

North Tyneside Council Report to Audit Committee Date: 24 July 2019

ITEM 4

2018/19 Annual Financial Report

Report from: Finance

Responsible Officer: Janice Gillespie, Head of Resources **Tel:** 643 5701

Wards affected: All

PART 1

1.1 Executive summary:

- 1.1.1 The Audit Committee is required to review the external auditor's opinion and reports on the Annual Financial Report.
- 1.1.2 The purpose of this report is to present the Audit Results Report which details the outcome of the external audit of our 2018/19 Financial Statements by Ernst and Young.

1.2 Recommendation(s):

- 1.2.1 The Audit Committee is recommended to:
 - (a) note the matters raised in the Audit Results Report;
 - (b) note the audit findings set out in the Audit Results Report;
 - (c) note the internal control recommendations and management responses set out in the Audit Results Report;
 - (d) note the adjustments set out in the Audit Results Report;
 - (e) note the Value for Money conclusion set out in the Audit Results Report; and,
 - (f) note the draft Letter of Representation.

1.3 Forward plan:

- 1.3.1 This report is contained in the forward plan of the Audit Committee.

1.4 Council plan, policy framework:

1.4.1 The Audit Results Report covers all financial aspects of the Authority's Plans.

1.5 Information

1.5.1 For 2018/19, the requirements and timeline for the approval of a local authority's Annual Financial Report are set out in the Accounts and Audit Regulations 2015. The legislation requires the Authority to produce draft accounts by 31 May and that following the conclusion of a 30 day period of public inspection the Council must submit the Statement of Accounts for consideration and approval by no later than 31 July.

1.5.2 This is the first year that the Council's audit has been undertaken by Ernst and Young, as would be expected, extensive testing has been conducted, including the examination of larger samples and more in-depth review of processes. The overall audit process, to date, has been positive and Officers have been working closely with the External Audit team to ensure all aspects of the audit are dealt with promptly.

1.5.3 The audit of the 2018/19 accounts is substantially complete and an unqualified audit opinion is expected to be issued. The Audit Results Report, produced by Ernst and Young, shows that no material errors have been identified in the financial statements. However, the audit has identified the following adjustments to the draft Annual Financial Report:

- (a) Following discussion with Ernst and Young around the interpretation of the accounting requirements for trust schools these schools have now been removed from the Authority's balance sheet as a prior period adjustment in 2017/18;
- (b) The recent McCloud judgement has resulted in a revaluation of the IAS19 pension liabilities for the Local Government Pension Scheme by our actuary and a restatement of costs shown in the Annual Financial Report; and,
- (c) The valuation for Newcastle International Airport provided by an external valuer has been revised resulting in a restatement to the Annual Financial Report.

The adjustments for item (a) is still being worked through and a final version of the audited accounts will be circulated once the adjustments are completed and audited.

It should be noted that these adjustments do not impact on the Authority's reserves and balances.

1.5.4 A number of non-material disclosure errors identified during the audit have been corrected and are reflected in the Annual Financial Report. A number of Internal Control issues have been raised and discussed with Ernst and Young. Actions have been agreed to respond to those issues raised. A copy of the Audit Results Report is attached as Appendix A for consideration.

1.6 Decision options:

The options available are:

- (a) To accept the recommendations made in section 1.2.1; or
- (b) To reject the recommendations made within this report.

1.7 Reasons for recommended option:

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

1.8 Appendices:

Appendix A: Audit Results Report for 2018/19

1.9 Contact officers:

Janice Gillespie, Head of Resources, Tel 643 5701
Claire Emmerson, Senior Manager Financial Strategy & Planning, Tel 643 8109
Cathy Davison, Principal Accountant, Tel 643 5727

1.10 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) Accounts and Audit Regulations 2015

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

As this is a financial report, implications are covered in the body of the report itself and the Audit Results Report attached as Appendix A to this report together with the 2018/19 Annual Financial Report attached as Appendix B to this report.

2.2 Legal

The Authority is required under the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy's Code to prepare and approve its audited accounts for the financial year 2018/19 by 31 July 2019.

2.3 Consultation/community engagement

In line with statutory requirements the draft Annual Financial report for the year ended 31 March 2019 was published by 31 May 2019 and was available on the Authority's website.

Members of the public were able to inspect the accounts under the statutory public inspection of accounts period from 3 June 2019 to 12 July 2019.

2.4 Human rights

The proposals within this report do not have direct implications in respect of the Human Rights Act 1998.

2.5 Equalities and diversity

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

2.6 Risk management

Potential future financial pressures against the Authority are covered in this report and registered through the Authority's risk management process.

2.7 Crime and disorder

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

2.8 Environment and sustainability

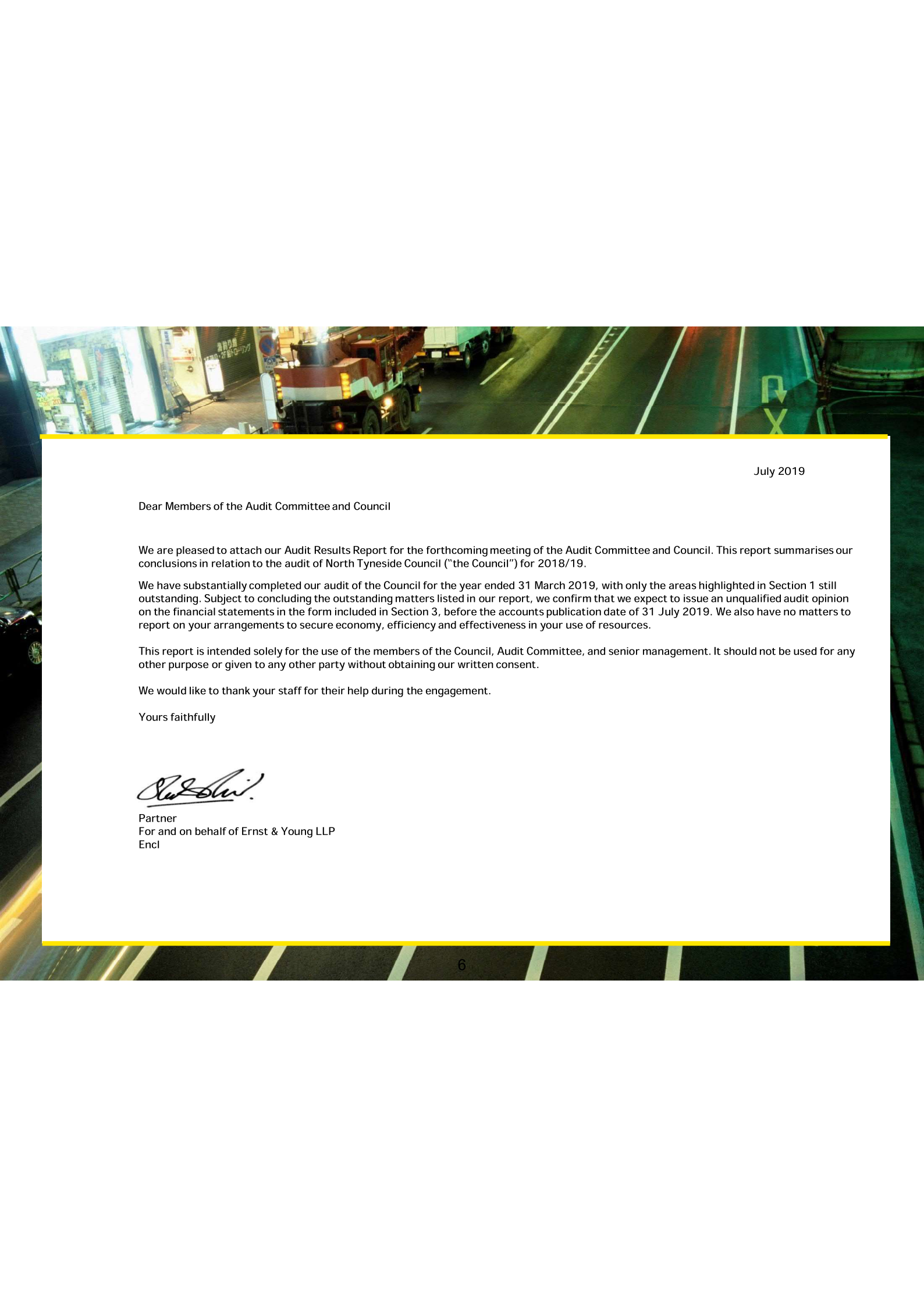
There are no direct environmental and sustainability implications arising from this report.



North Tyneside Council Audit Results Report

Year ended 31 March 2019

July 2019



July 2019

Dear Members of the Audit Committee and Council

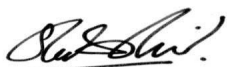
We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee and Council. This report summarises our conclusions in relation to the audit of North Tyneside Council ("the Council") for 2018/19.

We have substantially completed our audit of the Council for the year ended 31 March 2019, with only the areas highlighted in Section 1 still outstanding. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form included in Section 3, before the accounts publication date of 31 July 2019. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the members of the Council, Audit Committee, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

Yours faithfully



Partner
For and on behalf of Ernst & Young LLP
Encl

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As part of the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive.

The Terms and Conditions of our appointment contained within the Engagement Letter sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report, presented to the 27 March 2019 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements.

We updated our planning materiality assessment using the draft 2018/19 financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £6.2 million (Audit Planning Report £5.9 million). This results in updated performance materiality, at 50% of overall materiality, of £3.1 million, however our threshold for reporting audit differences to the Audit Committee has remained the same at £0.29 million.

Status of the financial statements audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears in Section 3. However until work is complete, further amendments may arise.

Outstanding Items

- Completion of exit packages testing;
- Receipt of the expert review of the valuation of shares held in Newcastle International Airport Limited;
- Receipt of the revised IAS 19 report from the Council's Actuary;
- Review and testing of the Capital Expenditure and Capital Financing note;
- Completion of substantive testing of the Housing Revenue Account;
- Receipt of responses to outstanding queries on sample testing performed;
- Completion of procedures required by the National Audit Office ("NAO") regarding the Whole of Government Accounts submission;
- Review of the final financial statement, including all adjustments made; and
- Final review of audit work completed and audit completion procedures.

Audit differences

There are no unadjusted audit differences arising from our audit. However, we have identified a number of adjusted audit differences. The two most significant adjustments are:

- A prior period adjustment relating to the disclosure of Foundation Schools on the Council's Balance Sheet. Officers are currently working through the required adjustments for this difference. More detail is included in Sections 2 and 4 of this report; and
- The financial statements have been amended to take account of the potential impact of the McCloud / Sargeant judgements regarding unlawful age discrimination for members of the Local Government Pension Scheme. Further detail on this matter is included in Section 2 and 4 of this report.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. Through our audit work, we have however identified one control observation that we wish to bring to your attention. This observations is:

- The Council's whistleblowing policy has not been formally updated since 2011.

Further detail on each of these control findings can be viewed in Section 7 of the report.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in Section 2 of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Independence

Please refer to Section 8 for our update on Independence.

Objections

We have received no objections to the 2018/19 financial statements from members of the public.

Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report, we identified the following significant risk:

- Financial sustainability

We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Other reporting issues

We are required to perform procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This work remains ongoing at the time of this audit; we will issue our certificate of completion in respect of the 2018/19 audit once we have completed our procedures and reporting on the Council's Whole of Government Accounts submission.

We have no other matters to raise at the time of writing this report.

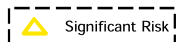


02 Areas of Audit Focus

Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition



What is the risk?

Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

What judgements are we focused on?

The main judgements we focussed on were:

- The recognition of grant income that contains terms and conditions;
- Recognition of income and expenditure around year end, in particular focussing on expenditure accruals and manual debtors that require management judgement to be applied before they are recognised in the financial statements; and
- Management's judgement in capitalising expenditure as Property, Plant and Equipment.

What did we do?

- We reviewed and tested revenue and expenditure recognition policies, including consideration of the recognition of grant income;
- We reviewed, discussed with management, and tested (where appropriate) any accounting estimates on revenue or expenditure recognition, such as manual debtors and expenditure accruals, for evidence of bias;
- We tested grant income with terms and conditions attached to ensure that where management judgements had been made relating to the recognition of the income, all terms and conditions had been achieved;
- We tested capital expenditure incurred during the year to ensure that it was correctly classified as capital expenditure and should not instead have been included as revenue; and
- We reviewed a sample of transactions recorded in the ledger and payments made from the bank account post year-end and confirmed that the associated income and expenditure has been recorded in the correct period.


What are our conclusions?

At the time of writing this report, our work in this area has not identified any material misstatements arising from fraud in revenue and expenditure recognition.

Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

 Significant Risk

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

What did we do?

- We identified fraud risks during the planning stage of our audit;
- We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- We reviewed accounting estimates for evidence of management bias (as noted above relating to revenue and expenditure recognition); and
- We evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

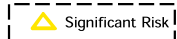
At the time of writing this report, our work in this area has not identified any transactions during our audit which appeared unusual or outside of the Council's normal course of business.

We have not identified any instances of inappropriate judgements being applied.

Areas of Audit Focus

Significant risk

Valuation of land and buildings



What is the risk?

The value of land and buildings represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What judgements are we focused on?

The main judgements we focussed on were:

- The assumptions underlying the management's valuation of property at year end; and
- The robustness of the data underlying the valuations and the overall methodology used by the Council's valuer, Capita.

What did we do?

- We have considered the work performed by the Council's valuer, Capita, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We have sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- We have engaged our internal valuers to review the valuation of the Spanish City and Swan Hunter sites;
- We have considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code;
- We have reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- We have considered changes to useful economic lives as a result of the most recent valuation; and
- We have tested accounting entries to ensure they have been correctly processed in the financial statements.

What are our conclusions?

At the time of writing this report, our work in this area has not identified any material misstatements arising from the valuation of land and buildings.

Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What was the risk/area of focus?	What were our conclusions?
<p>Pension Liability Valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Tyne and Wear Pension Fund.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's Balance Sheet. The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt. The 2017/18 liability was £466,140k.</p> <p>Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>The Local Government Pension Scheme (England and Wales) (LGPS) introduced a new career average earnings benefit structure with effect from 1 April 2014 ('the 2014 scheme'). For members who were 10 years or less from Normal Retirement Age on 1 April 2012 (i.e. aged 55 or above), an underpin was provided based on the existing final salary scheme ('the 2008 scheme'). In December 2018, the Court of Appeal found that similar transitional provisions in the pension schemes for firefighters (Sargeant Judgement) and the judiciary (McCloud Judgement) resulted in unlawful age discrimination and given their similarity are also deemed to be applicable to the LGPS.</p> <p>The Government was seeking to appeal against this decision, however on 27 June 2019 they were denied the right to appeal. Due to the original judgements being in place before 31 March 2019, all scheduled and admitted bodies of the LGPS are being asked to consider the impact of the McCloud judgement on their pension valuations as at 31 March 2019.</p> <p>Since 27 June 2019, the Council has requested that the actuary, Aon Hewitt, re-run their year end pension valuation, taking into account the McCloud judgement. This revised report was received on 11 July 2019, and also takes into account updated asset values for the Council (asset values are usually based on an estimated position) and Guaranteed Minimum Pension provisions.</p> <p>At the time of writing this report, we have not yet reviewed the updated IAS19 report, but we will provide further commentary at the Audit Committee on 24 July 2019.</p>
<p>Group Financial Statements</p> <p>In previous years, the Council has not produced group financial statements on grounds of materiality. However, due to increasing activity in the Council's subsidiaries, we considered that it was important for the Council to reassess their group boundary and the need to potentially produce group financial statements in 2018/19.</p>	<p>We reviewed the detailed quantitative assessment, which focussed on the values that would be included in group financial statements if they were prepared, as well as the qualitative assessment, which focussed on the other factors, such as whether the Council is exposed to any commercial risk through its involvement with group entities. This review included:</p> <ul style="list-style-type: none"> • Agreeing all values included in the quantitative assessment back to audited financial statements; • Assessing the qualitative assessment based on our knowledge of the Council and the wider sector; and • Detailed review of the CIPFA Group Accounting guidance to ensure that all required elements had been considered. <p>Following our review we are satisfied that group financial statements are not required for the Council for 2018/19. However, this assessment will be required again in 2019/20.</p>

Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements.

What was the risk/area of focus?	What were our conclusions?
<p>IFRS 9 financial instruments</p> <p>This new accounting standard is applicable for local authority financial statements from the 2018/19 financial year and changes:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority accounting provides guidance on the application of IFRS 9 which required to be applied</p>	<p>We reviewed and challenged the approach taken by management in relation to key judgements.</p> <p>We note that a valuation of the shares in Newcastle International Airport Limited (NIAL) was commissioned as a result of the introduction of IFRS 9. Our EY valuations team are reviewing and challenging this assessment, and we will be able to update the Audit Committee of our findings on 24 July 2019.</p> <p>We also identified some minor improvements to disclosures through our completion of the CIPFA disclosure checklist that we have highlighted to management for updating in the final version of the financial statements.</p>
<p>IFRS 15 Revenue from contracts with customers</p> <p>This new accounting standard is applicable for local authority financial statements from the 2018/19 financial year.</p> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>The 2018/19 CIPFA Code of Practice on Local Authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of revenue and how they should be recognised.</p>	<p>We obtained the IFRS 15 impact assessment prepared by management and concurred with their view that the new standard was unlikely to have a material impact on the financial statements.</p> <p>We completed the CIPFA disclosure checklist and did not have any material matters to report.</p>

Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements.

What was the risk/area of focus?	What were our conclusions?
<p>Opening Balances</p> <p>2018/19 is the first year that we have completed your audit, and as such the requirements of ISA (UK) 510 apply.</p> <p>The basic objectives of an initial audit are similar to those of any audit engagement. However, when performing an initial audit, we report on the current period's assets, liabilities and reserves, which are dependent upon the appropriateness of the opening balances.</p> <p>Therefore, we are required to perform additional procedures in order to gain assurance that the opening balances are free from material misstatement. These procedures cover all balance sheet items, including for example key judgement areas and Private Finance Initiative (PFI) assets and liabilities.</p>	<p>We performed the following procedures in this area:</p> <ul style="list-style-type: none"> Reviewed the work of the predecessor auditor, to identify any issues identified that may impact upon the opening balances; Reviewed the work of the predecessor auditor to ensure the audit has been completed to an appropriate standard to allow us to place reliance on their audit opinion; and Substantively tested all opening balances to ensure that they agree both to the prior year audited financial statements and closing trial balance. <p>We also reviewed significant judgements that have been taken in preparing the financial statements in previous years. As part of this review we assessed how the Council are accounting for Schools on their Balance Sheet.</p> <p>Following our review we identified that the Foundation Schools included on the Council's Balance Sheet had transferred legal ownership to the School Trustees' in previous years. However, under the CIPFA Code this does not automatically mean that the assets should be removed from the Council's Balance Sheet. Instead, if it can be demonstrated that the Council still has "control" over the assets then it may be acceptable to include them on the Council's Balance Sheet.</p> <p>After detailed discussions with management it was identified that the School Trustees' now make all significant decisions regarding the School assets and as a result it was not possible for the Council to demonstrate that they have "control" over these assets.</p> <p>It has therefore been agreed that these assets should be removed from the Council's Balance Sheet and a prior period adjustment should be made to reflect the fact that a similar situation was also in place in previous years. Officers are currently working through the required adjustments and we will update the Audit Committee on 24 July 2019 of the value of the required amendments.</p>



03 Audit Report

Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of North Tyneside Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement for the year ended 31 March 2019;
- Movement in Reserves Statement for the year ended 31 March 2019;
- Balance Sheet as at 31 March 2019;
- Cash Flow Statement for the year ended 31 March 2019;
- Notes to the Core Financial Statements A, 1 to 41;
- Housing Revenue Account - Income and Expenditure Statement for the year ended 31 March 2019, the Movement on the Housing Revenue Account Statement and the related notes 42 to 53; and
- Collection Fund Statement for the year ended 31 March 2019 and the related notes 54 to 59.

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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of North Tyneside Council as at 31 March 2019 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 2018/19.

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 for the audit of the financial statements section of our report below. 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 the Comptroller and Auditor General's (C&AG) AGN01, 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.

Audit Report

Draft audit report

Our opinion on the financial statements (continued)

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 Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Resources 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 other information comprises the information included in the Annual Financial Report set out on pages 2 to 20, other than the financial statements and our auditor's report thereon. The Head of Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, North Tyneside Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Audit Report

Draft audit report

Our opinion on the financial statements (continued)

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Head of Resources

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 24, the Head of Resources 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Resources is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

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.

Audit Report

Draft audit report

Our opinion on the financial statements (continued)

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 <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) 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 under the Code of Audit Practice 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 2019.

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.

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 National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Audit Report

Draft audit report

Our opinion on the financial statements (continued)

Delay in certification of completion of the audit

We cannot formally conclude the audit 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.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our 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 for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Newcastle upon Tyne

The maintenance and integrity of the North Tyneside Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions



04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

Prior Period Adjustments

We highlight below the following prior period adjustment to the Council's financial statements that is required. The basis of the adjustment has been agreed, however due to the size of the adjustment, officers are working through the financial impact of the adjustment and we will update the Audit Committee on 24 July 2019:

- Foundation Schools on Balance Sheet: As detailed in Section 2 of the report, as part of our first year procedures we reviewed the Council's accounting treatment of School's in detail. This review identified that the Foundation Schools included on the Council's Balance Sheet had transferred legal ownership to the School Trustees' in previous years. In addition, it was identified that the School Trustees' now make all significant decisions regarding the School assets and as a result it was not possible for the Council to demonstrate that they have "control" over these assets. It has therefore been agreed that these assets should be removed from the Council's Balance Sheet and a prior period adjustment should be made to reflect the fact that a similar situation was also in place in previous years.

Corrected misstatements and disclosure issues

We highlight the following misstatements in the disclosures identified during the audit. These have been corrected by management:

- Pension Valuation at 31 March 2019: Due to the Government's appeal against the McCloud Judgement being refused on 27 June 2019, all LGPS scheduled and admitted bodies have been asked to consider the impact of the judgement on their pension valuations as at 31 March 2019. The Council has decided to obtain a new pension valuation, which will materially change the valuation included in the Council's accounts. We have not yet completed our work in this area.
- Note 1 – Accounting Policies – The Council has an accruals de minimis level of £1,000, however this was not included in the draft accounting policies. This has now been added by management.
- Note 13 – Teachers pay grant – It was identified that the value of £1.2m included in the draft accounts included a duplicate entry of £592k. This has been discussed and it has been agreed with officers that this value will be amended to remove this duplicate entry.
- Note 14 – Officers' Remuneration – £50,000 Banding note: A small number of banding errors were identified in the note. These have been agreed with management who have amended the financial statements.
- Note 14 – Officers' Remuneration – Senior Officer Remuneration disclosure: A small number of presentational errors and differences between the payroll system and the note were identified. These have been agreed with management who have amended the financial statements.
- Note 17 – Audit Costs: The value disclosed in the draft financial statements was incorrect and has now been updated.
- There have been a small number of typographical and consistency errors identified in the draft financial statements. All differences have been amended by management.

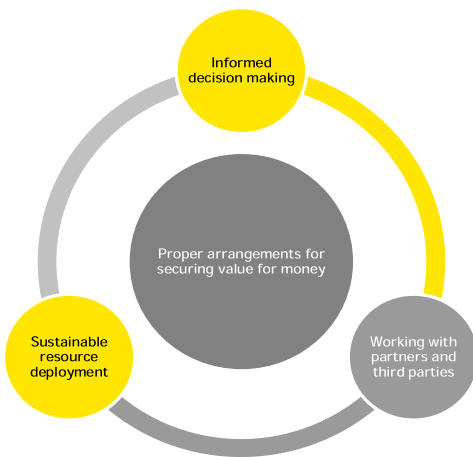
No unadjusted misstatements have been identified.



05 Value for Money Risks



Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation 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"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified one significant risk in relation to value for money arrangements as part of our audit planning work. The table on the following page presents our findings in response to the risk in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

Based on the work performed we expect to have no matters to report about your arrangements in relation to the significant risk highlighted in our Audit Planning Report.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Financial Sustainability</p> <p>The Council continues to operate in a challenging financial environment. The main risks to the Council's finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and demand for services.</p> <p>At the end of November 2018, the Council was forecasting a pressure against budget of £2.1 million. This pressure is largely due to significant overspends in Health, Education, Care and Safeguarding. In addition, over the next four years the Council estimates it is required to make £26.9 million of savings. There is therefore significant pressure on the Council's finances over the coming years.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We have completed the following work in this area:</p> <ul style="list-style-type: none"> We have selected a sample of savings plans and assessed their reasonableness, including testing of the assumptions used; We have discussed the specific plans in place for Health, Education, Care and Safeguarding to understand how the Council plans to control the overspends in this area; We have reviewed the level of reserves to ensure they are sufficient to cover the Council's assessment of the minimum required to provide its statutory services; and We have reviewed the Medium Term Financial Plan (MTFP) and tested the reasonableness of a sample of the assumptions used. <p>Our testing identified that the Council delivered an underspend of £1.03 million against budget in 2018/19. However, during the year the Council did not achieve all of its proposed in year savings of £18.338 million and has therefore rolled forward some of this savings target into 2019/20.</p> <p>The Council has created detailed savings plans for 2019/20 to ensure that they can achieve a balanced outturn. We have reviewed these savings plans to ensure that they are reasonable and we are satisfied that the assumptions used are appropriate and that the Council has a system for monitoring and challenging the savings delivery plan in 2019/20. We have also reviewed the MTFP and are satisfied that the Council has been prudent in its use of assumptions, in particular around income streams.</p> <p>During June 2019, the Council received a Corporate Peer Challenge Review. Although we are waiting for the final outcome of this review, initial indications are that no fundamental weaknesses in the Council's financial sustainability were identified. However, some recommendations are likely to be made in relation to linking the strategy and the MTFP better in future years. Based on the testing performed there is no impact upon our VFM conclusion from this risk.</p>



06 Other reporting issues



Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Narrative Statement with the audited financial statements. We are satisfied that the Narrative Statement is consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

In addition to our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

Due to delays in the release of the relevant NAO guidance the deadline for the completion of WGA returns has been delayed until September 2019. We are currently undertaking our work in this area and will report any matters arising to the Audit Committee.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. We have nothing to report to you in relation this.



07

Assessment of Control Environment



Assessment of Control Environment

Assessment of Control Environment

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements. However, we have identified one area where controls can be further enhanced to support the robustness of the overall control environment at the Council:

Control observation	Recommendation
Whistleblowing policy – As part of our review of the policy has not been formally updated since 2011.	We recommend that the Council formalises its approach to review and approval of policies on a periodic basis, including arrangements to ensure that all policies remain up to date with changes in legal and regulatory requirements.



08 Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented in March 2019.

We complied with the FRC's Ethical Standards and the requirements of the terms and conditions in our engagement contract. In our professional judgement the firm is independent and the objectivity of the audit engagement associate partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 24 July 2019.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees.

	Agreed fee 2018/19	Final fee 2017/18
	£	£
Total Fee – Code work (scale fee)	85,200	135,765
Total Fee – Code work (variation)	TBC*	-
Total Fee – Housing Benefit certification work	6,550	16,970
Total Audit fee	91,750	152,753
Non-audit work – Other certification work	7,387	8,300
Total other non-audit services	7,387	8,300
Total fees	99,137	161,035

* In our Audit Planning Report, dated March 2019, we noted the planned fee in the table above may require variation to account for a number of one-off transactions in 2018/19, including the implementation of new accounting standards IFRS 9 and IFRS 15, the revaluation of the Council's shares in Newcastle International Airport Limited and our review of the Council's Group Accounts Assessment. In addition to the matters identified above and reported in this report, additional work was required in relation to the accounting for LGPS net liability following the judgements around McCloud and GMP and also the additional procedures required in relation to the Prior Period Adjustment relating to Foundation Schools. We will agree a fee variation with management after the completion of the audit and report this back to the Audit Committee.



09 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet are:




- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

We have tested each of these assertions substantively for all material balances included in the Balance Sheet. This is the same as the approach adopted in prior years by the predecessor auditors. The material Balance Sheet items we have tested are:

- Property, Plant and Equipment
- Intangible Assets
- Long Term Investments
- Short Term Debtors
- Cash and Cash Equivalents
- Short Term Borrowing
- Short Term Creditors
- Finance Lease & PFI Creditors
- Provisions
- Long Term Borrowing
- Pension Liability
- Capital Grants Receipts in Advance
- Usable Reserves
- Unusable Reserves

Appendix B

Summary of communications




Date 	Nature 	Summary 
14 June 2018	Meeting	Initial introductory meeting was held between Senior members of the audit team and management to discuss key issues at the Council and how the audit will be completed.
13 February 2019	Meeting	Senior members of the audit team, met with the management team to discuss key issues at the Council and plan the 2018/19 year end audit.
29 March 2019	Report	The Audit Planning Report, including confirmation of independence, was presented to the Audit Committee.
9 July 2019	Meeting	Audit close meeting with the management team to discuss the preliminary findings of the audit.
25 July 2019	Report	The Audit Results Report, including confirmation of independence, was presented to the Audit Committee.

In addition to the above specific meetings and reporting, the audit team met with the management team multiple times throughout the 2018/19 audit year to discuss audit progress and the latest developments at the Council.




Appendix C

Required communications with the Audit Committee




There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Engagement signed contract
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – presented March 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – presented March 2019
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report – presented July 2019

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about North Tyneside Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit Results Report – July 2019
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Committee – July 2019
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>Audit Committee – July 2019</p> <p>Audit Results Report – July 2019</p>




Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Council 	Audit Results Report – July 2019
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <ul style="list-style-type: none"> • Details of any inconsistencies between the Ethical Standard and Council's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Planning Report – March 2019</p> <p>Audit Results Report – July 2019</p>

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit Results Report – July 2019
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances of non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit Results Report – July 2019
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit Results Report – July 2019
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report – July 2019

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Auditor's report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report – July 2019
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report – March 2019 Audit Results Report – July 2019
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Certification Report – later in 2019

Appendix D

Management representation letter

Management Rep Letter

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Dear Sirs

This letter of representations is provided in connection with your audit of the financial statements of North Tyneside Council ("the Council") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of North Tyneside Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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Management representation letter

Management representation letter

B. Non-Compliance with Law and Regulations, including Fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;

- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - a) access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b) additional information that you have requested from us for the purpose of the audit; and
 - c) unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions (above £6.2m) have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee held through the period to the most recent meeting on the following date: 25 July 2019.

Appendix D

Management representation letter

Management representation letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the 31 March 2019. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events subsequent to the period end which require adjustment of, or disclosure in, the financial statements or notes thereto.

F. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Comparative amounts

1. The comparative amounts have been correctly restated to reflect the removal of Foundation Schools from the Balance Sheet in the prior year.

2. The impact of the removal of the Foundation Schools can be viewed in Appendix A to this letter. (Please note that as the exact impact of the Prior Period Adjustment is currently being assessed by officers, this appendix has not yet been added but it will be included in the final Management Representation Letter).

3. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

Appendix D

Management representation letter

Management representation letter

H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

Use of the Work of a Specialist

1. We agree with the findings of the property valuers that we engaged to evaluate the valuation of Council Dwellings and Other Land and Buildings, the actuary that we engaged to evaluate the valuation of the pension liability and the valuers we engaged to evaluate the valuation of our shares in Newcastle International Airport Limited and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Estimates

Valuation of Council Dwellings and Other Land and Buildings

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We confirm that the significant assumptions used in making the valuation of Council Dwellings and Other Land and Buildings appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events.

Valuation of Pension Liability

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We confirm that the significant assumptions used in creating the valuation the pension liability appropriately reflects our intent and ability to carry out the valuation on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Appendix D

Management representation letter

Management representation letter

Valuation of Newcastle International Airport Limited

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the valuation of Newcastle International Airport Limited appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events.

Yours faithfully,

Head of Resources

Chair of the Audit Committee

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ED None

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