

Annual Audit Letter 2014/15

North Tyneside Council



October 2015

Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH15 5TS

Members

North Tyneside Council

The Quadrant, The Silverlink North

Cobalt Business Park

North Tyneside NE27 0BY

October 2015

Dear Members

Annual Audit Letter 2015

I am pleased to present our Annual Audit Letter. The purpose of this document is to summarise the outcome of the audit of the Council's 2014/15 annual accounts and our work on our value for money conclusion.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

2014/2015 has been another challenging year for the Council, requiring difficult decisions on spending priorities and plans for the future. We reflect on these matters in the value for money and future challenges sections of this letter.

We issued an unqualified opinion on the statement of accounts and an unqualified value for money conclusion.

I would like to express my thanks for the assistance of the finance team, as well as senior officers and the Audit Committee. The continued constructive approach to our audit is appreciated.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Gareth Davies
Partner
Mazars LLP

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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

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01 Key messages

Our Annual Audit Letter provides a summary of our work and findings for the 2014/15 audit period for Members and other interested parties.

In addition to this letter, we presented our Audit Completion Report to the Audit Committee on 22 September 2015 and to Full Council on 24 September 2015, which, together with the follow up letter we issued, provide more detail of the work we have undertaken as the Council's external auditor in 2014/15.

The key conclusions for each element are summarised below:

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's financial statements on 25 September 2015.

Our VFM conclusion

We carried out sufficient relevant work, in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We were required to consider two specified criteria:

- the Council has proper arrangements in place for securing financial resilience; and
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified VFM conclusion on 25 September 2015.

Whole of Government Accounts (WGA)

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your WGA consolidation pack with the audited statement of accounts. We reported that the Council's consolidation pack was consistent with the audited statement of accounts on 30 September 2015.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions or objections in relation to your 2014/15 accounts from local electors, nor did we exercise our wider reporting powers.

02 Financial statements

Audit of the financial statements

We audited your financial statements in line with auditing standards and we reported our detailed findings to the meeting of the Audit Committee on 22 September 2015 and full Council on 24 September 2015. We issued an audit report, including an unqualified opinion, on the statement of accounts on 25 September 2015 and we issued the certificate on 30 September following completion of the WGA work.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline. The draft accounts were of a good quality overall, as were the supporting working papers and other supporting evidence.

Issues arising from the audit of the accounts

We would like to highlight the following key points:

- There were few errors identified and no material errors impacting on the Council's General Fund balance;
- All errors were corrected other than two non trivial misstatements that management assessed as not being material either individually or in aggregate to the financial statements;
- The audit progressed well and there were no significant difficulties encountered. We received the full co-operation of officers; and
- We did not identify any significant deficiencies in internal controls during the course of the audit (noting our work is not intended to express an opinion on the effectiveness of the system of internal control). We made recommendations arising from our work on the Council's IT controls.

Annual Governance Statement (AGS)

The AGS is drafted by the Council to provide assurance to the reader over how it is managed and how it has dealt with risks in the year. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the Council. We found no areas of concern to report.

03 VFM conclusion

We performed our work in line with the Audit Commission’s Code of Audit Practice for Local Government bodies and the Commission’s guidance on the VFM conclusion for 2014/15.

Our work in this area focused on the two criteria specified by the Audit Commission namely:

| Criteria | Focus of the criteria |
|---|--|
| The Council has proper arrangements in place for securing financial resilience. | The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. |
| The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. | The Council is prioritising resources within tighter budgets, for example, by achieving cost reductions and by improving efficiency and productivity. |

As part of our work, we also:

- reviewed the Annual Governance Statement;
- considered the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carried out any risk-based work we determined to be appropriate.

We are not required to consider, nor have we, all aspects of the Council’s arrangements. We adopt a risk based approach, designed to identify any significant issues that might exist. We report if significant matters come to our attention which prevent us from concluding that the Council has put in place proper arrangements.

In the Audit Strategy Memorandum we identified a significant risk relevant to the value for money conclusion. We carried out work to address this risk area.

Like other public sector bodies, the Council faces a number of financial challenges and in the light of these we reviewed the Council’s arrangements for managing financial risks and securing a stable financial position.

Overall conclusion

Our audit report included a conclusion that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Significant risk

Financial resilience

Description of the risk

The Council is facing continuing financial pressures from reduced funding, increased demand and changing responsibilities. The Council is responding to the challenges by a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services. The risk is that the measures taken by the Council are not effective, leading to a lack of financial resilience.

How we addressed this risk

We reviewed:

- project monitoring and action plans for a sample of projects and planned savings for both 2014/15 to see if delivered and for 2015/16 to assess plans in place to deliver;
- the Medium Term Financial Plan;
- budget monitoring reports and other finance updates;
- key internal ratios e.g. income arrears and payment terms for suppliers;
- progress made in identifying savings required for 2016/17 and 2017/18;
- progress on the Council's Creating a Brighter Future Programme; and
- progress on two key capital projects - the development of the former Swan Hunter site and coastal regeneration.

Audit Conclusion

Our work provided the assurance we sought in relation to financial resilience for 2015/16 and highlighted no issues to bring to your attention.

We acknowledge that work is underway on proposed savings plans for future years in accordance with the Council's timetable and that the Council is closely monitoring recent developments which have added to the financial pressures.

We detail below our findings in relation to the two criteria specified by the Audit Commission.

Financial Resilience

Overall, the Council has responded well to the financial pressures it has faced so far, at a time of unprecedented reductions in public sector spending. Ongoing pressure on the public finances presents significant challenges for the Council and the need to plan for further reductions in spending power at a time of increasing demand for services.

The reported 2014/15 revenue outturn was in line with the budget with £7.1m contributed to reserves. The budget for 2014/15 included savings of £16.5m from the delivery of the Creating a Brighter Future (CBF) programme. These CBF savings were monitored by members at regular intervals as part of the overall financial position of the Council and were fully achieved in the year.

The financial outlook remains extremely challenging. Reductions in Central Government funding combined with increasing demand pressures mean that the Council needs to reduce spending by between £53m and £56m over the next three years. £14.2m of this reduction must be made during 2015/16, which is in addition to the £28.8m delivered over the last two years.

The Council has a good understanding of the financial challenges and risks it faces and is taking action to ensure its financial sustainability by identifying further efficiency savings and other means of reducing spending. Recent developments, such as the potential loss of public health grant, the reduction in social housing rents, the extension of Right to Buy and sale of high value council housing stock and the position on services funded through North Tyneside CCG, have all added to the financial pressure on the Council.

The Council adopts a prudent approach to its finances and has set aside reserves, both for unforeseen circumstances and for specific earmarked purposes for specific plans and projects. The Council currently has total useable reserves and balances of some £88m which secure the Council's immediate financial resilience and provide some flexibility if the Council needs to invest to save, for example, but there is a recognition that reserves cannot be used to sustain services and the underlying budget reductions identified will need to be delivered through spending reductions.

The Council has set a balanced budget for 2015/16 and work is underway on the measures to be taken to secure a balanced budget for the next three years 2016/17-2018/19 drawing on consultation with residents, businesses and partner organisations and shaped by the priorities in the Council Plan.

Economy, efficiency and effectiveness

Like most authorities, North Tyneside Council is learning how to operate with significantly reduced resources and with the prospect of even fewer resources in the future. At the same time there will be increasing demands on the Council's services for example in social care as a consequence of an ageing population with increasingly complex needs.

In response, as well as targeting specific areas for efficiency improvement and savings, the Council has sought to implement an ambitious transformation programme and is seeking to build resilience within local communities and the voluntary sector. Effective programme and project management has been critical to deliver the required changes, manage the associated risks and ensure that the desired outcomes are delivered for the Council. The Council continues to make progress on the financial planning for two key capital projects we reviewed, the development of the former Swan Hunter site and coastal regeneration.

The Council is continuing to work with its local authority partners to develop the North East Combined Authority. This new vehicle offers the opportunity of increasing the collective impact of the North East authorities on economic growth, skills and transport.

Annual Governance Statement

We reviewed the Council's Annual Governance Statement to identify if there were any issues disclosed that would lead us to consider that the Council did not have proper arrangements for securing economy, efficiency and effectiveness. Our review did not identify any such issues and nor did we identify any significant omissions from the Annual Governance Statement.

Overall Conclusion

Our overall conclusion was that the Council had adequate arrangements in place for each criterion and accordingly we issued an unqualified VFM conclusion.

04 Future challenges

The Council's planning for the next five years is dominated by the need to respond to continuing significant reductions in central funding whilst delivering the objectives in the new North Tyneside Plan. In addition, the local government finance and policy landscape is changing rapidly, bringing significant shifts in the risks and opportunities facing the Council. These include closer working with the NHS, restrictions on housing rental income, the full localisation of business rates and negotiations with central government on a package of devolution measures to the North East.

This adds up to a demanding agenda for Members and officers. Our 2015/16 audit will take into account how the Council is responding to this agenda. These challenges include:

- the ongoing impact of the Welfare Reform Act;
- better care funding and associated pooled budgets; and
- joint working with health and others.

With a financial outlook that is increasingly challenging, to develop locally responsive services that maintain standards of access and quality, the Council will need to continue to:

- carefully forecast and effectively monitor budgets;
- deliver a long term financial strategy that addresses immediate pressure while allowing scope for strategic service change;
- maintain effective arrangements for public engagement; and
- use constructive relationships with care providers and social care commissioners to safeguard quality.

We will focus our 2015/16 audit on the risks that these challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key area in this respect includes working with officers as they make preparations for accounting for transport infrastructure on a new basis from 2016/17.

Audit regime changes

Earlier in the year we briefed Members of the Audit Committee on changes to the framework for external audit in local government, with the abolition of the Audit Commission on 31 March 2015 and, under the Local Audit and Accountability Act 2014, new provisions including:

- the National Audit Office to oversee the Code of Audit Practice and issue guidance to auditors;
- the establishment of a new company, Public Sector Audit Appointments Ltd (PSAA Ltd) to appoint auditors and manage the existing contracts with firms of private sector auditors until they expire; and
- the requirement for Councils to appoint their own auditors when the current contracts end.

Extension of current local government contracts by one year

The Department for Communities and Local Government recently announced that the external audit contracts for local authorities (except parishes in the limited assurance regime) will be extended for one year to include the 2017/18 audit. The legislation requires the Council to have appointed the auditor for the 2018/19 audit by 31 December 2017. The Chartered Institute of Public Finance and Accountancy is preparing guidance for local authorities to support them in this process.

05 Fees

As outlined in our Audit Strategy Memoranda for North Tyneside Council presented to the Audit Committee on 25 March 2015, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2014/15 are summarised below.

| Element of work | 2013/14 Final Fee | 2014/15 As previously reported | 2014/15 Final Fee |
|--|-------------------|--------------------------------|-------------------|
| North Tyneside Council | | | |
| Code audit work | £180,290 | £181,020 | £181,020 |
| Certification work | £23,263 | £16,100 | £16,100* |
| Non-audit work for certification of grants outside the Audit Commission regime | £3,750 | £5,250 | £5,250** |
| Non audit work – officer attendance at Transport Infrastructure / Streamlining and early close workshops | - | - | £300 |
| Total | £207,303 | £202,370 | £202,670 |

* Notes

* The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim.

** We are also yet to complete the non- audit work agreed to date for the certification of the Teacher's Pensions return and the Pooling of Housing Capital Receipts return.

We will confirm the final fees charged for certification work when we issue our Certification Report.

During the audit year we have continued to support the Council in other ways, including:

- Attendance at Audit Committee meetings where we inform the Committee about progress on the audit, report our key findings and provide updates about developments in the public sector and the wider environment; and
- Hosting briefing events for finance staff, such as our Accounts workshops, and more focused Accounts update sessions, as appropriate.

Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the Council during the year, which are summarised below.

| Report | Date issued |
|-------------------------------------|-----------------|
| 2014/15 Audit Fee Letter | April 2014 |
| Audit Strategy Memorandum | March 2015 |
| Progress reports to Audit Committee | To each meeting |

| | |
|---|----------------|
| Audit Completion report, including follow up letter | September 2015 |
| Auditors Report | September 2015 |
| Annual Audit Letter | October 2015 |

The Council and management have taken a positive and constructive approach to our audit and I wish to thank them and the Audit Committee for their support and co-operation during our audit.

Gareth Davies

Partner

October 2015

Should you require any further information on this letter or on any other aspects of our work, please contact:

Gareth Davies

Partner

T: 07813 752053

E: gareth.davies@mazars.co.uk

Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH15 5TS