Audit Committee

North Tyneside Council

20 March 2018

Wednesday 28 March 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 22 November 2017.	**4.**

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

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

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

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11. **Outcomes from the External Assessment of the Shared Internal Audit Service, February 2018** **112.**

To give consideration to a report which details the outcomes from the external assessment of the Shared Internal Audit Service which was carried out in accordance with the requirements of the Public Sector Internal Audit Standards 2017.

12. **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.

13. **Counter Fraud Work** **122.**

To give consideration to a report which provides an update on the counter fraud work performed and the savings generated.

<u>Members of the Audit Committee:-</u>

Mr K Robinson (Chair)
Mr M Wilkinson (Deputy Chair)

Councillor G Bell
Councillor L Bell
Councillor D Cox
Councillor N Craven
Councillor S Graham
Councillor A McMullen
Councillor J Wallace

Audit Committee

22 November 2017

Present: Mr K Robinson (Chair)
Mr M Wilkinson
Councillors L Bell, D Cox, N Craven, D Drummond, A McMullen and J Wallace.

AC24/11/17 Apologies

There were no apologies for absence received.

AC25/11/17 Substitutes

There were no substitutes reported.

AC26/11/17 Declarations of Interest and Dispensations

There were no declarations of interest or dispensations reported.

AC27/11/17 Minutes

Resolved that the minutes of the meeting held on the 27 September 2017 be confirmed as a correct record and signed by the Chair.

AC28/11/17 2016/17 Annual Audit Letter

Diane Harold of Mazars, the Authority's External Auditors, presented the Annual Audit Letter 2016/17 which summarised many of the points raised in the Audit Completion Report 2016/17 that had been presented to the Committee on the 27 September 2017 and to Council on the 28 September 2017.

The Letter presented the overall conclusion in respect of the Authority's financial statements which included the Annual Governance Statement and an assessment of the arrangements to achieve value for money in the Authority's use of resources.

Members were informed that, overall, the External Auditor had been satisfied with the quality of the Authority's financial statements and had therefore issued an unqualified opinion on the Authority's Statement of Accounts for 2016/17. In relation to value for money the External Auditor had concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and had therefore issued an unqualified Value for Money conclusion.

Members sought clarification in relation to slippage identified in respect of the achievement of planned savings. It was explained that this issue had been raised with the Head of Finance and that such slippage was common to most local authorities. Members were advised that the planned savings were continually refreshed and refined and for example the Investment Board met on a monthly basis to challenge the various programmes.

The Chair thanked Mazars for its report.

Resolved that the Annual Audit Letter 2016/17 be noted.

AC29/11/17 Audit Progress Report

The Committee received a progress report from Diane Harold of Mazars in respect of the 2016/17 audit year. It was explained that the audit of the trading companies had been completed and discussions were on-going in relation to the earlier close down of the accounts. Reference was also made to the earlier start on works in respect of the Authority's pension liabilities.

The report also outlined a number of publications and updates relevant to the Committee and Authority including reports issued by the National Audit Office in relation to the Care Quality Commission, a short guide to local authorities and guidance on cyber security and information risk guidance for Audit Committees.

The Chair thanked Mazars for its report.

Resolved that the audit progress report be noted.

AC30/11/17 Annual Governance Statement - Update

The Committee was advised of the outcome of a mid-year review of the Annual Governance Statement (AGS) action plan. The AGS explained how the Authority delivered good governance and how it reviewed the effectiveness of its arrangements.
At its meeting held on 24 May 2017 the Committee had noted that no significant governance issues had been identified and that the arrangements in place had been considered to be adequate by the Senior Leadership Team. Whilst there had been no specific recommendations made, a range of issues had been highlighted which required continuous monitoring to ensure that they did not become significant governance issues in the future.

The Committee was also presented with details of the proposed method for compiling evidence for, and preparing, the 2017/18 Annual Governance Statement. The completed Annual Governance Statement would be submitted to the Committee in May 2018 for its consideration and approval.

Resolved that (1) the outcome of the mid-year review of the Authority's action plan agreed as part of the 2016/17 Annual Governance Statement be noted; and
(2) the proposed method for compiling evidence for the 2017/18 Annual Governance Statement be noted.

AC31/11/17 Annual Statement of Accounts 2017/18

Consideration was given to a report which explained that 2018 was the first year that the Authority's Annual Statement of Accounts had to be completed under the new regulations. It was explained that a review had taken place of the completion of the 2016/17 accounts to identify the key risks associated with meeting the new deadlines and to identify appropriate solutions to those risks. A detailed timetable of the main tasks and actions which needed to be taken had been prepared and progress against those tasks was regularly reviewed. It was also explained that officers were working with colleagues in External Audit to agree a course of action to enable the new deadlines to be met. A number of issued raised by Eternal Audit had been incorporated into the plan.

Members were advised that 24 May 2018 had been set as the deadline for achieving a set of accounts which could be reviewed and quality assured prior to the publication date of 31 May 2018. Details of the progress made and issues identified would be presented to the March 2018 meeting of the Committee.

Resolved that the progress made in working towards the preparation for the closure of the 2017/18 accounts be noted.

AC32/11/17 Strategic Audit Plan 2017/18 – Interim Monitoring Statement

The Chief Internal Auditor presented an interim monitoring statement which outlined progress made against the Strategic Audit Plan 2017/18. It was explained that vacancies within the audit team had contributed to delays in starting some of the planned assignments. The Committee was advised that appointments had now been made to the majority of the vacant posts and resources would be monitored to ensure that sufficient audit coverage was delivered.

It was noted that the information presented a mid-year review of the Audit Plan and that it was expected that the planned work would be either completed or carried forward to next year. It was also explained that there was a need to get the balance right between delivering extra days to Northumberland, which generated income, and delivering a high level of service to North Tyneside.

Resolved that the progress against the Strategic Audit Plan 2017/18 and the plans to manage resourcing and coverage for the remainder of 2017/18 be noted

AC33/11/17 Exclusion Resolution

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

AC34/11/17 Public Sector Internal Audit Standards

Consideration was given to a report which provided an update on the requirements of the Public Sector Internal Audit Standards (April 2017). It was explained that it was a statutory duty for relevant authorities to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. The Institute of Internal Auditors had published an International Professional Practices Framework which included certain mandatory elements to which all internal audit providers had to comply.

In April 2017 the Public Sector Internal Audit Standards (PSIAS) were updated to take account of the International Professional Practices Framework. The Chartered Institute of Public Finance and Accountancy (CIPFA) had published a Local Government Application Note which accompanied and underpinned the mandatory requirements of the Public Sector Internal Audit Standards.

It was explained that that all internal audit providers were required to comply fully with the PSIAS and it was a requirement that the level of conformance to the Standards was assessed and reported to the Authority's senior management and Audit Committee.

The report presented to the Committee provided:

- A detailed self-assessment of conformance to the Public Sector Internal Audit Standards;
- The evidence to support the judgements reached; and
- Details of the small number of areas in which further development would ensure greater adherence to the required standards.

In addition the PSIAS required that each relevant authority adopted a specific Internal Audit Charter. A copy of the proposed Charter was presented for the Committee's consideration.

The report also explained that the Standards required internal audit to be externally assessed for its conformance at least once every five years. It was suggested that this would be achieved through a tripartite arrangement with Newcastle City Council and South Tyneside Borough Council for the Authority's conformance to be assessed.

The summary of conformance dated November 2017 had demonstrated a high level of conformance with the Standards. For those elements which had not met the conformance standards a further report would be presented to the Committee in March 2018 and this would also be reported to senior management within 6 months.

Reference was made to the need to separate the Audit and Risk Management sections as they could not be under the same management control. Reference was also made to the updating of the Charter. It was explained that the previous internal audit terms of reference had been based on the terms of the previous Charter.

Resolved that (1) the requirements to be fulfilled by all Internal Audit service providers in delivering internal audit activity within relevant authorities in England and Wales be noted;
(2) the self-assessment of adherence to the Public Sector Internal Audit Standards and the Local Government Application Note and the high level of conformance to the Standards be noted;
(3) that appropriate actions to address the small number of areas where further development was required to ensure full conformance with the Standards be noted and reported to a future meeting of the Audit Committee;

(4) the updated Internal Audit Charter be agreed;
(5) the proposals that North Tyneside Council's external audit assessment be carried out prior to March 2018 by way of a tripartite arrangement with Newcastle City Council and South Tyneside Borough Council be agreed; and
(6) the outcomes of the external assessment be reported to a future meeting of the Audit Committee.

AC35/11/17 Corporate Risk Management Summary Report

The committee received the Corporate Risk Management Summary Report which outlined the corporate risks that had been identified for monitoring and management by the Authority's Senior Leadership Team, as at November 2017. The report provided detailed information on each of the corporate risks including the cause of the risk, the consequence if it were to materialise, the existing and new controls in place to address these risks and an assessment of their likelihood and impact.

Resolved that the report and the action taken be noted.

Audit progress report

North Tyneside Council

March 2018

North Tyneside Council

MAZARS

CONTENTS

1. SUMMARY

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

Our key audit stages are summarised in the diagram shown below. Overall work is on track and there are no significant issues arising; some internal control recommendations have been raised for management's consideration.

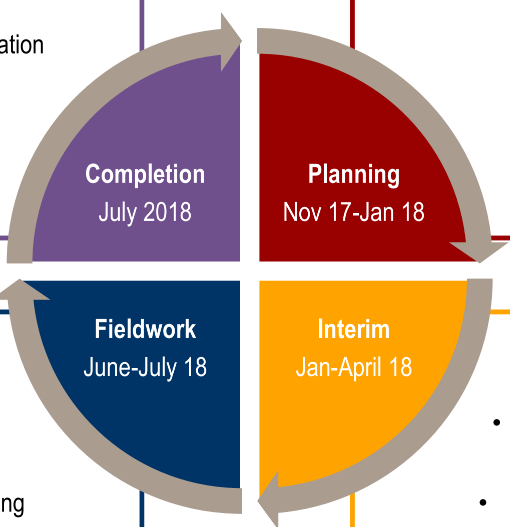
Continued progress on early Property, Plant and Equipment testing remains key to achievement of the earlier accounts deadline (end of July 2018). Details of work completed and on-going are shown overleaf.

National publications and other updates

This section of the report sets out summaries from national publications and other updates which may be of interest to Members.

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to Audit Committee/Council
- Reviewing post balance sheet events
- Signing our opinion

- Updating our understanding of the Council
- Initial opinion and value for money risk assessments
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

2. AUDIT PROGRESS

Audit progress

Overall work is on track. There are no significant issues arising; some internal control recommendations have been raised for management's consideration.

Continued progress on early Property, Plant and Equipment testing remains key to achievement of the earlier accounts deadline (end of July 2018).

Details of work completed and on-going are shown below.

- Completion of walkthroughs of key information systems: there are no significant issues arising, however there are some internal control recommendations, as detailed overleaf.
- Completion of auditor's IT risk assessment: including testing of IT general controls (e.g. logical access and change management); there are no significant issues arising. There are some low risk internal control recommendations, as detailed overleaf.
- Housing benefits subsidy return: early planning meetings have been held with officers to discuss the approach for 2017/18.
- Early testing: we have carried out early testing of income and expenditure transactions, with no significant issues arising. We have also carried out other early testing where possible e.g. testing of journals and opening balances.
- Early testing: Property, Plant and Equipment. Work is on-going in this area; this is a key risk area where successful early work is key to achieving the earlier accounts deadline (end of July 2018).
- Value for money (VfM) significant risk testing – level of savings required over the period of the Medium-Term Financial Strategy; this work is on-going.
- VfM significant risk testing – capital programme; this work is on-going.
- On-going liaison with officers, including Internal Audit: in particular we are continuing to liaise with officers over the earlier accounts deadline for 2017/18. Officers also attended a North East final accounts workshop we held recently.
- On-going review of agendas and minutes.

3. INTERNAL CONTROL RECOMMENDATIONS

Overall there are no significant deficiencies in internal controls that we are required to highlight to those charged with governance. However there are some internal control recommendations arising from work to date which are detailed in this section.

Priority rating	Description	Number
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.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	3
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	4

Deficiency – journal controls (level 2 – medium)

Description: there is a lack of evidenced review of journals greater than £500k. We understand this monthly control is being carried out, however the evidence was not being retained.

Potential effects: journals 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 will be actioned, including for all of 2017/18.

Deficiency – key monthly reconciliations (level 2 – medium)

Description: there are 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: key system 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: this will be actioned.

3. INTERNAL CONTROL RECOMMENDATIONS - CONTINUED

Deficiency – payroll walkthrough issue: employees starting work before signed contract in place (level 2 – medium)

Description: our payroll walkthrough identified a new employee within catering in a school where there was no signed contract in place before they started to 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 starting employment.

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 and signed and returned.

Management response: In the instance quoted below all of the necessary checks had been completed and an acceptance form had been issued to the employee. The employee did not return the form therefore the Council contacted the manager to advise them of this and to advise that payments could not be made until the form was returned. The employee did take a while to return the form and their payments were delayed due to this reason. The start date is negotiated with the recruiting manager and the individual once all of the necessary checks have been completed.

The payroll section (Employee Services) is currently undertaking a practice review with HR Client and whilst it is not felt that this was a problem caused by Employee Services it is something that does require further review. The Council has therefore asked for it to be included in the practice review.

Deficiency – minor discrepancies in the Adult Social Care system and Accounts Payable reconciliation (level 3 – low)

Description: our 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 noted from work undertaken due to figures being input manually versus it being automated 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 whether it can be fully automated to reduce minor errors and ensure a clear reconciliation from ContrOCC into Accounts Payable.

Management response: we require a software solution which would allow an interface to produce a fully automated control report. We currently have this for Children's but not for Adults. We will be speaking to the software providers to resolve this issue.

3. INTERNAL CONTROL RECOMMENDATIONS - CONTINUED

Deficiency – IT general controls: change management – same person requesting and approving change (level 3 – low)
Description: testing identified an IT change which was requested and approved by the same person. This was not however a significant IT change; all 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 consistently.
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.

Deficiency – IT general controls: logical access – password security (level 3 – low)
Description: our testing showed that password security for one system was not as strong as for other systems i.e. it was not alphanumeric.
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.

Deficiency – IT general controls: change management – lack of evidence for change (level 3 – low)
Description: 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 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 a problem with the EDRMS system which corrupted the document. Minutes are no longer stored in the EDRMS system and so this is not expected to be an issue in the future.

4. NATIONAL PUBLICATIONS AND OTHER UPDATES

	Publication
1.	**Local authorities encouraged to consider local public accounts committees, Association for Public Service Excellence, February 2018**
2.	**Preparing for full GDPR implementation by 25 May 2018**
3.	**Adult social care workforce, National Audit Office, February 2018**
4.	**Sustainability and Transformation in the NHS, National Audit Office, January 2018**
5.	**PFI and PF2, National Audit Office, January 2018**
6.	**Delivering the renaissance in council-built homes: the rise of local housing companies, The Smith Institute, October 2017**
7.	**Oversight of audit quality, quarterly compliance reports 2017/18 Public Sector Audit Appointments Ltd**

1. Local authorities encouraged to consider local public accounts committees, February 2018

Research published by Association for Public Service Excellence (APSE) and written and researched by the Local Governance Research Unit at De Montfort University explores how public services, and the decisions made about them by unelected bodies, should be held to account by local government as an elected governing body. Moreover, it seeks to understand the developing and expanding role of local government as both a vehicle for public accountability and in influencing and shaping the governance networks within which it exists.

The report '***Bringing Order to Chaos. How does local government hold to account agencies delivering public services?'*** makes a series of recommendations, as set out below.

- A Local Public Accounts Committees should be formed by all councils and be given the same statutory powers over external agencies as has health scrutiny in relation to the NHS.
- Securing public accountability must be developed as a role for all councillors and not restricted to a functional overview and scrutiny committee process.
- Robust accountability processes need to be put in place for all arms-length bodies created by a council. Mechanisms must be put in place whereby all other councillors are able to challenge, question, seek justification from and influence the actions of arms-length bodies and scrutiny and full council should be engaged in such a process.
- Councils should produce a local 'governance framework' policy document which identifies all those organisations with which the council interacts and which creates a shared vision of the development of public services across the councils area.
- Councils should create a 'governance forum' where all those organisations with which the council interacts, can regularly meet to ensure a co-ordinated approach to public service delivery and long-term planning for service development and contribute to the 'governance framework'.
- There should be a legal requirement – through an extension of the principle of a 'duty to co-operate' - on all public service providers to engage with local government, at the earliest possible time, when developing policy and taking decisions about public services .

http://www.apse.org.uk/apse/index.cfm/research/current-research-programme/bringing-order-to-chaos-how-does-local-government-hold-to-account-agencies-delivering-public-services/

2. Preparing for full GDPR implementation by 25 May 2018

In January and February 2018, we ran two workshops on compliance with GDPR. Some of the key issues are summarised below.

The EU's General Data Protection Regulation (GDPR) is the result of four years of work by the EU to bring data protection legislation into line with new, previously unforeseen ways that data is now used. Currently, the UK relies on the Data Protection Act 1998, which was enacted following the 1995 EU Data Protection Directive, but this will be superseded by the new legislation. It introduces tougher fines for non-compliance and breaches, and gives people more say over what organisations can do with their data. It also makes data protection rules more or less identical throughout the EU.

This is the first comprehensive regulation dedicated to the European data protection rules in 20 years. It was adopted into law on 27 April 2016 and came into force on 25 May 2016. By 25 May 2018, all organisations are required to have implemented its principles, regardless of Brexit.

The key principles of GDPR are summarised below.

- **Fair and lawful** – must have legitimate grounds for collecting and using the personal data. Use in accordance with the law and regulations. Transparency.
- **Purposes** should be specified, explicit and legitimate
- **Proportionality** – must hold personal data about an individual that is sufficient for the purpose it is held for. Do not hold more information than needed for that purpose.
- **Accuracy** - carefully consider any challenges to the accuracy of information. Consider whether it is necessary to update the information.
- **Deletion** - personal data shall not be kept for longer than necessary. Only relevant data can therefore be kept.
- **Subject's access** - right of access, Right to object to processing, Right to prevent processing for direct marketing, Right to object to decisions being taken by automated means, Right to have inaccurate personal data rectified, blocked or destroyed.
- **Security measures** - take all necessary steps to ensure the data security.
- **Transfers limitation** - no transfer to a country or territory outside the EEA unless that country or territory ensures an adequate level of protection for the rights and freedoms of data subjects.

The GDPR requirements are particularly important to local government, given the nature of their activities, dealing directly with citizens and holding a range of personal and sensitive data. While there has been much focus on potential financial penalties, there is a need to see this more as an opportunity for enhanced accountability, to ensure that citizens' data is processed in a secure but transparent manner, and realise the benefits to be gained by building trust with citizens through the adoption of a fair and transparent approach to the collection and use of their data. Recent high profile cases highlight the risks of what can happen if data is not adequately protected.

Key actions for organisations include:

- organisational commitment;
- privacy assessment (understanding what data is held and for what purposes it will be used including contracts with third parties);
- compliance and monitoring;
- privacy training; and
- private governance (preparation of a strategy and plan to ensure full GDPR compliance).

4. NATIONAL PUBLICATIONS - CONTINUED

3. Adult social care workforce, National Audit Office, February 2018

This report considers the role of the Department of Health and Social Care in overseeing the adult social care workforce and assesses whether the size and structure of the care workforce are adequate to meet users' needs for care now, and in the future, in the face of financial challenges and a competitive labour market.

Local authorities commission most care from the independent (private and voluntary) sector. The report notes that, in 2016-17, net current expenditure by local authorities on care was £14.8 billion. Around 65% of providers' income comes from care arranged by local authorities, so public funding is essential to the sustainability of the sector.

The Care Act 2014 sets out minimum standards of care that local authorities must offer. It places a duty on local authorities to ensure that there is diversity and quality in the market of care providers so that there are enough high-quality services for people to choose from. Local authorities must also step in to ensure that no vulnerable person is left without the care they need if their service closes due to business failure.

The key findings from the report include:

- high staff turnover within the sector, also carrying a high vacancy rate;
- growth in the number of jobs has fallen behind growth in the demand for care;
- providers and commissioners of care have raised concerns that low pay for care workers is contributing to high vacancy and turnover rates. Around half of care workers were paid £7.50 per hour or below (the National Living Wage was £7.20 in 2016-17);
- the Department does not have an up-to-date care workforce strategy and roles and responsibilities of the bodies involved in delivering care are not clear. Local and regional bodies and partnerships are not taking the lead on workforce planning in the absence of a national strategy; and
- the Department cannot demonstrate that the sector is sustainably funded, which makes workforce planning difficult. Four-fifths of local authorities are paying fees to providers which are well below the benchmark costs of care.

The report makes recommendations for the Department of Health and Social Care to address including a requirement to produce a national workforce strategy, long term modelling and planning of costs and staff needed in the care sector. Oversight of local plans is required to confirm that they complement the national strategy.

https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/

4. Sustainability and Transformation in the NHS, National Audit Office, January 2018

Additional funding, aimed to help the NHS get on a financially sustainable footing, has instead been spent on coping with existing pressures, according to the National Audit Office's (NAO) report.

The NHS received an additional £1.8 billion Sustainability and Transformation Fund in 2016-17 to give it breathing space to set itself up to survive on significantly less funding growth from 2017-18 onwards. It was also intended to give it stability to improve performance and transform services, to achieve a sustainable health system.

The Fund has helped the NHS improve its financial position from a £1,848 million deficit in 2015-16 to a £111 million surplus in 2016-17. Within the overall position, the combined trust deficit reduced to £791 million in 2016-17 from £2,447 million in 2015-16. There has also been an improved underspend of £154 million across clinical commissioning groups, yet 62 groups reported a cumulative deficit in 2016-17, up from 32 in 2015-16.

4. Sustainability and Transformation in the NHS, National Audit Office, January 2018 - continued

Despite its overall financial position improving, the NHS is struggling to manage increased activity and demand within its budget and has not met NHS access targets. Furthermore, measures it took to rebalance its finances have restricted money available for longer-term transformation, which is essential for the NHS to meet demand, drive efficiencies and improve the service. For example, the Department transferred £1.2 billion of its £5.8 billion budget for capital projects to fund the day-to-day activities of NHS bodies.

Clinical commissioning groups and trusts are increasingly reliant on one-off measures to deliver savings, rather than recurrent savings that are realised each year. Between 2014-15 and 2016-17 the percentage of savings that were non-recurrent increased from 14% to 17% for commissioners, and from 14% to 22% for trusts. This poses a significant risk to the financial sustainability of the NHS in the future.

Progress has been made in setting up 44 new partnership arrangements across health and local government, which are laying the foundations for a more strategic approach to meeting the demand for health services within the resources available. In reality, partnerships' effectiveness varies and their tight financial positions make it difficult for them to shift focus from short-term day-to-day pressures to delivering transformation of services.

The NAO has made a number of recommendations to the Department, NHS England and NHS Improvement, which includes moving further and faster towards aligning nationwide incentives, regulation and processes, as well as reassessing how best to allocate the sustainability and transformation funding.

https://www.nao.org.uk/report/sustainability-and-transformation-in-the-nhs/

5. PFI and PF2, National Audit Office, January 2018

The NAO has recently published a report on Private Finance Initiative (PFI) and the introduction of a reformed model of the PFI called PF2. There are currently over 700 operational PFI and PF2 deals, with a capital value of around £60 billion.

The report presents information on the rationale, costs, benefits, use, and the impact of PFI, and discusses the extent to which it may be able to make savings from existing PFI contracts. The report also highlights some the reasons for PFI reform and the introduction of PF2. The report does not suggest whether or not the PFI and PF2 models deliver value for money, but highlights the costs and benefits of entering into PFI and now the PF2.

This report was prepared prior to the announcement in January 2018 that the construction company Carillion was in liquidation.

Some of the key points highlighted in the report include:

- **PF2 is similar to PFI:** the fundamentals of the financing structure and contract remain the same.
- **Increased transparency:** data on forecast and actual PF2 equity returns will be published for all PF2 deals. However this does not apply to other non-PF2 PPP deals, and data on the cost of debt is not published.
- **Budgetary and balance sheet incentives remain:** as part of the PFI reform HM Treasury considered removing incentives, unrelated to VfM, which have driven the use of private finance but it chose not to. If capital and cash budgets are insufficient, private finance may be the only investment option for public bodies.
- **Lack of data on benefits:** there is still a lack of data available on the benefits of private finance procurement.

https://www.nao.org.uk/report/pfi-and-pf2/

4. NATIONAL PUBLICATIONS - CONTINUED

6. Delivering the renaissance in council-built homes: the rise of local housing companies, The Smith Institute, October 2017

This report by The Smith Institute, considers the rise in the number of local housing companies, with already 150 set up by local authorities to provide commercial and social housing. The Institute estimates this will grow to over 200 over the next three years.

The report sets out that these companies are largely outside of the of the housing revenue and housing association regulatory framework and are often partially financed by local authorities borrowing from the public works loans board and on-lending to the company while making a commercial return.

The report sets out top tips for local housing companies and a number of recommendations, which are summarised below.

- DCLG and local government, perhaps through the LGA, should consider establishing a high-level commission or task force to consider how best to maximise the potential of LHCs as alternative providers of affordable housing.
- The government should give unambiguous support to LHCs and remove the caveat that “we want to see” LHCs offering tenants the RTB. It appears that LHCs are not subject to the Right to Busy or Right to Acquire, but the prospect that they might be is confusing and undermines investor confidence in LHCs.
- Councils should be able to retain all their Right to Busy receipts and be able to choose whether to invest them via their LHC or HRA as they wish.
- The government should revise upwards the regulations which restrict the number of HRA-properties that a council can transfer to its LHC.
- The government should move ahead with its promised compulsory purchase order reforms and examine the potential benefits to LHCs.
- Local government, perhaps through the LGA, should offer a centre of excellence or learning hub on LHCs.
- Both central government and local government could do more to raise awareness of LHCs, particularly among other agencies which can support housing growth (e.g. local enterprise partnerships, the housing regulator, NHS Estates, National Infrastructure Commission).
- DCLG should monitor the growth of LHCs and seek to keep an open register or database on the homes they are providing.
- Combined authorities should consider the case for supporting wholly owned or joint venture LHCs as well as multi-authority LHCs.

http://www.smith-institute.org.uk/book/delivering-renaissance-council-built-homes-rise-local-housing-companies/

7. Oversight of audit quality, quarterly compliance reports 2017/18 Public Sector Audit Appointments Ltd

The latest quarterly 2017/18 monitoring report highlights compliance with the Regulator’s standards for Mazars LLP.

http://www.psaa.co.uk/audit-quality/principal-audits/mazars-audit-quality/

5. CONTACT DETAILS

Please let us know if you would like further information on any items in this report.
www.mazars.co.uk

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Audit Strategy Memorandum

North Tyneside Council

Year ending 31 March 2018

MAZARS

CONTENTS

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Durham

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Members of the Audit Committee and Council

North Tyneside Council

Quadrant, The Silverlink North

Cobalt Business Park

North Tyneside NE27 0BY

19 March 2018

Dear Sirs / Madams

Audit Strategy Memorandum – year ending 31 March 2018

We are pleased to present our Audit Strategy Memorandum for North Tyneside Council for the year ending 31 March 2018.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing North Tyneside Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07979 164467.

Yours faithfully

gareth davies (Mar 19, 2018)

Gareth Davies, Partner

Mazars LLP

Overview of engagement

We are appointed to perform the external audit of North Tyneside Council (the Council) for the year to 31 March 2018. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: www.psaa.co.uk/audit-quality/terms-of-appointment/.

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion	We are responsible for forming and expressing an opinion on the financial statements. Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.
Reporting to the NAO	We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.
Value for money	We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to value for money work further in section 5 of this report.
Electors' rights	The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or the Audit Committee and full Council, as those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

- Gareth Davies, Partner
- gareth.davies@mazars.co.uk
- 07979 164 467

- Diane Harold, Senior Manager
- diane.harold@mazars.co.uk
- 07971 513 174

- Elaine Hall, Assistant Manager
- elaine.hall@mazars.co.uk
- 07881 283 350

In addition, an engagement quality control reviewer has been appointed for this engagement.

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

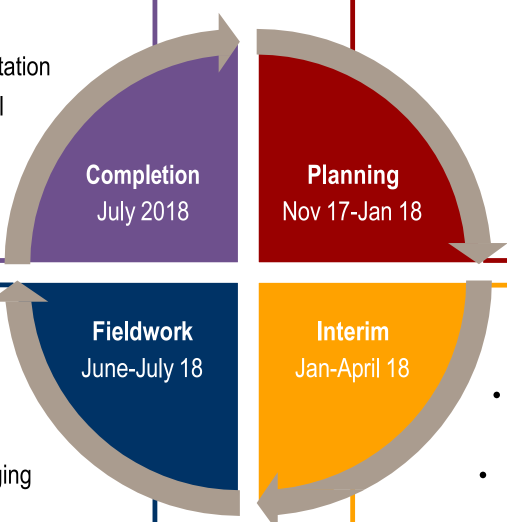
If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to Audit Committee/Council
- Reviewing post balance sheet events
- Signing our opinion

- Updating our understanding of the Council
- Initial opinion and value for money risk assessments
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	AON Hewitt (Actuary)	Consulting Actuary, PwC, as appointed by the National Audit Office (NAO).
Property, plant and equipment	Capita	Consulting Valuer, Gerald Eve, as appointed by the NAO.
Financial instrument disclosures	Link Asset Services (formerly Capita)	Link Asset Services (assurance commissioned by the NAO).

Service organisations

International Auditing Standards define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisation used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Preparation of financial statements and processing of transactions.	Engie	We have full access to Engie systems and staff, therefore no additional procedures are required.

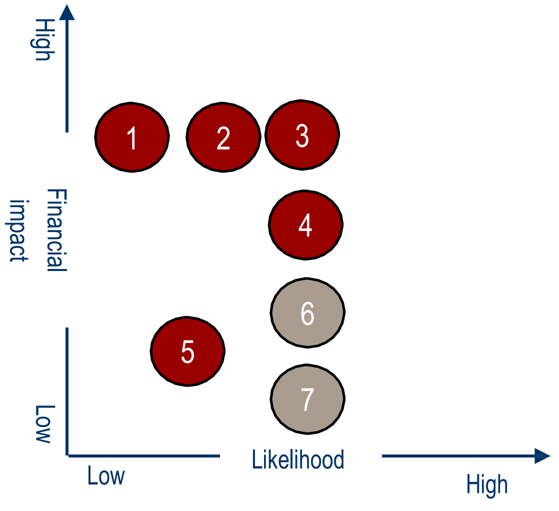
Reporting deadlines

As we have previously discussed with the Audit Committee, the statutory timetable for the production and audit of the Council's financial statements changes for 2017/18. The Council is now required to produce accounts by 31 May 2018 (one month earlier) and to publish audited accounts by 31 July 2018 (two months earlier). We have worked closely with the Council ahead of this earlier deadline to help ensure appropriate arrangements are in place, including agreeing a revised joint working protocol and bringing forward work in key areas.

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below.

Significant risk	A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.
Enhanced risk	An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to: • key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and • other audit assertion risks arising from significant events or transactions that occurred during the period.
Standard risk	This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant and other enhanced risks. We have summarised our audit response to these risks on the next page.



	Risk
1	Management override of control
2	Revenue recognition
3	Property, plant and equipment valuation
4	Defined benefit liability valuation
5	Restatement of Comprehensive Income and Expenditure Statement
6	Provision for impairment of receivables (enhanced)
7	Provisions (enhanced)

(CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description of risk	Planned response
1	**Management override of controls** 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 there is a risk of material misstatement due to fraud on all audits.	We will address this risk by testing: • accounting estimates affecting amounts included in the financial statements; • 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.
2	**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 have concluded that there are insufficient grounds to rebut this risk.	We will undertake a range of substantive procedures including: • testing revenue items recorded to ensure they have been recognised in the appropriate year; • testing adjustment journals; and • for significant income from grants, agreeing amounts to third party documentation.
3	**Property, plant and equipment valuation** 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 consider PPE valuation to be a significant risk.	We will: • assess the Council's arrangements for ensuring that PPE values are reasonable; • assess 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; • assess the competence, skills and experience of the Valuer and the instructions issued to the Valuer; and • where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.
4	**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 includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We will: • evaluate the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and • challenge 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.

Significant risks - continued

	Description of risk	Planned response
5	**Restatement of Comprehensive Income and Expenditure Statement (CIES)** The Council is proposing restatement of its CIES to allow for a better presentation of support charges (currently shown in the 'central items' line).	We will: • assess the restated CIES and challenge the reasons for the restatement and how it meets with the CIPFA Code requirements and underlying accounting standards; • review the disclosure note setting out the nature and reason for the reclassification against requirements; and • consider any impact on the overheads and support services accounting policy.

Key areas of management judgement

Key areas of management judgement include accounting estimates which may be material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
6	**Provision for impairment of receivables** The Council set aside a sum of £16.034m in respect of bad and doubtful debts in 2016/17 and highlights this as an area of significant estimation uncertainty, due to the inherent risk in the current economic environment that the set-aside would be insufficient.	We will: • consider the completeness and accuracy of the sum set-aside; and • test the basis of calculation.
7	**Provisions** The Council provided for probable liabilities totalling £5.270m in 2016/17, covering a number of areas. This provision is also highlighted by the Council as an area of significant estimation uncertainty.	We will: • review the completeness and accuracy of the provisions made; and • consider whether all known liabilities have been correctly provided for based on our knowledge of the Council.

Our approach to value for money work

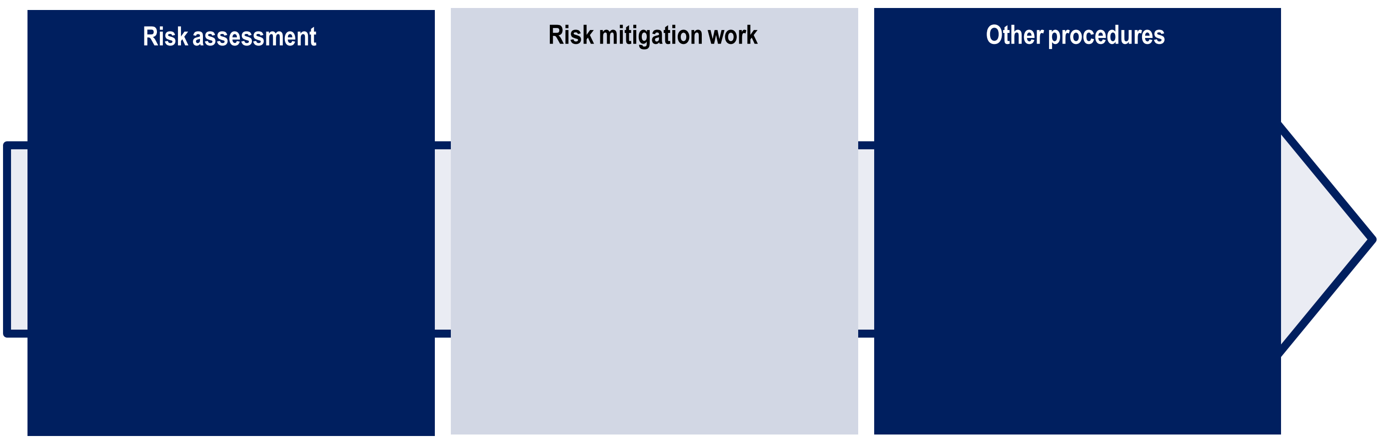
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the criterion and sub-criteria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

Appendix B sets out further detail on the sub-criteria. A summary of the work we undertake is provided below.



Significant value for money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a value for money (VFM) exists. Risk, in the context of our VFM 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. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2017/18 financial year, we have identified two significant risks to our VFM work, as set out overleaf, namely:

- the scale of savings over the period of the medium-term financial strategy; and
- review of adequacy of arrangements in place for delivery of the investment plan.

Significant value for money risks continued

Description of significant risk	Planned response
Scale of savings over the period of the medium-term financial strategy 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.	We will carry out audit procedures reviewing the robustness of: • 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.
Capital programme - review of adequacy of arrangements in place for delivery of the investment plan 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 the 'Our North Tyneside' Plan, in particular the continued investment in the Borough's future, as part of reducing inequalities.	We will: • review the overall arrangements in place for delivery of the investment (capital) programme; and • review 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.

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Limited (PSAA), as communicated in our fee letter of 13 April 2017.

Service	2016/17 fee	2017/18 fee
Code audit work	£135,765	£135,765
Housing benefit subsidy certification	£12,075	£16,970

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we anticipate being separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Service	2016/17 fee	2017/18 fee*
Teachers' pensions	£4,500	£4,500
Schools Centered Initial Teacher Training	£2,000	£3,000
Pooling of housing capital receipts	£1,800	£1,800

* provisional, subject to agreement and 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 external audit of two subsidiaries 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.

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationships which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with Gareth Davies in the first instance.

Prior to the provision of any non-audit services, Gareth Davies will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

We were appointed the external auditor for 2016/17 of the Council-owned subsidiaries (North Tyneside Trading Companies) and anticipate being similarly engaged for 2017/18. There are no threats to our independence as a result of this potential work, which would also be managed by a different engagement lead.

Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Summary of initial materiality thresholds

Threshold	Initial threshold
Overall materiality	£6,604,000
Specific materiality: exit packages (shown in bandings)	Correct banding
Specific materiality: Members' allowances	25% or £193,000
Specific materiality: remuneration of senior officers	25% or £367,000
Trivial threshold for errors to be reported to the Audit Committee	£198,000

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial. We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross revenue expenditure. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that gross revenue expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We expect to set a materiality threshold at 1.1% of gross revenue expenditure.

Based on planning estimates we anticipate the overall materiality for the year ending 31 March 2018 to be in the region of £6.604m (£6.604m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £198,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Gareth Davies.

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

Overall criterion: *in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

Sub-criteria	Guidance
Informed decision-making	• Acting in the public interest, through demonstrating and applying the principles and values of sound governance. • Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management. • Reliable and timely financial reporting that supports the delivery of strategic priorities. • Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. • Managing and utilising assets effectively to support the delivery of strategic priorities. • Planning, organising and developing the workforce effectively to deliver strategic priorities
Working with partners and other third parties	• Working with third parties effectively to deliver strategic priorities. • Commissioning services effectively to support the delivery of strategic priorities. • Procuring supplies and services effectively to support the delivery of strategic priorities.

APPENDIX C – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2017/18

There are no significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2017/18. Minor changes to the Code include:

- introduction of key reporting principles for the preparation and publication of the Narrative Report;
- clarification of reporting requirements on accounting policies and going concern; and
- updating the accounting requirements for the Housing Revenue Account to align these with changes to underlying regulations and directions.

None of the above are anticipated to have a significant impact on the Council.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 9 – Financial Instruments	2018/19	The standard will replace IAS 39 and will introduce significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets. Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised cost. For Councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. At this stage it is unclear whether statutory provisions, over and above those already in place, will be put in place to mitigate the impact of these fair value movements on the Council's general fund balance.
IFRS 16 – Leases	2019/20	We anticipate that the new leasing standard will be adopted by the Code for the 2019/20 financial year. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17. Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council (and its schools) are party to.

The 2018/19 Code will also apply the requirements of IFRS 15 Revenue from Contracts with Customers, but it is unlikely that this will have significant implications for most local authorities.

Certification of claims and returns

North Tyneside Council

2016/17

North Tyneside Council

MAZARS

CONTENTS

1. SUMMARY

The scope of our work
This report provides Members with details of our assurance and certification work for 2016/17. We have undertaken certification of the housing benefit subsidy return as an agent of Public Sector Audit Appointments and have been engaged directly by the Council to undertake assurance work on three other 2016/17 returns.

Assurance
For the housing benefit subsidy return, on completion of the specified work we issue a certificate. The certificate states the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter. Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

For claims and returns that fall outside of the Public Sector Audit Appointments regime, we issue an assurance report or provide assurance in accordance with the requirements of the grant-paying body.

Findings: amendments and qualifications
The tables below show the claims and returns where work was carried out for 2016/17.

Public Sector Audit Appointments return

Claim or return	Value 2016/17	Value 2015/16	Amended?	Qualified
Housing benefit subsidy	£73,175,881	£75,604,121	Yes	Yes

Non Public Sector Audit Appointments grant claims and returns

Claim or return	Value 2016/17	Value 2015/16	Amended?	Matters reported?
Pooling of housing capital receipts	£5,631,901	£5,548,407	Yes	No
Teachers' pension	£59,284,000	£59,608,294	No	Yes
School centred initial teacher training	£325,850	£462,643	Yes	No

Looking ahead
An action plan is included at section 4.
An early planning meeting has been held in respect of the housing benefit subsidy return to ensure the smooth completion of work again.

2. CLAIMS AND RETURNS COMMENTARY

Housing benefit subsidy return
Due to the complex nature of this benefit and the large number of claims processed each year there are specific arrangements in place for certifying this claim. This involves initial testing of a random sample of 20 claims from each of the three headline cells with the results then determining what additional testing is required. Where possible the claim will be amended for errors identified but in many cases, due to the nature of the error, it is only possible to extrapolate errors and report to the Department for Work and Pensions.

The errors identified in 2016/17 are set out in the action plan at section 4. As part of our planning for the 2017/18 subsidy return, we will consider action taken in respect of the 2016/17 errors.

Non Public Sector Audit Appointments claims and returns

Pooling of housing capital receipts
Since 2004/05, local authorities have paid part of their receipts from the disposal of housing into a national pool run by the Department for Communities and Local Government. They are also required to pool a part of other receipts such as mortgage principal repayments.

We have carried out our work on the Council's pooling of housing capital receipts return in line with instructions issued by the Department for Communities and Local Government and concluded the return was prepared, in all material respects, in accordance with the terms and conditions as set out in the Department for Communities and Local Government's instructions, subject to an amendment required to the return for medium rise flats sold which had been reported as high rise flats.

Teachers' Pension Return
The Teachers' Pension Scheme is a contributory pension scheme administered by the Teachers' Pensions Agency on behalf of the Department for Education. Teachers employed in local authority maintained schools and other local authority establishments may be members of the scheme.

The Council is required to submit a return (EOYCa) showing teachers' pension contributions deducted and paid to the Teachers' Pensions Agency in the year. The guidance and requirements were amended for 2016/17 and were based on agreed upon procedures, as well as increasing the sampling required (capped at a maximum of 60).

For 2016/17, we issued a 'reasonable assurance' report based on the agreed upon procedures, which included details of issues arising from our testing, as summarised in the table below.

Issue arising	Detail
Opting-out	Our testing identified one teacher in the Employer Portal (joint portal with Teachers' Pensions Agency) who had opted-out however the Council had not processed this and was still making deductions.
Election for additional contributions	Our testing identified one teacher in the Employer Portal who had opted to make additional contributions, but the Council had not processed this and was not making the deductions.
Additional contributions - period	Testing identified one teacher where additional contributions were being made however this did not match with the information on the Employer's Portal.

We reported our findings along with management responses in an appendix to our assurance report. A recommendation has between included in section 4.

School Centred Initial Teacher Training
We agreed with the Council the specific testing which was to be undertaken for this limited assurance engagement based on the updated guidance. An amendment was required to the return in respect of 2014/15 entries brought forward which were incorrect. There were no other reporting matters.

3. FEES

Public Sector Audit Appointments set an indicative fee for our work on the Council's housing benefit subsidy return. We confirm that the final fee payable for this work, as outlined in the table below, is in line with the indicative fee.
For claims and returns that fall outside of the Public Sector Audit Appointments regime, we agree a fee with Council officers prior to commencing our work.

Public Sector Audit Appointments return

Claim or return	2016/17 final fee	2015/16 final fee	2014/15 final fee
Housing benefit subsidy	£12,075	£16,970	£16,100

Non Public Sector Audit Appointments claims and returns

Claim or return	2016/17 final fee	2015/16 final fee
Pooling of housing capital receipts return	£1,800	£1,800
Teachers' Pensions return	£4,500*	£3,750
School Centred Initial Teacher Training	£2,000	£2,000

*increased testing requirements in 2016/17

4. ACTION PLAN

Errors identified	Recommendation	Management response	Officer responsible	Timescale
Housing benefit subsidy return – overpayments misclassification Our testing in 2016/17 identified misclassification of overpayments. This is a common issue arising, however it is important that the Council undertakes appropriate targeted work to minimise the number of these underpayments.	Review the previous year error to ensure it does not reoccur in 2017/18.	Staff have been advised / reminded of the importance of accuracy. QA checking is in place to monitor for such errors.	Benefits Manager	2017/18 return submission – April 2018
Housing benefit subsidy return – follow-up of prior year errors in relation to earned income Follow-up work did not identify any errors which impacted on subsidy, as the errors identified would have resulted in an underpayment of subsidy. However it is important the calculation of earned income is kept under review, as this is a common error area.	Review the previous year error to ensure it does not reoccur in 2017/18.	Staff have been advised / reminded of the importance of accuracy. QA checking is in place to monitor for such errors.	Benefits Manager	2017/18 return submission – April 2018
Teachers' pensions Testing identified discrepancies between the Council's records and those on the Employer's Portal, as set out earlier in this report.	The Council should establish if this is a wider error and what, if any, controls have not worked as designed.	The issues identified will be followed-up.	Payroll Manager	2017/18 return submission

4. CONTACT DETAILS

Please let us know if you would like further information on any items in this report.
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ITEM 7

Title: Annual Statement of Accounts 2017/18

North Tyneside Council
Report to Audit Committee
Date: 28 March 2018

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

1.1 Executive Summary:

1.1.1 The purpose of this report is to provide the Audit Committee with an update on the plan in respect of the closure of the 2017/18 Accounts.

1.2 Recommendation(s):

1.2.1 It is recommended that the:

(a) Audit Committee note the work outlined in respect of the closure of the 2017/18 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 This is the first year of the new regulations in respect of the production of the Authority's Annual Statement of Accounts. The Chief Finance Officer will now be required, no later than 31 May 2018, to sign and certify that the Statement of Accounts present a true and fair view of the Authority's financial position for the year ended 31 March 2018. The audited set of accounts will now be required, no later than 31 July 2018, be approved and subsequently published.

Update on the preparation of the 2017/18 Annual Statement of Accounts

1.5.2 Communication has gone to all members of the Senior Leadership Team detailing the process for the 2017/18 accounts. This briefing note outlined the main tasks and actions that needed to be taken by services and reiterated the responsibilities of senior management in ensuring all staff are fully conversant with the deadlines.

1.5.3 Detailed guidance notes have been published on the Council's intranet for all staff to see. In addition an article was published in Teamwork from the Chief Finance Officer reminding everyone of the importance of meeting deadlines and that any concerns that individuals have should be raised as soon as possible with their relevant finance contact.

1.5.4 As scheduled, early testing has taken place by external audit – this has not highlighted any significant areas of concern. The testing has covered expenditure and income samples, walkthroughs of key systems and evidence provided as part of the valuation process.

1.5.5 Key work with the Valuation team has proved to be a success – valuation certificates were provided by the required date. All back up evidence has been provided and testing has taken place as part of the early work done by external audit. Again no areas of concern have been highlighted.

1.5.6 Guidance has been issued to schools on the areas they need to focus on to ensure that they closedown on time. Training sessions have also been held specifically covering year-end and the particular issues they need to be aware of and how to overcome them.

1.5.7 Regular meetings continue to be held with finance staff and valuation to address any issues that arise. The Chief Finance Officer is updated on regular basis on the progress being made.

1.5.8 Work is progressing towards meeting the deadlines that are required in order for the Authority to be able to publish the Statement of Accounts by the statutory date of 31 May 2018. At present we are not foreseeing any issues that will prevent the Authority achieving this date, however there is always the risk of unforeseen events that may impact on our ability to do so.

1.6 Decision options:

The options available are:

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

1.7 Reasons for recommended option:

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

1.8 Appendices:

None

1.9 Contact officers:

Janice Gillespie – Head of Finance - Tel: 643 5701
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.

North Tyneside Council
Report to Audit Committee
Date: 28 March 2018

Agenda Item 8
Accounting Policies to be used in the compilation of 2017/18 Annual Statement of Accounts

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

PART 1

1.1 Executive Summary:

1.1.1 In the Annual Statement of Accounts, the Authority is required to disclose how the accounting statements have been prepared. The preparation of the statements should be in accordance with the accounting concepts and policies as per the 'Code of Practice on Local Authority Accounting in the UK 2017/18' (The Code).

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

1.1.3 The purpose of this report is to provide the Audit Committee with details of the proposed Accounting Policies that will be used in the compilation of the 2017/18 Annual Statement of Accounts.

1.2 Recommendations:

1.2.1 It is recommended that the Audit Committee endorse the Accounting Policies to be adopted by the Authority and used to compile the Authority's Annual Statement of Accounts for the financial year 1 April 2017 to 31 March 2018.

1.3 Council plan and policy framework.

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

1.4 Information - Executive Summary

1.4.1 The purpose of the Accounting Policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts of the

Authority. The Code defines Accounting Policies as “the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements”. The Accounting Policies disclosed are those material policies that are significant to the understanding of the Authority’s Annual Statement of Accounts.

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

(a) is required by The Code; or,

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

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

1.4.4 The proposed Accounting Policies for 2017/18 are attached as Appendix A. The only changes recommended are to the accounting policies for:

(a) Overheads and Support Services (Appendix A (d) page 2) to reflect the presentation of Comprehensive Income and Expenditure Statement required by the Code;
(b) Charges to revenue for Non-Current Assets (Appendix A (f) page 4). This change is required following the implementation of revised regulations covering the housing item 8 determination that require the true cost of depreciation to be charged to the Housing Revenue Account from 2017/18; and,
(c) Property, Plant and Equipment (Appendix A (k) pages 11 and 12). As (b) above, this change reflects the revised requirements for the calculation of housing depreciation.

1.5 Decision options:

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

1.6 Reasons for recommended option:

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

1.7 Appendices:

Appendix A	Draft Accounting Policies
Appendix B	Glossary of Terms

1.8 Contact officers:

Janice Gillespie, Head of Finance, Tel 643 5701
Cathy Davison, Principal Accountant Investment (Capital) and Revenue, Tel 643 5727

1.9 Background information:

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

(a) Code of Practice on Local Authority Accounting in the UK 2017/18.

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

2.1.1 There are no financial implications arising from this report.

2.2 Legal

2.2.1 The Authority has a duty to ensure that it produces an Annual Statement of Accounts by 31 May 2018 in accordance with the Accounts and Audit Regulations 2015. Part of this process is the agreeing of the Accounting Policies by the Audit Committee.

2.3 Consultation/community engagement

Internal consultation

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

2.4 Community engagement

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

2.5 Human rights

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

2.6 Equalities and diversity

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

2.7 Risk management

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

2.8 Crime and disorder

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

2.9 Environment and sustainability

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

1 Accounting Policies

(a) General Principles

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

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

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

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

(b) Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

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

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

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

(c) Accruals of Income and Expenditure

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

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

(d) Overheads and Support Services

The costs of overheads and support services are shown within the Central Costs line on the Comprehensive Income and Expenditure Statement ~~charged to service segments~~ in accordance with the Authority's arrangements for accountability and financial performance ~~(i.e. on the same basis as financial monitoring reports presented to Cabinet)~~

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(e) Government Grants and Contributions

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

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

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

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

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

(f) Charges to Revenue for Non-Current Assets

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

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

- Amortisation of intangible assets attributable to the service.

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

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Under the Item 8 debit and credit determination from April 2017 depreciation for Housing Revenue Account assets are calculated in accordance with proper accounting practice and charged to the Housing Revenue Account. Impairment and revaluation adjustments are reversed out of the Housing Revenue Account and will not impact on Housing Rents.~~Similarly, depreciation, impairment and amortisations charged to the Housing Revenue Account, are replaced by the assumed Major Repairs Allowance (MRA) with any excess depreciation moved to the Capital Adjustment Account.~~

(g) Exceptional items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

(h) Leases

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

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

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

<u>The Authority as Lessee</u>

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

<u>The Authority as Lessor</u>

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

(i) Employee Benefits

<u>Benefits Payable during Employment</u>
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu, flexi balances) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

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

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

Post Employment Benefits (Retirement Benefits)

Employees of the Authority are primarily members of two separate pension schemes:

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

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

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

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

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

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

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

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

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

Service cost

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement; and
- Net Interest on the net defined benefit liability (asset) i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising

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

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

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

Discretionary Benefits
The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

(j) Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

(k) Property, Plant and Equipment

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

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets under the course of construction are recorded at cost during the construction period. Once the asset becomes operational a valuation is undertaken as relevant to the asset's type.

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

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

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

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

<u>De-Minimis Levels</u>

The Authority has set a de minimus level for the recognition of capital assets of £0.010m for land, buildings and infrastructure and £0.006m for equipment.

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

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

Impairment

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

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

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

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

Depreciation

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

Deprecation is calculated on the following bases:

- ~~Council Dwellings – the assumed Major Repairs Allowance (MRA) is used as a proxy for depreciation;~~

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

Amounts received for a disposal in excess of £0.010m are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

(l) Heritage Assets

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

Recognition and Measurement

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

Impairment

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

Disposals

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

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

(m) Investment Property

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

Investment Properties are measured initially at cost and subsequently at fair value, based on the price that would be received from the sale of the property in an orderly transaction between market participants at the measurement date. As a non-financial asset, Investment Properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to Investment Properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.010m) the Capital Receipts Reserve.

(n) Intangible Assets

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

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

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

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

(o) Interests in Companies and Other Entities

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

(p) Cash and Cash Equivalents

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

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

(q) Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

(r) Financial Instruments

Financial Liabilities

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

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

The Authority entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

<u>Financial Assets</u>

Financial assets are classified into two types:

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

<u>Loans and Receivables</u>

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and

Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Financial Assets

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

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

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

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

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

(s) Provisions and Contingent Liabilities

Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

Contingent Liabilities

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

(t) Reserves

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

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

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

(u) Estimation Techniques

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

(v) Collection Fund Statement

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

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

(w) Events after the Reporting Period

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

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

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

(x) Joint Arrangements

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

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

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

(y) Value Added Tax (VAT)

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

(z) Fair Value measurement

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

- in the principal market for the asset or liability; or

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

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

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

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

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

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

(aa) Schools

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

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

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

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

Glossary of Terms

A

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

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

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

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

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

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

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

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

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

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

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

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

B

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

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

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

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

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

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

C

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

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

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

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

Capitalised: transferred from revenue to capital.

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

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

CIPFA: The Chartered Institute of Public Finance and Accountancy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D

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

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

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

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

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

E

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

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

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

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

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

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

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

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

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

F

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

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

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

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

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

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

G

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

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

H

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

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

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

I

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

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

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

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

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

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

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

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

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

L

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

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

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

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

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

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

M

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

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

N

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

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

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

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

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

O

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

P

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

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

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

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

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

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

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

R

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

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

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

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

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

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

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

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

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

S

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

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

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

T

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

U

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

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

North Tyneside Council
Report to Audit Committee
Date: 28 March 2018

ITEM 9

Title: Strategic Audit Plan 2018/19

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

PART 1

1.1 Purpose:

The purpose of this report is to advise the Audit Committee of the Strategic Audit Plan for 2018/19. This document outlines the planned work of Internal Audit during this period and is attached as **Appendix A**.

1.2 Recommendation(s):

It is recommended that the Audit Committee reviews and assesses the Strategic Audit Plan 2018/19, attached as **Appendix A**, and the proposed Internal Audit coverage set out therein.

1.3 Council plan and policy framework

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

1.4 Information

1.4.1 The Strategic Audit Plan for the period 2018/19 is attached to this report as **Appendix A**. The Strategic Audit Plan helps to ensure that Internal Audit is able to provide an independent and objective opinion to the organisation on the framework of governance, risk management and control, and sets out Internal Audit's objectives in the medium term.

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

1.4.3 For the 2018/19 Strategic Audit Plan, Internal Audit has performed an initial assurance mapping exercise, mapping the Authority's key risk registers to details of assurance sources across three levels. These three levels are often referred to as a 'three lines of defence' approach, which include management, corporate oversight and independent assurance.

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

1.4.5 The Strategic Audit Plan for the period 2018/19 details those areas planned to be subject to audit coverage during this period, and has been prepared in accordance with Public Sector Internal Audit Standards (PSIAS). The Plan outlines:

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

1.4.6 In 2012, North Tyneside Council entered into a shared service arrangement, jointly with Northumberland County Council, for the provision of Internal Audit and Risk Management services. Separate audit plans have been established for both North Tyneside Council and Northumberland County Council, but have been completed in conjunction with each other. This has allowed the available resources and specialist skill sets to be deployed across both Councils in the most advantageous way according to the specific risks and requirements of each Council. Each Council still retains a statutory responsibility to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes" and the Strategic Audit Plan for North Tyneside Council attached as **Appendix A** has been prepared in accordance with this requirement.

1.4.7 The Strategic Audit Plan 2018/19 sets out in detail the planned assurance coverage for the coming year. The Plan is kept under review throughout the year, and a half year progress update is scheduled to be reported to the Audit Committee in November 2018. A full outturn on the 2018/19 Annual Audit Plan will be reported to the Audit Committee in May 2019. Regular monitoring and adjustment of the Plan is performed as a matter of course within the Internal Audit team, in accordance with relevant professional standards.

1.5 Decision Options:

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

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

1.6 Reasons for recommended option:

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

1.7 Appendices:

Appendix A: Internal Audit Service – Strategic Audit Plan 2018/19

1.8 Contact officers:

Kevin McDonald (Group Assurance Manager) Tel 643 5738

1.9 Background information:

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

(a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 (P)
(b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2013 (P)
(c) Financial Regulations C24 - C35, version 5a, September 2013 (P)
(d) Shared Internal Audit and Risk Management Service Strategic Statement 2017/18 (P)
(e) Strategic Audit Plan 2017/18. March 2017 (P)
(f) Corporate, Service Strategic, Service Operational, Projects and Strategic Partnerships Risk Registers (C)
(g) The Accounts and Audit Regulations 2015, April 2015 (P)
(h) The 'Our North Tyneside' Council Plan 2014/18, September 2013 (P)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

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

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

2.2 Legal

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

2.3 Consultation/community engagement

The Strategic Audit Plan 2018/19 was prepared following consultation with: the Chief Executive; Deputy Chief Executive; Head of Finance (Chief Finance Officer); all Heads of Service and Cabinet Member for Finance and Resources.

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

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

2.6 Risk management

There are no specific risks arising from this report.

2.7 Crime and disorder

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

2.8 Environment and sustainability

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

Report authors Allison Mitchell
Kevin McDonald

APPENDIX A

Internal Audit Service

Strategic Audit Plan 2018/19

March 2018

North Tyneside Council

1 Introduction

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

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

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

1.4 The Strategic Audit Plan has been prepared in accordance with the Public Sector Internal Audit Standards (PSIAS) and a specific Local Government Application Note on the Standards. These were introduced in 2013 (revised in 2017) and build upon the good practice set out in previous professional regulations, including audit planning requirements, and have the force of law. Preparation has involved establishing a risk-based plan to determine the priorities of internal audit activity, consistent with the organisation's goals; and a focused programme of engagement on the aspirations of key stakeholders, with regard to assurance activity for the Authority.

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

2 Period Covered by the Strategic Audit Plan

2.1 The Strategic Audit Plan sets out in detail the assurance coverage which Internal Audit will deliver within the coming financial year, 2018/19. The Plan

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

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

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

2.3 The key objectives for the audit reviews identified to take place during 2018/19 are shown in section 9 of this document. In addition, each audit profiled in the Strategic Audit Plan has been mapped to the Authority's 'Creating a Brighter Future' change programme, to demonstrate that assurance is not provided in isolation but instead contributes directly to the achievement of the organisation's main goals.

3 Risk Assessment and Audit Planning

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

3.2 For the 2018/19 Strategic Audit Plan, Internal Audit has performed an assurance mapping exercise to assess the level of confidence the authority can have in its service delivery, management of risks, operation of controls and performance. Taking the corporate risk register, details of assurance sources have been mapped across three levels often referred to as 'the three lines of defence', i.e. management, corporate oversight and independent assurance. This provides information on assurances the Council has on areas of the business that matter most, and highlighting where there may be potential deficiencies.

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

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

3.5 The Strategic Audit Plan has therefore been based on an assessment of the Authority's objectives and business goals, risks facing the organisation and its achievement of these goals, known strengths and weaknesses in the internal control system, the requirements of the Council's responsible financial officer (Chief Finance Officer (Head of Finance)) and the Accounts and Audit Regulations 2015, and the views of the Chief Executive, Deputy Chief Executive (Chief Operating and Delivery Officer), all Heads of Service, Audit Committee members and Cabinet Member for Finance and Resources.

4 Internal Control: Roles of Management and of Internal Audit

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

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

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

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

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

5 Relationship with External Audit

5.1 Internal Audit is a management tool. As such, its remit is wide and it may be called upon by management for support and assistance in a variety of situations. The duties of the External Auditor are more prescriptively defined in the relevant Codes of Practice and legislation. In summary, the External Auditor's principal objectives are to review and report on the audited body's financial statements and arrangements for securing economy, efficiency and effectiveness in the use of resources[2].

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

6 Quality Standards

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

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

7 Resource Management

7.1 The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Internal Audit's establishment currently comprises the equivalent of 5.5 full time employees and the shared Chief Internal Auditor. A notable change in responsibilities has been effected in response to our recent self-assessment (followed by the External Assessment) relating to compliance with the Public Sector Internal Audit Standards. This has separated operational management of Internal Audit and Risk Management, allowing a more effective separation of duties and greater objectivity. Our specific service delivery model (i.e. a shared service) allows both partner Councils to access specialist skills and where appropriate additional resources, as the need to do so arises.

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

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

7.3 An advantage of the shared working arrangement for the delivery of Internal Audit services with Northumberland County Council is the opportunity for shared learning across the two authorities. Both authorities can benefit from this approach through sharing of good practice, subject to compliance with ethical walls procedures, and achieving resource efficiencies in, for example, research time, preparation and planning for an audit area.

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

8 Key Themes in the Strategic Audit Plan, 2018/19

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

Advice & Programme Assurance

Project Assurance

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

Advice and Consultancy, and Contingencies

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

Audit and Assurance

Corporate and Cross Cutting Activities

8.4 Areas which are important throughout all of the Authority's services in respect of which audit review helps give assurance to the organisation or highlights aspects in which improvement could be made. During 2018/19 these audit activities will include:

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

Service Area Assurance / Schools

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

Computer Audit

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

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

Counter Fraud and Internal Control & Probity

Key Financial Systems

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

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

Counter Fraud

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

8.11 The management of fraud and corruption is the responsibility of management and the Chief Internal Auditor is required to make arrangements to be notified of all suspected or detected fraud, corruption or impropriety, to inform her annual Internal Audit opinion and the risk-based Plan. Although Internal Audit does not have the responsibility for the prevention or detection of fraud and corruption, its work assists management to fulfil their responsibilities through the strengthening of internal control.

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

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

Reprogrammed Work

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

9 Annual Audit Plan 2018/19

Advice & Programme Assurance

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

Audit and Assurance – Corporate and Cross Cutting

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

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Link to Creating a Brighter Future programme
Corporate and Cross Cutting	• Annual Opinion	An annual opinion on the 'adequacy and effectiveness of the framework of governance, risk management and control' will be drafted and presented to the Chief Executive, Head of Finance (Section 151 Officer), Senior Leadership Team and Audit Committee, outlining the audit work performed during the year and summarising key themes. This will be timed to support production of the Council's Annual Governance Statement.	Corporate & Enabling (Governance item)
	• Follow up on Recommendations	Monitoring the implementation of Internal Audit recommendations, in consultation with the service areas which have received these recommendations. During the year, Internal Audit will review the process benefitting from shared learning within the Internal Audit and Risk Management Service and against best practice to ensure recommendations are followed up and reported upon to Audit Committee in a timely, efficient and effective manner.	Corporate & Enabling (Governance item)
	• Governance and value for Money Reviews	To review whether appropriate internal controls exist within a sample of significant business arrangements within North Tyneside Council. Where it is possible to assess the economy, efficiency and effectiveness of specific aspects of these arrangements, this will also be undertaken. Areas to be reviewed under this heading in 2018/19 include: • Risk Management arrangements • Ethical Governance (including controls regarding declarations of interest, and acceptance of offers of gifts and hospitality by both officers and elected members) • Exploring the use of technology-based audit techniques (for example, in income maximisation) • Construction Partner in-sourcing • Section 106 / Section 278 Arrangements • Corporate Health and Safety • Treasury Management arrangements	Corporate & Enabling (Governance item)

		• Direct Payments (and financial aspects of care provision) • Use of Waivers in procurement	

Audit and Assurance – Service Area Specific

Heading	Auditable Area	Description / Audit Objectives	Link to Creating a Brighter Future programme
Children, Young People and Learning	• Primary & First Schools, Middle Schools and Secondary Schools	To assess, on a thematic basis, the application of controls associated with the discharge of responsibilities relating to delegated school budgets, within a sample of schools on a risk assessed basis.	Ready for Work & Life
	• Schools' Financial Value Standard (SFVS)	On behalf of the Head of Finance (Section 151 Officer), Internal Audit will co-ordinate Schools' Financial Value Standard submissions, for all of the Council's grant-maintained schools, and provide assurance to the Section 151 Officer relating to her annual report to the Department for Education.	Ready for Work & Life
Tyne Port Health Authority	• Tyne Port Health Authority	On behalf of North Tyneside Council, as the Accountable Body for the administration of Tyne Port Health Authority, to undertake the internal audit requirements associated with the annual Small Bodies Return for this entity. This will involve acting independently and on the basis of an assessment of risk, performing a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year ending 31 March 2018. To determine an appropriate level of internal audit coverage in accordance with the body's needs, and on the basis of findings in the areas examined to summarise conclusions and report these in an appropriate form to the body.	A Great Place to Live, Work and Visit

Audit and Assurance – ICT

Heading	Auditable Area	Description / Audit Objectives	Link to Creating a Brighter Future programme
ICT	• System Reviews	To determine whether the systems and procedures in operation are functioning satisfactorily and are in accordance with legislation and council policy. In particular, to determine whether: • The systems comply with good practice and all legal, statutory and regulatory body requirements, and meet business need; • All transactions are completely and accurately recorded and traceable; • Access to information and facilities is controlled and restricted to authorised users according to their needs; • The potential for fraud and error are minimised; • The systems are effectively administered and supported; • All staff using the systems have been correctly trained to the level that will allow them to properly fulfil their duties; • The systems are continually available during working hours; • The systems provide complete and accurate management information; and • Upgrades to the systems are properly resourced and managed to meet clearly stated and agreed business objectives. For 2018/19, specific ICT audit coverage will be prioritised in the following areas: • Telephony (mobile and landline) • Payment Card Industry Data Security Standards (PCIDSS) Compliance • Network Management • Debtors (Ash) System Review • Office 365 & SharePoint • Liquidlogic System Review • Implementation of General Data Protection Regulation	Cross-cutting & Enabling: Customer Insight & ICT Digitisation

Audit and Assurance – ICT

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

Counter Fraud and Internal Control & Probity

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

Counter Fraud and Internal Control & Probity

Heading	Auditable Area	Description / Audit Objectives	Link to Creating a Brighter Future programme
Internal Control & Probity	• Core Financial Systems: - Business Rates; - Council Tax; - Payroll; - Creditor Payments; - Cash and Bank; - Debt and Income Management; - Housing Rent Assessment & Collection; - Housing & Council Tax Benefit	The core financial systems encompass the main ways in which the Authority either pays money out (Creditor Payments, Payroll, Housing & Council Tax Benefit) or receives monies in (Business Rates, Council Tax, Debt and Income Management, Rent Assessment and Collection). Each of these areas will be given some audit coverage in each financial year, but on a cyclical basis a more detailed review will be undertaken on one income system and one expenditure system each year. For 2018/19, those systems prioritised for an in-depth review are: • Creditor Payments (including Accounts Payable, Purchase Card transactions, other payment means e.g. CHAPS, and Petty Cash) • Debt and Income Management (including whether agreed pricing schedules are in existence, whether pre-payment methods of income collection are optimised, whether debts are invoiced promptly, write off and recovery procedures are appropriate and sufficient to deter debts from becoming 'bad').	Corporate & Enabling (Core Financial systems)

Shared Internal Audit and Risk Management Service Strategic Statement 2018/19

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

The regulations further state that any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit –

(a) Make available such documents and records; and
(b) Supply such information and explanations;

As are considered necessary by those conducting the internal audit. In this regulation, it is clear that “documents and records” includes information recorded in an electronic form.

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

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

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

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

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

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

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

North Tyneside Council
Report to Audit Committee
Date: 28 March 2018

ITEM 10

Title: Proposed Audit Committee Work Programme 2018/19

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

PART 1

1.1 Purpose:

The purpose of this report is to propose a programme of core business, to be considered by the Audit Committee during 2018/19, in line with its Terms of Reference as set out in the Council's Constitution.

1.2 Recommendation(s):

It is recommended that the Audit Committee:

(a) agrees the proposed core business work programme set out within this report, for 2018/19
(b) notes that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues, and to respond to emerging trends during the year, and
(c) notes that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference, in the usual way.

1.3 Council plan and policy framework

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

1.4 Information

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

1.4.2 Having regard to the Audit Committee's responsibilities as set out in its Terms of Reference in the Constitution, a core programme of work has been developed. This is set out below and aims to ensure that the Committee is properly able to discharge its duties effectively and efficiently, strengthening the Council's governance arrangements, and to highlight when reports are planned for presentation to each meeting in 2018/19.

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

1.4.3 The following programme of core business for the Audit Committee during 2018/19 is proposed. This sets out the suggested timing and frequency of reports in the coming year, allowing the responsibilities as set out in the Constitution to be met. Due to the change in external audit arrangements during 2018/19, both the current external auditor, Mazars, and the new external auditor, Ernst & Young, will be reporting into the Audit Committee throughout the year. The reports from Mazars noted below have been confirmed, but the Ernst & Young schedule is indicative only at this stage.

Month	Item of Business
May 2018	<u>Internal Audit and Risk Management</u> • Annual Report from Chief Internal Auditor and Opinion on the Framework of Governance, Risk Management and Control • Final Outturn Report (showing performance in achieving the previous year's Strategic Audit Plan) • Key Outcomes from Internal Audit Reports (reporting the key outcomes of reports issued in the preceding six months and progress made with the implementation of audit recommendations) • Risk Management Update <u>Finance</u> • Draft Annual Governance Statement (and supporting information) <u>External Audit</u> • External Audit Progress Report (Mazars) • External Audit Fee Letter (including Terms of Engagement) (Ernst & Young)
July 2018	<u>External Audit</u> • Audit Completion Report (annual governance report) (Mazars)
November 2018	<u>Internal Audit and Risk Management</u> • Interim Outturn Report (showing profiled performance against the Strategic Audit Plan) • Key Outcomes from Internal Audit Reports (reporting the key outcomes of reports issued in the preceding six months and progress made with the implementation of audit recommendations) • Risk Management Update <u>Finance</u> • Annual Governance Statement Update (progress on previously identified actions and agreeing methodology for coming year) • Report on preparation of Annual Statement of Accounts 2018/19 <u>External Audit</u> • Annual Audit Letter (Mazars)

	• Grants Report (Mazars) • External Audit Progress Report (Ernst & Young)
March 2019	Internal Audit and Risk Management • Strategic Audit Plan (for the forthcoming financial year) • Annual Review of Audit Committee Effectiveness • Annual Audit Committee Work Programme Finance • Report on accounting policies to be used in Compilation of Annual Statement of Accounts • Report on preparation of Annual Statement of Accounts 2018/19 External Audit • Audit Strategy Memorandum (audit plan) (Ernst & Young)

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

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

1.5 Decision options:

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

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

1.6 Reason for recommended option:

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

1.7 Appendices:

There are no appendices to this report.

1.8 Contact officers:

Kevin McDonald (Group Assurance Manager) Tel 643 5738
Marc Oldham (Senior Auditor) Tel 643 5711

1.9 Background information:

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

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

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no direct financial implications arising from this report.

2.2 Legal

There are no direct legal implications arising from this report.

2.3 Consultation/community engagement

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

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

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

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

2.6 Risk management

There are no specific risks associated with this report.

2.7 Crime and disorder

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

2.8 Environment and sustainability

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

Report authors Allison Mitchell
Kevin McDonald
Marc Oldham

North Tyneside Council
Report to Audit Committee
Date: 28 March 2018

ITEM 11

Title: Outcomes from the External Assessment of the Shared Internal Audit Service, February 2018

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

PART 1

1.1 Purpose:

The purpose of this report is to advise Audit Committee of the findings / outcomes from the external assessment of the Shared Internal Audit Service, which was performed in February 2018, in accordance with the requirements of the Public Sector Internal Audit Standards 2017.

1.2 Recommendation(s):

It is recommended that the Audit Committee:

(a) Notes that the mandatory external assessment of Internal Audit took place in February 2018;
(b) Notes the opinion of the external assessor that the Shared Internal Audit Service is compliant with the requirements of the Public Sector Internal Audit Standards;
(c) Notes that there are some small areas in which the external assessor has recommended that further action is taken to enhance compliance with the Standards; and
(d) Notes that the external assessor's recommendations will be implemented fully during 2018/19.

1.3 Council plan and policy framework

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

1.4 Information

1.4.1 A self-assessment of the Shared Internal Audit Service's conformance to the Public Sector Internal Audit Standards was reported to Audit Committee in November 2017.

1.4.2 The Public Sector Internal Audit Standards also introduced a mandatory requirement for an external assessment of the internal audit function, which must be conducted at least once in every five years by a qualified, independent reviewer from outside of the organisation.

1.4.3 As agreed by Audit Committee, the external assessment of our Shared Internal Audit Service has been undertaken via a tri-partite arrangement involving Northumberland County Council / North Tyneside Council, Newcastle City Council and South Tyneside Council. Under this tri-partite arrangement, South Tyneside Council's Corporate Assurance Manager has undertaken the external assessment of our Shared Service.

1.4.4 The report from the external assessor is attached as **Annex A.** The opinion of the external assessor is as follows:

"This external assessment concludes that the Shared Internal Audit Service is compliant with the requirements of the Public Sector Internal Audit Standards. There are a small number of areas which require action but these do not significantly impact on the overall opinion."

1.4.5 This is a positive judgement on the conduct of the Shared Internal Audit Service. A small number of recommendations, including those already identified by the service through its self-assessment, were made by the external assessor to further enhance compliance with the standards. These are set out in Appendix 1 to the external assessment report.

1.4.6 Management responses to the recommendations made by the external assessor are also set out within Appendix 1 to the report. All recommendations will be implemented within 2018/19.

1.5 Decision Options:

It is recommended that the Audit Committee notes the outcomes of the mandatory external assessment of the Shared Internal Audit Service, attached as **Annex A**, that the Shared Internal Audit Service is compliant with the requirements of the Public Sector Internal Audit Standards.

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

1.6 Reasons for recommended option:

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

1.7 Appendices:

Annex A: External Assessment of Shared Internal Audit Service (North Tyneside Council and Northumberland County Council), February 2018

1.8 Contact officers:

Kevin McDonald (Group Assurance Manager) Tel 643 5738

1.9 Background information:

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

(a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 (P)

(b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2013 (P)

(c) The Accounts and Audit Regulations 2015, April 2015 (P)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

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

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

2.2 Legal

The Accounts and Audit Regulations 2015 are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

These internal auditing standards / guidance are the Public Sector Internal Audit Standards 2017 and the accompanying Local Government Application Note. Adherence to these standards is the subject of the main body of this report.

2.3 Consultation/community engagement

Audit Committee has been consulted in the approach to the external assessment required by the Public Sector Internal Audit Standards.

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

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

2.6 Risk management

There are no specific risks arising from this report.

2.7 Crime and disorder

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

2.8 Environment and sustainability

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

Report authors Allison Mitchell
Kevin McDonald

ANNEX A

Public Sector Internal Audit Standards

External Assessment of Shared Internal Audit Service (North Tyneside Council and Northumberland County Council)

February 2018

South Tyneside Council

Introduction

1.1 In April 2013, the Public Sector Internal Audit Standards (PSIAS) became effective. These standards apply to Internal Audit in all parts of the public sector in the UK and are mandatory. The standards are intended to reflect that "a professional, independent and objective internal audit service is one of the key elements of good governance".

1.2 The PSIAS introduced a requirement for an external assessment of an organisation's internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.

1.3 Newcastle City Council, North Tyneside Council / Northumberland County Council and South Tyneside Council have established a 'peer-review' process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by 'self-assessment with independent external validation' and this report presents the summary findings of the review carried out on behalf of the shared Internal Audit service delivering to North Tyneside Council and Northumberland County Council.

1.4 The assessment was carried out February 2018.

Purpose

2.1 The purpose of the external assessment is to help improve delivery of the Internal Audit Service and establish whether governance requirements relating to provision of the Service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

Approach/Methodology

3.1 The Chief Audit Executive (Chief Internal Auditor) had completed a self-assessment of the Shared Internal Audit Service, and its compliance with the Standards. The self assessment was used as the basis for the external assessment, which was then evidenced with reference to a range of internal and published documentation.

3.2 Operational practices were discussed with the Chief Internal Auditor and Group Assurance Manager and appropriate documentation sighted during the inspection. A meeting was also held with the Head of Commissioning and Investment at North Tyneside Council. The assessment did not review a sample of audit files.

Opinion of External Assessment

4.1 This external assessment concludes that the Shared Internal Audit Service is compliant with the requirements of the Public Sector Internal Audit Standards. There are a small number of areas which require action but these do not significantly impact on the overall opinion.

Findings

5.1 There were no areas of concern to be reported. The Public Sector Internal Audit Standards include a specific definition of Internal Auditing (expected to be used whenever the function of internal audit is explained, for example in the Audit Charter); a Code of Ethics and eleven specific standards. The standards are divided into attribute standards and performance standards as follows:

Attribute Standards
- Purpose, authority and responsibility
- Independence and objectivity
- Proficiency and due professional care
- Quality assurance and improvement programme

Performance Standards
- Managing the internal audit activity
- Nature of work
- Engagement planning
- Performing the engagement
- Communicating results
- Monitoring progress
- Communicating the acceptance of risks

5.2 The evidence examined as part of the assessment demonstrated that the Shared Internal Audit Service was compliant with the majority of the Standards.

5.3 A small number of recommendations, including those already identified by the service through the self-assessment, were made to further enhance compliance with the standards and are attached at **Appendix 1**.

Conduct of the External Assessment

6.1 The external assessment of the Shared Internal Audit Service has been conducted in accordance with Standard 1312 (External Assessments) of the Public Sector Internal Audit Standards and the related CIPFA Local Government Application Note.

6.2 Such external assessments must be conducted at least once in every five years by a qualified, independent assessor / assessment team from outside the organisation.

6.3 The qualified assessor / assessment team must demonstrate competence in two areas – the professional practice of internal auditing, and the external assessment process.

6.4 Regarding competence, the Standards state that experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience.

6.5 Regarding independence, the independent assessor must not have either a real or an apparent conflict of interest and must not be a part of, or under the control of, the organisation to which the internal audit activity belongs.

6.6 I certify that as the external assessor as defined in the PSIAS, I am a qualified Accountant and have 20 years of audit experience. For the last 17 years my experience has been gained in a comparable sector (local government). I have no conflict of interest in performing this assessment in respect of the Shared Internal Audit Service – I am not a part of, or under the control of, North Tyneside Council or Northumberland County Council.

Peter Hunter ACCA

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External Assessment Action Plan

No	Observation	Recommendation	Management Response
1	The Chief Executive and Chair of the Audit Committee do not directly feed into the performance appraisal of the CAE. However there is nothing to suggest from the external assessment that the independence of the CAE is affected by her remuneration or performance being inappropriately influenced by those subject to audit. The recommendation suggested would strengthen arrangements but does not impact on compliance with the PSIAS.	The Chief Executive and Chair of Audit Committee be given the opportunity to feed into the performance appraisal of the Chief Internal Auditor.	Agreed. The Chief Executives of both North Tyneside Council and Northumberland County Council, and the Chairs of Audit Committee at both partner organisations, will be invited to provide feedback for consideration as part of the performance appraisal of the Chief Audit Executive (Chief Internal Auditor) from 2018/19 onwards.
2	North Tyneside Internal Audit staff undertake audits under the remit of the Head of Commissioning and Investment. Whilst there is nothing to suggest from the external assessment that this has caused any issues over independence, the working arrangements with Northumberland allow for Northumberland County Council Internal Audit staff to undertake North Tyneside audits.	To further strengthen independence, consideration to be given to Northumberland County Council Internal Audit staff undertaking any potentially sensitive audits under the remit of the Head of Commissioning and Investment at North Tyneside Council.	Agreed in principle. As all Internal Audit providers (in any organisation) are by definition 'internal' to that organisation, there will always be a line management arrangement to consider in terms of independence / objectivity of Internal Audit. Any potential risks to objectivity are however mitigated by the Chief Audit Executive's functional reporting arrangement to the Audit Committee. However it is agreed that delivery of audit services via a shared service model allows the potential for enhanced objectivity, by auditors from the partner organisation undertaking audit assignments on particularly sensitive areas in the other organisation.

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3	The Quality Assurance process has not been recorded and incorporated into one overarching document.	A one page diagram of the quality assurance framework to be developed identifying existing arrangements and any actions for improvement. It is suggested this is reported to senior management and Audit Committee through inclusion in the Internal Audit Annual Report.	Agreed. The Quality Assurance and Improvement Programme (QAIP) covering both internal and external quality assurance arrangements will be codified into one diagram in quarter 1 of 2018/19.
4	The Chief Internal Auditor has identified that the inclusion of some additional development time in the audit plan would support the development of the service rather than reacting to emerging strategic risks and priorities.	2018/19 strategic planning process to factor in sufficient development time.	Agreed. Service development targets for 2018/19 have been developed, with a corresponding time budget in the Strategic Audit Plan.
5	An audit of each Council's ethics related objectives, programmes and activities was underway.	The ethics audit to be completed.	Agreed. These audits will be completed in quarter 1 of 2018/19.
6	An audit of risk management arrangements has been undertaken previously however changes to risk management processes are being considered.	An audit of revised risk management processes to be undertaken.	Agreed. Revised responsibilities for Internal Audit and Risk Management within the Service have now been established. This allows a clearer distinction between Internal Audit and Risk Management functions. Audits of Risk Management arrangements within both North Tyneside Council and Northumberland County Council are planned in Quarter 4 of 2018/19.
7	The Internal Audit Service has acknowledged that monitoring the results of consulting engagements could be formalised and improved.	A review of monitoring the results of consulting engagements to be undertaken.	Agreed. A simple process for measuring effectiveness of Internal Audit's involvement in programme assurance work will be developed in 2018/19.