

# Annual governance report

North Tyneside Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## Financial statements

I expect to complete all outstanding work before 27 September 2012 when the financial statements are due to be approved by the Council.

Should any further matters arise in concluding the outstanding work I will raise them with the Strategic Director of Finance and Resources and then provide an update to the Council on 27 September 2012.

Subject to completion of the outstanding audit areas I plan to issue an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

## Value for money (VFM)

I have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Appendix 1 contains the wording of my report.

The Council closely monitored the 2011/12 budget during the year to ensure that savings and efficiencies were delivered effectively. This resulted in delivering savings of £16.194 million and reporting a slight General Fund underspend.

The Council has taken a strategic approach to reducing expenditure. It has challenged all directorates and departments to find savings resulting in the production of business cases. These business cases were subject to scrutiny before being agreed and included in the 2011/12 budget.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12, other than the certification of grant claims and returns.

## **I ask the Council to:**

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3);
- approve the letter of representation (appendix 4), on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

# Financial statements

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**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

The financial statements submitted for audit were of good quality and were supported by a well planned closedown process and comprehensive working papers.

## **Uncorrected errors**

A small number of errors were identified that have not been amended in the revised financial statements. These are listed in appendix 2. Management have decided not to adjust the financial statements for the issues identified. The reasons for this are included in the Letter of Representation.

## **Corrected errors**

My work did not identify any material errors in the financial statements. A number of amendments were identified and management agreed to correct these. The main amendments are listed in appendix 3.

In addition to these several presentational, consistency and disclosure issues were identified. Management has since amended these.

## Recommendation

**R1** Continue to build upon the quality assurance procedures in place to ensure they are robust enough to identify presentational, consistency and disclosure errors before the draft accounts are submitted for audit.

## Significant risks and my findings

I reported to you in my March 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p><b>New requirement to account for heritage assets</b></p> <p>The 2011/12 CIPFA Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. It is important that this new requirement is met.</p>	<p>I examined the management controls you have in place to recognise and value heritage assets. I also carried out testing to check that the Council has accounted for heritage assets in accordance with FRS 30 and the Code.</p> <p>I concluded that the accounting treatment adopted was appropriate and that heritage assets were fairly stated.</p>
<p><b>Valuation of property, plant and equipment (PPE)</b></p> <p>Due to issues identified in previous years, there is a risk that the PPE valuations reported in the 2011/12 financial statements will be materially misstated.</p>	<p>I have reviewed and tested the relevant entries and disclosures in the financial statements relating to this risk.</p> <p>My work identified that controls in this area have been strengthened. This gave me sufficient assurance about the material accuracy of these transactions.</p>
<p><b>Kier North Tyneside</b></p> <p>There is a risk that the Council will not continue to improve the timing, quality and accuracy of the data received from the Joint Venture Company (JVCo) and that the 2011/12 financial statements will be materially misstated.</p>	<p>I have reviewed and tested the relevant entries and disclosures in the financial statements relating to this risk.</p> <p>My testing gave me sufficient assurance about the material accuracy of these transactions.</p>

## Risk

## Finding

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### Valuation of Newcastle International Airport

The valuation of the airport is important in the context of the impact of the recession on air travel, and the refinancing of the airport's debts that needs to be arranged in the near future. It is important to reflect an appropriate valuation in the 2011/12 financial statements.

### Equal pay

I alerted the Council to a potential technical issue regarding compromise agreements for equal pay and superannuation contributions. Whilst the Council does not consider that any additional payments will be due, a liability could arise if further technical guidance and legal claims confirmed that these payments became necessary. The cost to the Council would only be known once a settlement was confirmed.

My work also identified that that an agreement was reached by the Council and JVCo senior officers in relation to an additional £1 million paid for Housing Repairs (Workstream 1). This additional expenditure, which related to additional works completed in the year, was reported as part of the Council's budget monitoring updates and that the total expenditure was managed within the total HRA Housing Repairs approved budget.

Overall, the Council has again improved procedures but there remains scope to further improve arrangements especially in relation to Workstream 1 where our work identified that some controls were not in place and working for all of the year.

Officers have since introduced measures to help ensure that controls are strengthened and performance is further improved.

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For the purposes of the accounts, the Council brought forward its previous valuation for the airport. I have concluded that this valuation was accurately reflected in the accounts.

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My work identified that a potential liability exists for the superannuation contributions element of the equal pay compromise agreements settled between 1 July 2010 and 31 March 2012. This liability was in the region of £572k. The Council has not accounted for this liability but have acknowledged it by way of a contingent liability in the 2011/12 Accounts.

## Risk

### Trust Schools

There is a risk that the Council has materially misstated its PPE due to the incorrect inclusion or omission of schools in its balance sheet.

### Housing Revenue Account (HRA) reform

The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to central government on or before 28 March 2012. This will adjust the HRA debt of the Council. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.

## Finding

I have reviewed and tested the relevant entries and disclosures in the financial statements relating to this risk.

My testing gave me sufficient assurance about the material accuracy of these transactions.

I have reviewed and tested the relevant entries and disclosures in the financial statements relating to this risk.

Post statement audit work confirmed that transactions have been accounted for correctly.

## Important weaknesses in internal control

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. My 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.

I have tested the Council's controls only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

In the significant risks table set out on the previous page I reported that my work had identified that some controls in relation to the JVCo Workstream 1 were not in place and working for all of the year. Officers are aware of this issue and have since introduced measures to help ensure that controls are strengthened and performance is further improved.

## Recommendation

**R2** Officers should ensure that the controls in relation to JVCo Workstream 1 are fit for purpose and are working as intended for the whole of the financial year.



## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

The Council has made an Equal Pay provision of £15,128k as at 31 March 2012. Whilst I am satisfied that this provision is materially correct, officers have not been able to fully evidence its full extent due to the inherent nature of estimates. I understand that the Council intends to address this issue in its Letter of Representation to me.

## Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

# Value for money

**I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess your arrangements against the two criteria specified by the Commission. In my March 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

In my March 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below the findings of my work addressing each of the risks I identified.

Table 2: **Value for money conclusion criteria and my findings**

Criteria	Significant Risk	Findings
<b>1. Financial resilience</b> The organisation has proper arrangements in place to secure financial resilience.	Close monitoring of the Change Efficiency and Improvement (CEI) Programme to ensure the delivery of actual savings and efficiencies, given the tight financial settlement.	<b>North Tyneside Council has proper arrangements in place to secure financial resilience.</b>  The Council introduced the CEI Programme to help identify and achieve savings of over £47 million over the period 2011/12 to 2014/15. This programme has been developed using knowledge of key stakeholders and challenges the traditional methods of delivery.  The Council closely monitored the 2011/12 budget during the year to ensure that savings and efficiencies were delivered effectively. This resulted in delivering savings of £16.194 million and reporting a slight General Fund underspend.

Criteria	Significant Risk	Findings
<p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>		<p>The Council has an approved budget in place for 2012/13, with plans in place to achieve the £16.052 million of savings identified.</p> <p>In November 2011 Cabinet the approved the commencement of a European Union procurement exercise to identify preferred bidders for each of the Business Package and Technical Package. This eventually led to Cabinet approving the appointment of the preferred bidders for each package in August 2012 with a service commencement date of 1 November 2012.</p> <p>The Council has a 3-year medium term financial strategy in place. This contained £31.463m of savings over the period of 2012/13 to 2014/15. In addition, Government reforms, such as those in relation to business rates and the localisation of council tax benefits are likely to add to the demands on the Council's resources in the years ahead.</p> <p>At 31 March 2012, the Council's general fund reserve which is available to meet unforeseen circumstances stood at £6.604 million, which is in line with the agreed reserves policy.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>Monitoring of service delivery and governance arrangements to ensure that standards are maintained during a period of significant change (see risk above).</p>	<p><b>North Tyneside Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>The Council closely monitored the 2011/12 budget and CEI Programme during the year to ensure that savings and efficiencies were delivered effectively. This resulted in delivering savings of £16.194 million and reporting a slight General Fund underspend.</p> <p>Extensive consultation took place on the preparation of the Council's 3-year medium term financial strategy (2012/13 to 2014/15), in line with the Council's Engagement Strategy which was approved by Cabinet in September 2011.</p> <p>The Council has taken a strategic approach to reducing expenditure. It has challenged all directorates and departments to find savings resulting in the production of business cases. These business cases were subject to scrutiny before being agreed and included in the 2012/13 budget.</p>

Criteria	Significant Risk	Findings
		<p>Against the background of reducing budgets, my work has not highlighted any issues in relation to the Council securing value for money. In addition, the Council has been subject to Care Quality Commission (CQC) and Office for Standards in Education (OFSTED) assessments during the year and feedback overall has been positive.</p> <p>I followed up my previous work in relation to workforce planning and identified that the Council has continued to embed and, where relevant, update their arrangements in this area.</p>

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# Fees

## I reported my planned audit fee in the March 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 3: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	299,250	299,250	299,250 *
Claims and returns		43,500	43,500 **
Non-audit work		0	0
<b>Total</b>		<b>342,750</b>	<b>342,750</b>

\* The Audit Commission has also paid a rebate of 8 per cent (£23,940) to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £275,310 for the audit

\*\* As work is currently ongoing, this remains the best estimate of the fee for grant claims and returns

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF NORTH TYNESIDE COUNCIL

### Opinion on the Council’s financial statements

I have audited the financial statements of North Tyneside Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. 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 2011/12.

This report is made solely to the members of North Tyneside Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Strategic Director of Finance and Resources and auditor

As explained more fully in the Statement of the Strategic Director of Finance and Resource’s Responsibilities, the Strategic Director of Finance and 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Finance and Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of North Tyneside Council as at 31 March 2012 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 2011/12.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

### **Respective responsibilities of the Council and the auditor**

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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself 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 Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself 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 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I 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.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am 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 2012.



Steve Nicklin  
District Auditor

Audit Commission  
Nickalls House  
Metro Centre  
Gateshead  
Tyne and Wear  
NE11 9NH

September 2012

# Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Council dwellings (Property, Plant and Equipment)	Errors in accounting for the movement in the number of council dwellings	377 (Other Operating Expenditure)			377 (Property, Plant and Equipment)
Leases	Incorrect accounting treatment of a lease where the Council is the lessor			239 (Debtors)	239 (Property, Plant and Equipment)

# Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Revenue Expenditure Funded from Capital under Statute (REFCUS)	Capital and revenue grants were misclassified	1,934 (Children and Education) 21 (Cultural and Related)	1955 (Taxation & Non Specific grant income)	-	-
Property Plant & Equipment	A payment to the LIFT Company in relation to the Whitley Bay Joint Service Centre was incorrectly accounted for as an addition	-	-	110 (Long Term Debtors)	110 (Property, Plant and Equipment)
Balance Sheet Short term creditors (Note 30)	Short term creditors of £6,064k were reclassified from other entities and individuals to central government bodies	-	-	-	-
Balance Sheet Short term creditors (Note 30)	Short term creditors of £180k were reclassified from other entities and individuals to NHS bodies	-	-	-	-
Balance Sheet Short term debtors (Note 27)	Short term debtors of £2,034k were reclassified from other entities and individuals to NHS bodies	-	-	-	-
Financial statements disclosures	Amendments were made to a number of presentational, consistency and disclosure issues identified between the financial statements and supporting notes	-	-	-	-

# Appendix 4 – Draft letter of management representation

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## North Tyneside Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of North Tyneside Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

### Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit Regulations 2011 and the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

### Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised below are not material to the financial statements, either individually or in aggregate, and have therefore not been corrected.

- Errors in accounting for the movement in the number of council dwellings resulted in an error of £377k.
- Incorrect accounting treatment of a lease where the Council is the lessor resulted in an error of £239k.

### Supporting records

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

## **Irregularities**

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

In particular, I confirm that the provision for Equal Pay of £15,128k was based on professional judgement and was the most reliable estimate available as at 31 March 2012.

Contingent liabilities have been disclosed for the remaining potential liabilities that are still being contested by the Council. There is sufficient uncertainty about the remaining potential liabilities and the amount of any such liability that I have concluded that provisions are not appropriate, and also that it is not possible to estimate the specific value of the potential liabilities in the contingent liabilities note.

## **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

I confirm that the Council's long term investment in Newcastle International Airport, which is included in the Balance Sheet, reflects the latest available valuation of the airport.

## **Related party transactions**

I confirm that I have disclosed the identity of North Tyneside Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

## **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

## **Signed on behalf of North Tyneside Council.**

I confirm that this letter has been discussed and agreed by the Council on 27 September 2012.

Signed

Name            Fiona Rooney

Position        Strategic Director of Finance and Resources

Date             27 September 2012

# Appendix 5 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

**Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of a Council and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.



## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

## **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

# Appendix 6 – Action plan

## Recommendations

### Recommendation 1

<b>Responsibility</b>	Continue to build upon the quality assurance procedures in place to ensure they are robust enough to identify presentational, consistency and disclosure errors before the draft accounts are submitted for audit.
<b>Priority</b>	Medium
<b>Date</b>	30 June 2013
<b>Comments</b>	The Council will ensure that the high degree of quality assurance is maintained and will be enhanced when required.

### Recommendation 2

<b>Responsibility</b>	Officers should ensure that the controls in relation to JVCo Workstream 1 are fit for purpose and are working as intended for the whole of the financial year.
<b>Priority</b>	High
<b>Date</b>	31 December 2012
<b>Comments</b>	<p>The Council has worked closely with Kier North Tyneside officers throughout the partnership to ensure that all potential issues are identified and actions planned to address them. This has seen a continual improvement to the way that the Council commissions and manages the work from Kier North Tyneside and we are confident that significant improvement in the reconciliation process has been made in 2012/13.</p> <p>To ensure that governance arrangements are documented and transparent, a risk register is maintained covering all aspects of the joint venture. This document is used by the Strategic Partnership Board to prioritise resource and monitor performance. Financial risks regarding the complexity of systems and procedures, and arrangements to ensure that services are delivered within the Guaranteed Maximum Price are both highlighted in the register.</p>

## Recommendations

In relation to the systems risk, work is progressing in conjunction with Kier NT to assess both the adequacy and appropriateness of the ICT systems. Some minor system changes have already been introduced and we have a range of manual checks in place to ensure our day to day management is still effective. In order to support our review Internal Audit are programmed to complete a further system audit on gas servicing to ensure the manual systems, that support our IT systems, are still adequate. The ICT review is still progressing and should be complete by March 2013 along with any appropriate recommendations.

Moving forward, with regards to financial risk, detailed reviews on a monthly basis ensure that actual costs are reported against forecasts and that any discrepancies and issues are identified.

The monthly Operational Partnership Board receives a detailed financial report which is subject to scrutiny from Council finance officers, which supplements the monthly financial information that is monitored at an operational level. It was through this financial reporting during 2011/12 that the additional payment was agreed when it became apparent that repair demand pressures, especially around a backlog in guttering works following the severe snow of winter of 2010/11 would mean that additional works to council properties would be required. Officers satisfied themselves that the Council had received value for money from these additional works and as part of the negotiated settlement, each party agreed to the continued development of timely controls, such as the monthly post inspection checks.

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