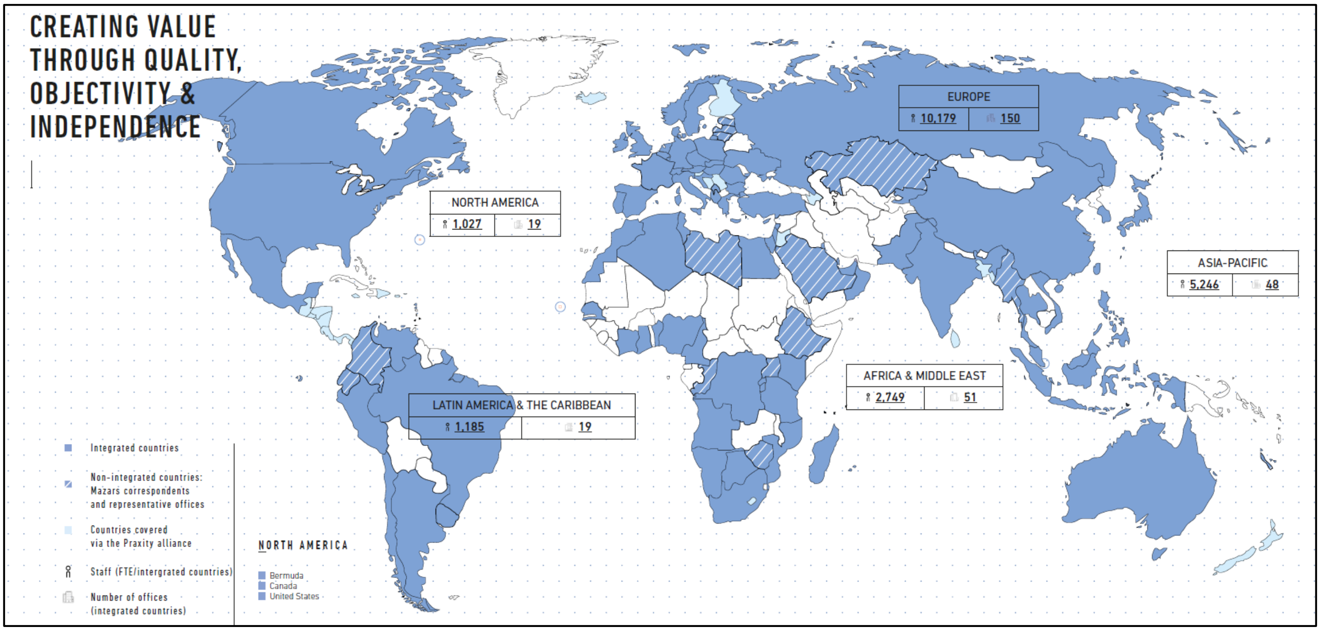
- the impact of welfare reform including the roll-out of full service Universal Credit in 2018/19;
- the Kier contract being terminated at the end of 2018/19 and the transfer back in-house of housing repairs and maintenance services;
- the impact of the Northumberland, Tyne and Wear and North Durham 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

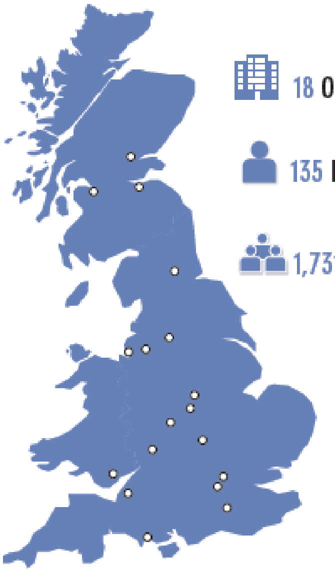


Mazars in the UK

£173.6m
turnover 2016-17

27% in respect of audit services

▲8.5%
increase on prior year



18 OFFICES

135 PARTNERS

1,731 TEAM

As at 31 August 2017

MAZARS

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