



Audit Completion Report

North Tyneside Council

Year ending 31 March 2018



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17 July 2018

Dear Members

Audit Completion Report – year ended 31 March 2018

We are pleased to present our Audit Completion Report for the year ended 31 March 2018. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 28th March 2018. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07979 164 467.

Yours faithfully



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1. EXECUTIVE SUMMARY

Purpose of this report and principle conclusions

The Audit Completion Report sets out the findings from our audit of North Tyneside Council ('the Council') for the year ended 31 March 2018, and forms the basis for discussion at the Audit Committee and full Council meeting on 25th and 26th July respectively.

The detailed scope of our work as your appointed auditor for 2017/18 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. As we outline on the following page, our work is substantially complete and, subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 31 August 2018. We anticipate reporting that the WGA submission is consistent with the audited financial statements.

Wider powers

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. There have been no objections or questions from local electors.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to Members in a follow-up letter.

1. EXECUTIVE SUMMARY

Status of our work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2018. At the time of preparing this report the following matters remain outstanding.

Two areas of particular significance outstanding are in respect of:

- Property, Plant and Equipment valuations; and
- the capital charges adjustment.

Audit area	Description of outstanding matters
Property, Plant and Equipment (PPE)	Work to be completed includes consideration of the valuation indices used for assets valued at Depreciated Replacement Cost, where it appears the valuations have not been updated by the Property Team (Capita) for significant changes at the year-end in the indices, resulting in a material understatement of PPE by £87.7million. This adjustment will impact on a number of statements and disclosure notes.
Capital charges adjustment	Work to be completed in respect of the adjustment in respect of 2016/17 capital charges.
Pensions	Assurance from the Pension Fund auditor to be received and considered.
Closure procedures	Review and closure processes, including final consideration of post balance sheet events and checking the revised financial statements.
Whole of Government Accounts	Work to be completed.

We will provide Members with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2018. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £6.604 million using a benchmark of 1.1% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors remains at £6.604 million, which is 1.2% of gross operating expenditure. We set our trivial threshold (the level under which individual errors are not communicated to the Members), at £0.198 million based on 3% of overall materiality. We set a lower materiality for exit packages, members allowances and remuneration of senior employees (being 25% of the value disclosed).

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 10 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk

Description of the risk

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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- accounting estimates impacting on amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business;
- the selection and application of accounting policies; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Subject to the completion of outstanding work, our work has provided the assurance sought, with no significant matters arising.



2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Property, plant and equipment valuation

Description of the risk

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.

How we addressed this risk

We:

- assessed the Council's arrangements for ensuring that PPE values are reasonable including the accuracy of data provided to the Valuer;
- assessed the data provided by our consulting Valuer, Gerald Eve, as part of our challenge of the reasonableness of the valuations provided by the Council's Valuer: when challenging the Council on how the valuation indices used compared to those in the Gerald Eve national trends report, discrepancies were identified. As a result of follow-up, it was identified that valuations of certain categories of PPE had not been reviewed at the year-end for any significant changes by the Property Team (Capita). Due to significant changes in the underlying indices, this has resulted in a likely material misstatement to PPE.
- assessed the competence, skills and experience of the Valuer and the instructions issued to the Valuer; and
- where necessary, performed further audit procedures on individual assets to ensure the basis of valuations was appropriate.

Audit conclusion

Audit work identified that valuations of certain categories of Property, Plant and Equipment (PPE) had not been reviewed for any significant changes in the underlying indices at the end of the year by the Property Team (Capita). As a result, PPE is understated by £87.7 million.

We have raised a level 1, 'high' priority recommendation in this area as set out in the 'internal control recommendations' section.

At the time of writing this report, further audit work is required in order for us to gain the assurance required in respect of this material adjustment.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
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.

How we addressed this risk

We undertook 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.

Audit conclusion

Subject to the completion of outstanding work, our work has provided the assurance sought, with no significant matters arising.

Significant risk	Description of the risk
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.

How we addressed this risk

We:

- evaluated the Council's arrangements, including their controls over the accuracy of data provided to the Pension Fund and Actuary, for making estimates in relation to pension entries within the financial statements; and
- challenged the reasonableness of the Actuary's assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office.

Audit conclusion

Subject to the completion of outstanding work, our work has provided the assurance sought, with no significant matters arising.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
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 costs' line).

How we addressed this risk

We discussed the proposed restatement with management who ultimately decided that the existing presentation remained appropriate and did not restate the Statement. As part of the review, the Council made a minor amendment to the overheads and support services accounting policy.

As part of our work, we considered variances on the central costs line and other lines of the CIES. Follow-up of variances identified there was double-counting of capital charges in 2016/17 impacting on the central costs line and other lines of the CIES in addition to the adjustment made as part of last year's audit. In response, the Council has restated the 2016/17 CIES, with an adjustment of £37.293m to the central costs line, offset by adjustments to the other service lines as set out further in section 4. There is no net impact on expenditure as a result of this restatement.

Audit conclusion

Our work has provided the assurance sought, subject to completion of work in respect of the 2016/17 capital charges restatement.

Area of management judgement	Description of area of management judgement
Provision for impairment of bad and doubtful debts	The Council set aside a sum of £16.034m in respect of bad and doubtful debts in 2016/17 and highlights this as an area of significant estimation uncertainty, due to the inherent risk in the current economic environment that the amount provided would be insufficient.

How we addressed the area of management judgement

We:

How we addressed the area of management judgement

We:

- considered the completeness and accuracy of the provision for bad and doubtful debts for 2017/18 of £17.176 million; and
- tested the basis of calculation.

Audit conclusion

Subject to the completion of outstanding work, our work has provided the assurance sought, with no significant matters arising.

2. SIGNIFICANT FINDINGS (CONTINUED)

**Area of
management
judgement
Provisions**

Description of the area of management judgement

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.

How we addressed this risk

We:

- reviewed the completeness and accuracy of the provisions made totalling £5.583m in 2017/18; and
- considered whether all known liabilities have been correctly provided for based on our knowledge of the Council.

Our work included challenging management as to the completeness of the provision in respect of NNDR appeals; management asserts it is satisfied that the existing provision is sufficient to cover probable NNDR appeals including those arising from the latest valuation.

Audit conclusion

Our work has provided the assurance sought, with no significant matters arising. There were non-material amendments required to both the provisions note in respect of insurance liabilities and also the earmarked insurance reserve (no net impact on the income and expenditure account). We noted also a trivial overstatement of the provision (see section 4 summary of misstatements) by £0.139m.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the entity's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Significant matters discussed with management

Significant matters which we have discussed with management as part of our audit are set out below.

- Property, Plant and Equipment valuation increases applied during 2017/18.
- The Council's financial resilience, including the year-end outturn and the level of reserves.
- The decreasing level of schools balances and the increasing number of schools in deficit.
- The completeness and adequacy of the provision for NNDR appeals including in relation to the 2017 valuation exercise.
- The end of the Kier contract from 1st April 2019 and the provision for expected liabilities.
- Accounting for schools converting to academy status.
- Accounting for financial guarantees to other bodies previously disclosed in the contingent liabilities note.
- Accounting for pension strain payments arising from redundancies (Exit Packages note).
- The change to the method of calculating Housing Revenue Account depreciation.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. Draft accounts were received from the Council by the deadline of 31st May 2018.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2017/18 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. There have been no questions or objections.

Our draft audit report, in full, is set out in Appendix B.



3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations from our opinion work are set out below, with Value for Money conclusion work recommendations being set out in section 5. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. At the end of this section, we have also included an update in respect of recommendations raised in 2016/17.

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

Summary of internal control recommendations

- Level 1:** Property, Plant and Equipment valuations: ensuring valuations are reviewed for significant changes at the year-end.
- Level 2:** journal controls – lack of evidenced review of journals greater than £500k.
- Level 2:** key monthly reconciliations - a number of systems where there is no evidenced second person review of key monthly reconciliations between systems, namely Accounts Receivable, Accounts Payable, NDR, Council Tax and Payroll.
- Level 2:** payroll walkthrough issue: employees starting work before signed contract in place.
- Level 3:** minor discrepancies in the Adult Social Care system and Accounts Payable reconciliation.
- Level 3:** IT general controls: change management – same person requesting and approving change.



3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Summary of internal control recommendations (continued)

7. **Level 3:** IT general controls: logical access – password security.
8. **Level 3:** IT general controls: change management – lack of evidence for change.
9. **Level 3:** property lease database not being updated for annual rent review changes.

Description of deficiency: Property, Plant and Equipment valuations - level 1

Audit work identified that valuations of certain categories of Property, Plant and Equipment (PPE) had not been reviewed as required for any significant changes in the underlying indices used to value them at the end of the year by the Property Team (Capita). As a result, PPE is misstated (this is an area where work is outstanding at the time of writing this report).

It is common practice for valuations in local government to be made as at 1 April. However, the general requirement to ensure that transactions and balances are not materially misstated might make necessary a valuation as at some other date. It should be noted that whatever the date of the valuation (including those at 1 April), the Code's adoption of IAS 16 requires the carrying value of non-current assets in local authority balance sheets to be materially accurate at 31 March.

Potential effects

Misstatement of Property, Plant and Equipment. Non-compliance with the Code of Practice.

Recommendation

There should be controls in place for the Council to revisit valuations at the year-end, checking to see if there have been any significant changes in underlying indices and whether valuations therefore require updating.

Management response

This will be actioned.

Description of deficiency: journal controls - level 2

There 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

Journal controls are key controls. Lack of audit trail for second person authorisation of material journals with potential for fraud or error.

Recommendation

Ensure there is an audit trail maintained to evidence the review of journals greater than £500k, including all of 2017/18.

Management response

This has been actioned.



3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Description of deficiency: key monthly reconciliations - level 2

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

We have reviewed our reconciliations in light of this recommendation.

Description of deficiency: payroll walkthrough issue: employees starting work before signed contract in place - level 2

Our planning stage payroll walkthrough identified a new employee within catering in a school where there was no signed contract in place before they started 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

The payroll section (Employee Services) has recently implemented a practice review with the Council and will consider this as part of that review.

The Council is satisfied there are no wider legal liability issues and efforts are being made to ensure this kind of delay is minimised. We would also highlight that the individual in question was not paid until a signed contract of employment was in place.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Description of deficiency: minor discrepancies in the Adult Social Care system and Accounts Payable reconciliation - level 3

Our planning stage walkthrough identified minor discrepancies (e.g. 20p, differences in number of payments) between ContrOCC the finance module of Liquid Logic (new ASC system) and Accounts Payable 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

A fully automated control report is now in place.

Description of deficiency: IT general controls: change management – same person requesting and approving change - level 3

Testing identified an IT change which was requested and approved by the same person. This was not however a significant IT change; all 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.



3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Description of deficiency: IT general controls: logical access – password security - level 3

Our testing showed that password security for one system was not as strong as for other systems 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.

Description of deficiency: IT general controls: change management – lack of evidence for change - level 3

Sample testing identified one IT change where the minutes approving the change were not available; we understand this was due to a system issue. We were able to obtain compensating assurance.

Potential effects

Changes to IT systems are not approved in line with the Change Management Procedure.

Recommendation

Ensure that evidence to support IT changes is retained.

Management response

Minutes of the one sample change were not available due to the document being corrupted. We do not expect access to the minutes being an issue in the future.

Description of deficiency: Property lease database not being updated - level 3

Testing of the leasing disclosure note identified that the property lease database (Uniform) was not being updated with annual rent review information as required.

Potential effects

Inadequate record-keeping and potential for errors in the amounts being charged or payable.

Recommendation

The Council should ensure the property database Uniform is updated annually or as required. As part of this, the Council should review controls in place and update them so that there are formal controls in place to ensure the database is updated.

Management response

The Council will work with the Property Team (Capita) to ensure annual rent review information is appropriately recorded.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency: Adult social care (ASC) underpayment of direct payments - level 2

Our testing at the planning stage identified underpayment of ASC direct payments relating to controls not working as designed to ensure payment rates matched the agreed support plan.

Potential effects

Understatement of expenditure and ASC clients are underpaid.

Recommendation

The Council reviews controls and processes to ensure they are operating as designed.

2017/18 update

The Council immediately took action earlier in 2017 when this issue was highlighted and we obtained assurance there was no material underlying error. The Council is running a monthly report to allow it to check any breaks in payment result in the correct care rate subsequently being used.

There was no similar issue arising during our 2017/18 testing.

Description of deficiency: Members' interest – compliance with Code of conduct for changes in interests - level 2

Testing of related party disclosures identified that Members' declarations of interests were not up-to-date, with the Code of Conduct requiring any changes to be notified within 28 days.

Potential effects

Non-compliance with the Code of Conduct.

Recommendation

A reminder should be sent to all Members to ensure they declare changes to interests (in particular at the start of each new year and after new appointments are made) as per the underlying Code at least annually. Reminders on the importance of interest should be built into any on-going training.

2017/18 update

Management agreed to ensure this recommendation was implemented. The requirement placed upon Members to update their Register of Interests and the significance of any failure to do so forms part of the training on the Code of Conduct. Members are also reminded of the need to do so at other times.

There were no similar issues arising during our 2017/18 testing.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the trivial threshold of £0.198m.

The table below outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

Misstatements impacting on the primary statements that have been adjusted by management during the course of the audit are shown in the tables overleaf.

At the end of this section we have also set out amendments to disclosure notes.

Unadjusted misstatements 2017/18

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Short-term provisions			139	
Cr: CIES gross expenditure		139		

Being overstatement of the NDR provision by £0.133m due to calculation error as well as £0.006m overstatement of a 'general' provision that should have been written back as no longer required.

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2017/18

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1				
Cr: Net cost of services		10,117		
Cr: Surplus on revaluation of non-current assets		77,570		
Dr: Property, Plant and Equipment (Other Land & Buildings)			87,687	
Cr: Unusable Reserves - Revaluation Reserve				77,589
Cr: Unusable Reserves - Capital Adjustment Account				10,098

Being the misstatement of Property, Plant and Equipment (PPE) due to valuations not using the most up-to-date indices. This arose due to valuations being done earlier in 2017/18 and the Property Team (Capita) did not revisit valuation indices at the year-end as required, to check for any significant changes. A high priority recommendation has been raised in this regard..

No net impact on the Council's Usable Reserves as revaluation adjustments are reversed out in the Movement in Reserves Statement.

At the time of writing this report, work is to be completed in respect of this material adjustment.

3	Dr: Gross expenditure	1,006		
	Cr: Creditors			1,006

Being the understatement of costs due to inclusion of only one third of pension strain payments for employees retiring early or via redundancy. Linked adjustment to the Exit Packages disclosure. This amendment impacting directly on the Council's reserves.

Adjusted misstatements 2016/17

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1				
Dr: Gross expenditure – Central Costs	37,293			
Cr: Gross expenditure – Business & Economic		525		
Cr: Gross expenditure – Commercial & Business		2,252		
Cr: Gross expenditure – Finance		33		
Cr: Gross expenditure – HECS		867		
Cr: Gross expenditure – Environ., Housing & Leisure		9,834		
Cr: Gross expenditure – Commissioning & Investment		23,782		

Being the misstatement of 2016/17 Comprehensive Income and Expenditure Statement (CIES) due to double-counting of capital charges, impacting on the 'central costs' line as well as other lines. No net impact on the net cost of services.

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

There have been a number of amendments to disclosures, as summarised below. There are no material unadjusted disclosure errors. Unadjusted disclosures are shown further below.

Adjusted disclosure amendments

- Narrative report: the level of savings required in 2018/19 was amended from £21.409m to £10.143m.
- Note 4(a) Expenditure and Funding Analysis: transposition of amounts shown on Financing & Investment & Taxation lines.
- Note 5 Nature of expenses: £13.562m of grants and contributions incorrectly classified in the 'fees and charges' line, therefore amended to the 'grants and contribution' line (similar amendment of £17.709m in respect of 2016/17).
- Note 6 Critical judgements: amendment to disclosure wording and also to clarify the nature of the judgement and reference the end of the Kier contract.
- Note 7 Assumptions: quantification added of the Property, Plant and Equipment and Pensions assumptions.
- Note 9 Pensions: amendment to the sensitivity analysis.
- Note 13 Grants and contributions income: amendment to section 'grants credited to services' to disclose separately Continuing Health Care Contributions and also all other contributions in the final line of the table.
- Note 14 Officers' Remuneration, Table 3 Exit Packages: a number of amendments as shown below:
 - amendment of banding for one officer – from the £80k-£100k banding to the £40k-£60k banding.
 - amendment due to incorrect exclusion of taxable redundancy amounts.
 - amendment to the note to include the full cost of pension strain payments arising from redundancies rather than one third based upon the instalments paid to the Pension Fund; being an increase of 0.435m in respect of 2017/18 and £0.908m in respect of 2016/17. See details of adjustment impacting on the Council's reserves as set out on the previous page.
- Note 19 Property, Plant and Equipment: amendment of the PFI column additions to include £1.423m.
- Note 22 Capital Commitments: amendment of £0.456m to the value disclosed for the Operational Depot.
- Note 28 Provisions: amendment to the movements in-year (no net impact) for the insurance provision.
- Note 32 Reserves and Balances: amendment to the transfers in / out for the insurance reserve (no net impact).
- Note 33(a) Revaluation Reserve: amendment to two lines for £0.460m (no net impact).
- Note 46 Major Repairs Reserve: amendment to narrative to reflect the change in the calculation of housing depreciation from 2017/18 (Major Repairs Allowance no longer used as a proxy). Similar amendment to note 57 Capital Charges.
- Note 62 Charges to the Collection Fund: amendment to the NDR figures disclosed (no net impact).

Unadjusted disclosure amendments

There are no material unadjusted disclosure errors. Unadjusted disclosures are shown below.

- Note 8 leasing: non-material unadjusted error identified from testing in respect of leases where the Council is a lessee: extrapolated value of £1.271m. Note the internal control recommendation arising from this testing as set out in section 3.

5. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

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

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

Significant Value for Money risks

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

- the level of savings required over the period of the Medium-Term Financial Strategy; and
- arrangements in place for delivering capital projects.

Work carried out

The following section of the report sets out:

- the work we carried out in relation to significant risks;
- commentary against each of the sub-criteria, and an indication of whether arrangements are in place; and
- recommendations arising from our Value for Money conclusion work.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2017/18 financial year.



5. VALUE FOR MONEY CONCLUSION

Significant Value for Money risks

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

Description of risk

The Council continues to face financial pressures from reduced funding, increasing demand and changing responsibilities. The Council is responding to these challenges via a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services, encapsulated in its 'Target Operating Model' and 'Creating a Brighter Future' programme.

The level of savings the Council needs to achieve over the period of its medium-term financial strategy, on top of savings already achieved in recent years, represents a significant risk to the value for money conclusion.

Work undertaken

We carried out audit procedures reviewing the robustness of:

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

Medium-term financial strategy

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

We considered the robustness of the MTFS as a whole, critically challenging the assumptions it has been based on. Overall, our assessment was that the MTFS is robust, subject to:

- the deliverability of the planned savings, which the Council itself acknowledges is a key financial risk to monitor; and
- extending the period covered by the MTFS to at least three years, to facilitate informed decision-making.

The Council has, in July 2018, produced an updated draft MTFS covering a longer-term period to 2022/23 and it should ensure that the MTFS covers at least a three year period going forward.

Budget monitoring and other finance updates

The Council produces regular budget monitoring updates for Cabinet, which include an update on targeted savings which is good practice.

The Council projected an overspend of approximately £7m earlier in the financial year due to on-going financial pressures, including Adult and Social Care demand. However it has managed this position during the year, via a number of actions, resulting in a year-end outturn of an underspend of £0.722m.

5. VALUE FOR MONEY CONCLUSION

Significant Value for Money risks

Significant Value for Money risk - scale of savings over the period of the medium-term financial strategy (continued)

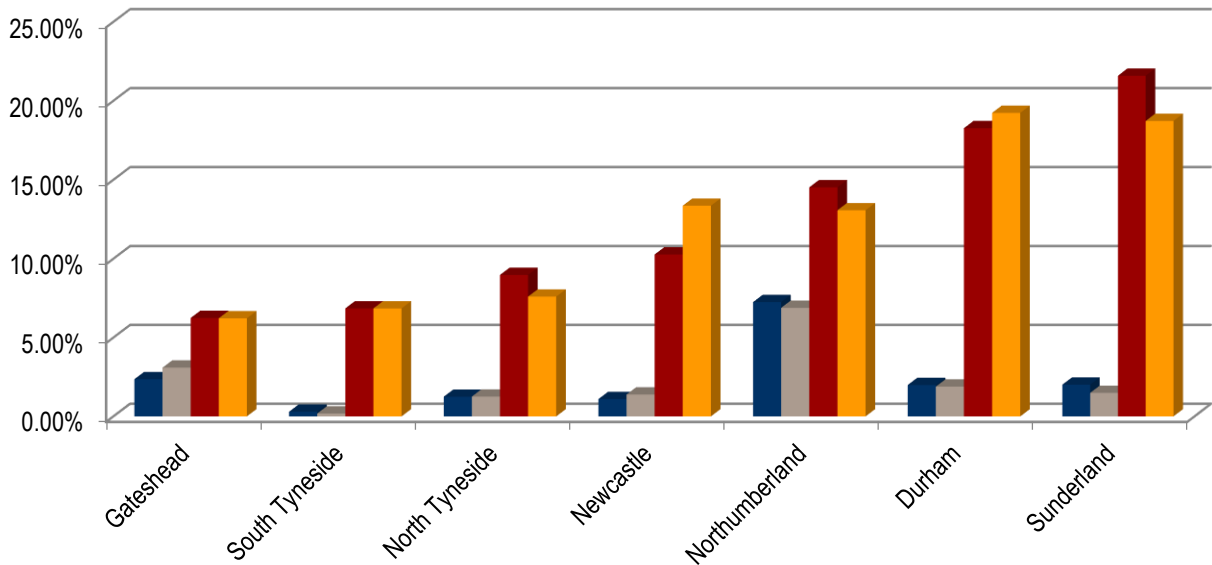
Budget monitoring and other finance updates

The Council's unearmarked General Fund balance is £6.804m and it has earmarked General Fund balances of £39.789m, including a strategic reserve of £14.472m as at 31st March 2018. School balances have reduced from £6.983m to £4.997m.

The chart below shows the Council's reserves per the draft accounts as a percentage of gross revenue expenditure reported in the Comprehensive Income and Expenditure account compared with other local authorities in the North East.

Comparison of reserves

- GF balance as % of GRE 16/17
- GF balance as % of GRE 17/18
- Earmarked reserves as % of GRE 16/17
- Earmarked reserves as % of GRE 17/18



5. VALUE FOR MONEY CONCLUSION

Significant Value for Money risks

Significant Value for Money risk - scale of savings over the period of the medium-term financial strategy (continued)

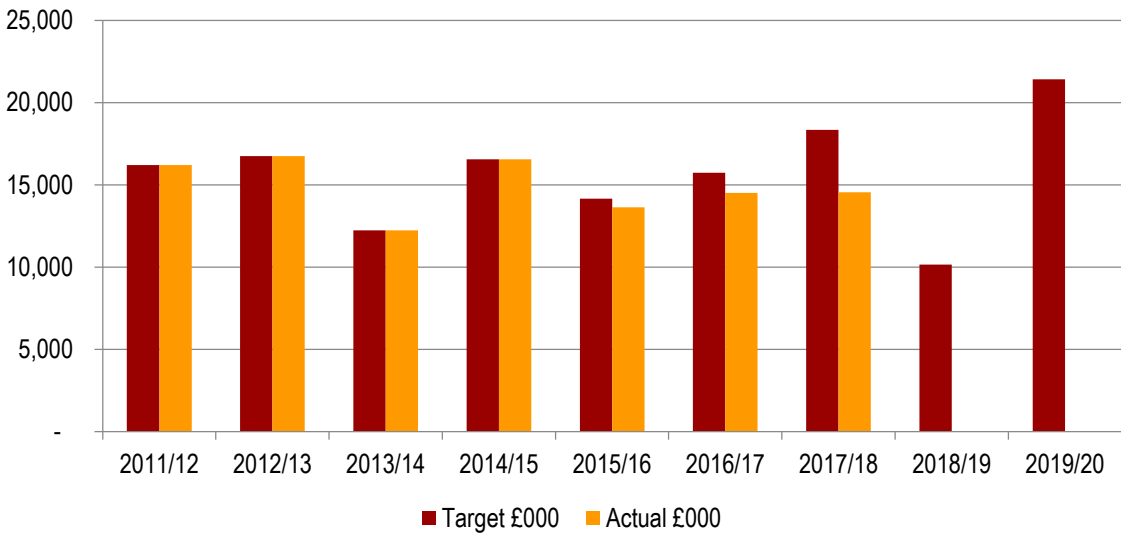
Savings plans

The Council achieved savings of £14.540m versus a target of £18.338 for 2017/18 (2016/17 actual of £14.508m versus a target of £15.737m). Despite this shortfall, the Council has successfully delivered its budget for 17/18, making up the shortfall in planned savings via mitigating actions, some of them non-recurrent. In addition, some of the some of the shortfall in 17/18 was due to the timing of delivery of projects where the full year effect will take place in 2018/19.

Our work identified that there is currently a potential shortfall against the planned savings required for 2018/19; this is not un-common in the early part of the financial year but could indicate potential pressures in the delivery of the 2018/19 budget.

The chart below illustrates the delivery of planned savings. Although the Council has been able to identify alternative means of reaching budgeted spending levels, there is some evidence of increasing financial pressures.

Target and actual savings



Conclusion

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

- ensuring the Medium-Term Financial Strategy covers a period of at least three years to inform good decision-making; and
- critically reviewing its approach for the identification and delivery of savings given the increasing financial pressures.

5. VALUE FOR MONEY CONCLUSION

Significant Value for Money risks (continued)

Significant Value for Money risk - capital programme: review of adequacy of arrangements in place for delivery of the investment plan

Description of risk

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

Work undertaken

We:

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

Arrangements for delivery of capital investment

The Council's Investment Plan 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. Business cases are agreed for all capital projects, with review by the Investment Programme Board. On average, General Fund capital projects have been 45%-50% funded by external grants and contributions.

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

There is appropriate monitoring and reporting of capital projects. We note the useful RAG summary taken to the Investment Programme Board.

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

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

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

5. VALUE FOR MONEY CONCLUSION

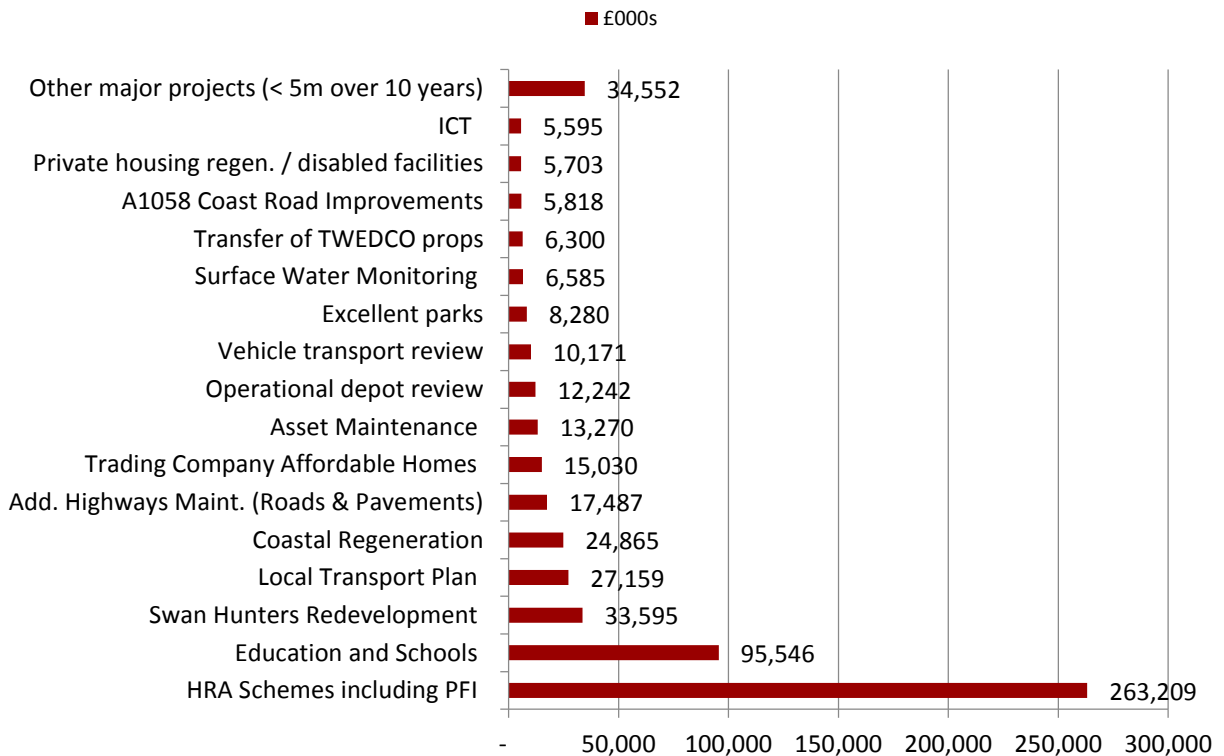
Significant Value for Money risks (continued)

Significant Value for Money risk - capital programme: review of adequacy of arrangements in place for delivery of the investment plan

Arrangements for delivery of capital investment (continued)

The chart below shows the major capital projects (actual and planned expenditure) covering a ten-year period to 2020/21.

Major capital projects 2011/12-2020/21



Conclusion

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

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

5. VALUE FOR MONEY CONCLUSION

Commentary against the sub-criteria

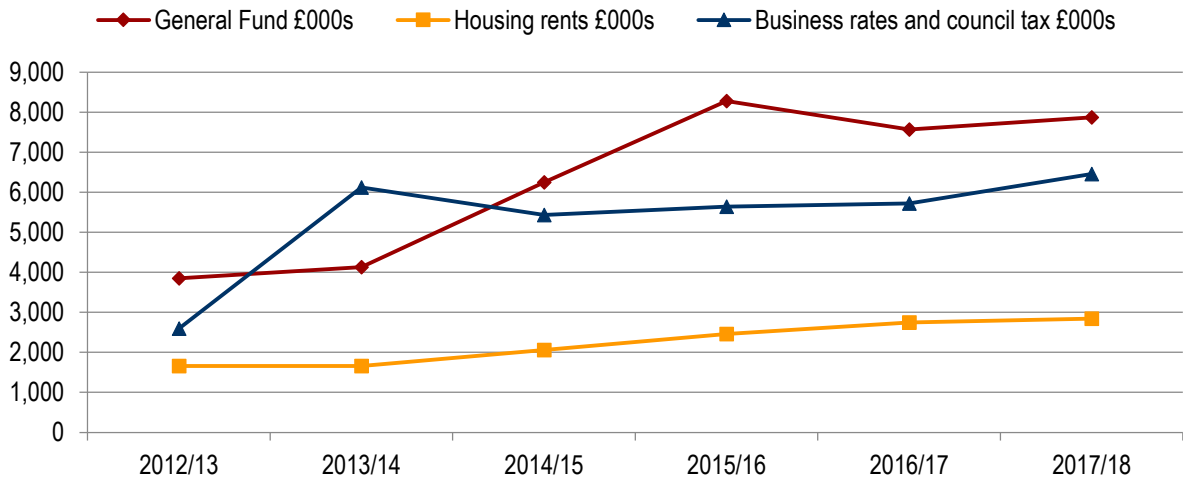
Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p><i>Financial and performance information and reliable and timely financial reporting</i></p> <p>Our consideration of the Council's Medium-Term Financial Strategy and budget monitoring is set out earlier in this section of the report (significant risk), along with our recommendations in respect of the MTFS covering a longer-term period of at least three years going forward.</p> <p><i>Achievement of savings</i></p> <p>As part of addressing the significant risk identified (see previous section), we reviewed a sample of savings in order to assess the reasonableness of plans in place and their deliverability. Based on our sample testing, we noted the shortfall in respect of 2018/19 targeted savings. In the context of the continuing pressures and the shortfalls in savings of the last few years, we recommend the Council continues to critically review its approach to delivering savings.</p> <p><i>Key financial ratios</i></p> <p>We also considered key financial ratios for the Council, including the working capital ratio (current assets less current liabilities). In recent years, the Council has borrowed on a short-term basis, being most beneficial to it, therefore its levels of short-term borrowing have increased, offset by a decrease in long-term borrowing. The Council recognises this is a short-term strategy and its Treasury Management strategy has been designed to allow it to move to long-term borrowing when appropriate.</p> <p>The Council's General Fund unearmarked balance is £6.8m (prior year £6.6m) As financial pressures continue, the Council should keep under consideration the adequacy of this balance. We note also the strategic reserve totalling £14.472m (prior year £13.930m).</p> <p>The key challenges, as recognised by the Council itself include:</p> <ul style="list-style-type: none"> • continued growth in demand in Adult and Children's Social Care Services; and • delays in delivery of some aspects of the Creating a Brighter Future Programme to the extent that achievement of some savings may be at risk. <p><i>School balances</i></p> <p>The Council has been actively working with schools in deficit and reporting the position in its finance monitoring reports. School balances have reduced from £4.987m to £3.356m as at 31st March 2018, being the third year of reducing balances following a previous period of rising balances. Some individual schools continue to face significant financial challenges, with ten schools reporting a deficit in 2017/18.</p>	Yes – noting the recommendations summarised in the previous significant risk section

5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Informed decision making (continued)	<p>Bad debt provision</p> <p>It is noted the Council's overall bad debt provision (impairment allowance) has increased from £8.1m in 2012/13 to £17.176m in 2017/18. Approximately half is accounted for by the provision made for business rates, council tax and housing rents as set out in the chart below.</p>	Yes – noting the recommendations summarised in the previous significant risk section

Impairment of bad debts 2012/13 - 2017/18



Managing risks effectively and maintaining a sound system of internal control

The Council's governance framework is set out in its Annual Governance Statement (published as part of its Annual Report including financial statements) along with how the effectiveness of that framework is reviewed throughout the year. Regular risk management reports are presented to Members.

The Council has received an overall 'satisfactory' internal audit opinion for 2017/18. We note the 'limited' assurance assessment in respect of Information Governance. We understand arrangements are in place to strengthen arrangements, including via the Office 365 project; it is important that appropriate resources are in place to strengthen arrangements.

5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Effective planning of finances</p> <p>The Council approved a balanced budget in its latest refresh of its Medium-Term Financial Strategy (MTFS) earlier this year. Our consideration of the robustness of the MTFS is set out earlier in this report, noting the recommendation the MTFS should cover a longer-term period of at least three years.</p>	Yes - noting the recommendations summarised in the previous significant risk section
	<p>Organisational development</p> <p>The Council recognises the importance of a robust workforce strategy and having a sustainable workforce in the future to support its strategic priorities, which may be increasingly made up of a mix of public, private and voluntary support. Separate strategies are in place for key areas, such as Children's Services for which the Council has invested in a variety of programmes, partnerships and initiatives that aim to create an environment in which its workforce can flourish.</p>	
Working with partners and other third parties	<p>The Council is party to an increasingly wide range of partnerships and recognises the importance of these in delivering on its objectives. Its Annual Governance Statement highlights partnerships as a governance issue to be closely monitored and the need to continue to embed and review partnership governance arrangements, as well as ensuring boundaries and responsibilities remain clear and are robustly managed.</p> <p>Given the use of service organisations, the Council's financial and performance reporting includes updates on its key partnerships with Capita, Engie and Kier, supported by the monthly Operational Partnership Board. Benchmarking of the Capita and Engie contracts have taken place in recent months. The decision to bring the Kier services back in-house from 1 April 2019 was made last September and work is underway in this respect.</p> <p>The health sector system-wide Sustainability and Transformation Plans (STPs) have continued to develop over the last year, as part of the new model for transformation. The North East and North Cumbria are working towards the development of an Integrated Care System (ICS) with several local Integrated Care Partnerships (ICPs) to succeed the existing STP approach. The Council is carefully monitoring the impact upon its services and its work with NHS partners.</p> <p>At the time of writing this report, we understand the North of Tyne Combined Authority Order is due to be laid before parliament before the end of July 2018.</p>	Yes

5. VALUE FOR MONEY CONCLUSION: RECOMMENDATIONS

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

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

Description of issue arising: Medium-Term Financial Strategy revenue budget only covering a two-year period- **level 1**

The Council's Medium-Term Financial Strategy (MTFS) includes a revenue budget covering two years only. An updated draft MTFS covering a four-year period has been prepared.

Potential effects

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

Recommendation

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

Management response

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

5. VALUE FOR MONEY CONCLUSION: RECOMMENDATIONS

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

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

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

Potential effects

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

Recommendation

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

Management response

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

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

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

Potential effects

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

Recommendation

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

Management response

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

5. VALUE FOR MONEY CONCLUSION: RECOMMENDATIONS

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

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

Potential effects

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

Recommendation

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

Management response

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

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

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

Potential effects

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

Recommendation

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

Management response

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

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

To be provided to us on headed paper

Date:

Dear Gareth

North Tyneside council - audit for year ended 31 March 2018

This representation letter is provided in connection with your audit of the statement of accounts for North Tyneside Council (the Council) for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as s151 officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

Executive summary

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money
conclusion

Appendices

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as s151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
- management and those charged with governance;
- employees who have significant roles in internal control; and
- others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code. I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2017/18 in relation to the Council's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole [INSERT APPENDIX OF UNADJUSTED MISSTATEMENTS IN FINAL SIGNED LETTER].

Yours sincerely

Janice Gillespie,
Head of Finance (s151 officer)



APPENDIX B

DRAFT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH TYNESIDE COUNCIL

Opinion on the financial statements

We have audited the financial statements of North Tyneside Council (the Council) for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement in the Housing Revenue Account and the Collection Fund Statement, and notes to the financial statements, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of North Tyneside Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Head of Finance is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

Responsibilities of the Head of Finance for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view. The Head of Finance is also responsible for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Head of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Head of Finance is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the auditor

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, North Tyneside Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of North Tyneside Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit of North Tyneside Council and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Gareth Davies, Partner
For and on behalf of Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS
Date:

Executive summary

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money
conclusion

Appendices

APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

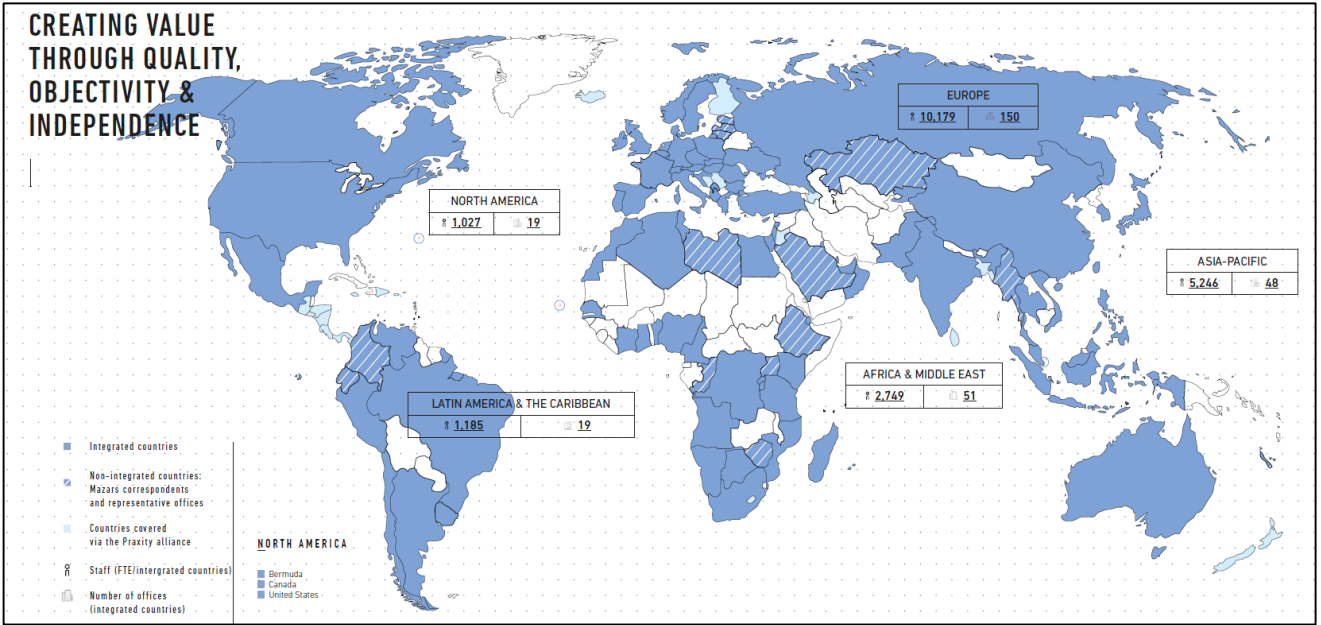


MAZARS AT A GLANCE

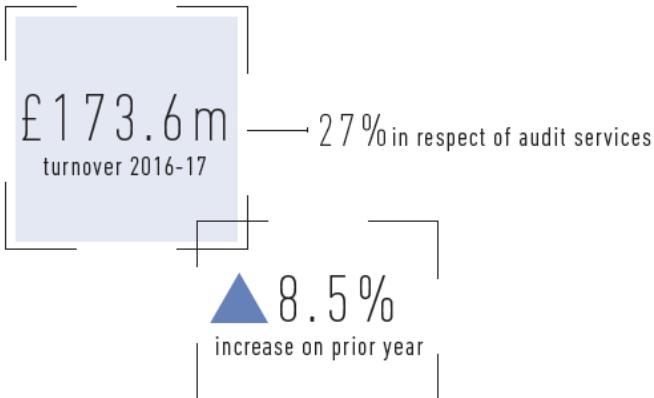
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Mazars in the UK



As at 31 August 2017

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