

Audit Completion Report

North Tyneside Council – year ended 31 March 2014

September 2014



Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Members of the Council
North Tyneside Council
Quadrant,
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

September 2014

Dear Sirs / Madams

Audit Completion Report – Year ended 31 March 2014

We are delighted to present our Audit Completion Report for the year ended 31 March 2014. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented in March 2014. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07979 164467 or gareth.davies@mazars.co.uk

Yours faithfully

Gareth Davies
Partner
Mazars LLP

Contents

01 Executive summary	2
02 Significant findings	3
03 Internal control recommendations.....	7
04 Summary of misstatements.....	8
05 Value for money.....	12
Appendix A – Draft management representation letter.....	14
Appendix B – Draft audit report	17
Appendix C – Independence.....	19

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 Non-Executive Directors, Directors or managers are prepared for the sole use of the audited body and we take no responsibility to any Non-Executive Director, Director or Manager in their individual capacity or to any third party.

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01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2014 to the Members of North Tyneside Council and forms the basis for discussion at the Council meeting on 25 September 2014.

Our communication with you is important to:

- Share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- Provide you with constructive observations arising from the audit process;
- Ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing North Tyneside Council;
- Receive feedback from yourselves as to the performance of the engagement team.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 2 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out any details of internal control recommendations in section 3 and a summary of misstatements identified as part of the audit in section 4.

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2014.

We are still awaiting the opinion of the Tyne and Wear Pension Fund Auditors (PWC) on their audit of the 2013/14 pension fund accounts.

The following matters remain outstanding, and are usually done just prior to signing the audit opinion:

- review of the amended financial statements;
- review of post balance sheet events; and
- review on receipt of management representation letter.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 3 October 2014.

Our proposed audit report is set out in Appendix B.

02 Significant findings

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

- Our audit conclusions regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- Our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 6 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- Any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Revenue recognition

Description of the risk

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of income recognition and in relation to judgements made by management as to when income has been earned. Mazars' policy is that the scope to apply such a rebuttal is limited. Due to there being a risk of fraud in revenue recognition we consider it to be a significant risk. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

How we addressed this risk

We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we undertook a range of substantive procedures including:

- testing receipts in March and April 2014 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention

Expenditure recognition

Description of the risk

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of expenditure recognition and in relation to judgements made by management as to when expenditure has been incurred. As there is a risk of fraud in expenditure recognition we regularly consider it to be a significant risk. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

How we addressed this risk

We evaluated the design and implementation of controls to mitigate the risk of expenditure being recognised in the wrong period. In addition, we undertook a range of substantive procedures including:

- testing payments in March and April 2014 to ensure they had been recognised in the right year;
- testing adjustment journals; and
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention

Local Government pension disclosures (IAS19)

Description of the area of management judgement

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions.

This results in an increased risk of material misstatement.

How we addressed this area of management judgement

We assessed the work of the Council's actuary and assessed whether the disclosures in the financial statements properly reflect the actuary's report.

We liaised with PWC, the pension scheme auditor, in line with Audit Commission requirements.

Audit conclusion

Subject to review of the response from the local government pension scheme auditor, our audit has provided the assurance we sought, and not highlighted any issues in this area to report.

Equal Pay

Description of the area of management judgement

An Equal Pay provision of £9,080k was included in the 2012/13 financial statements. The provision was based on a number of factors, including an estimate of the number of equal pay claims which were expected to be received after the year end and the number that would be settled, based on previous experience of such claims. Whilst our work identified that the provision was materially correct, estimates of this nature carry an inherent level of uncertainty.

How we addressed this area of management judgement

We discussed with officers the most appropriate disclosures in the 2013/14 financial statements, consistent with accounting standards. In addition, we tested the Equal Pay provision to ensure that it was complete and materially correct.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention

Accounting policies and disclosures

Audit work identified one area where the Council's financial statements do not comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code). This was

- Accounting Policies had been included in the Statement of Accounts but not as a Note (required by section 3.4.2.17 of the Code). We have discussed this issue with officers and they are content with the position of the Accounting Policies within the Statement of Accounts.

Our work also identified that disclosures were generally in line with our expectations with some amendments made to notes. These are summarised on page 11.

03 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

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

There are no significant deficiencies in internal control we need to bring to your attention.

Our work identified one area where internal controls could be further strengthened. See table below.

Internal control recommendation			
Description of deficiency	Potential effects	Remedial action	Management response
Our work on Pensions identified that the Actuary had not been provided with data for valuing the enhanced teachers' unfunded liabilities since 2008.	The out of date information may lead to a material misstatement in the valuation of enhanced teachers' liabilities.	We have asked officers to supply this information to the Actuary to ensure that the revaluation has been carried out before producing the 2014/15 Statement of Accounts.	We agree that a full valuation will be sought from the scheme's actuaries for the 2014/15 accounts. We do not consider that there will be a material impact on the 2013/14 accounts due to the relative stability of the number of teachers included in the scheme since the last valuation.

04 Summary of misstatements

We set out below the misstatements identified during the course of the audit, above the trivial level, which Management have agreed to adjust. We are required to bring to your attention the misstatements found during the course of audit that have not been corrected, unless they are clearly trivial. We have no such issues to report.

Nature of misstatement	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet	
	DR £000	CR £000	DR £000	CR £000
2012/13 Short term Debtors (Note 27) - Central Government Debtor figure in audited accounts in relation to NNDR did not reflect the nature of agency accounting	Nil	Nil	Short Term Debtors (Other entities) 4,148	Short Term Debtors (Central Government) 4,148
2012/13 Prior Period Adjustment - When processing the prior period adjustment the figures from the actuary's report were correctly entered in Pension Schemes (Note 8) however these figures were inconsistent with Adjustments between Accounting Basis and Funding Basis under Regulations (Note 3) and Pensions Reserve (Note 35(e)).	Employers pension contributions and direct payments to pensioners payable in year 1,320	Reversal of net charges made to the deficit for the Provision of services for post employment benefits 1,320	Nil	Nil
Short Term Debtors (Note 25) - A credit note within debtors system has been incorrectly categorised.	Nil	Nil	Short Term Debtors (Other entities) 1,500	Short Term Debtors (NHS Bodies) 1,500

<p>Short Term Debtors (Note 25) - Provision for business rates appeal included in accounts was full provision rather than just Council's share.</p>	<p>Nil</p>	<p>Nil</p>	<p>Short Term Provisions 1,454</p>	<p>Short Term Debtors (Central Government) 1,426 Short Term Debtors (Other entities) 28</p>
<p>Short Term Debtors (Note 25) - Income in advance included in accounts did not include Council's share in relation to NDR</p>	<p>Nil</p>	<p>Nil</p>	<p>Short Term Debtors (Other entities) 209</p>	<p>Short Term Creditors (Income in advance) 209</p>
<p>CIES - When reviewing the basis on which income and expenditure not specific to any one service line in CIES (i.e. overheads) is apportioned across all service lines we identified that the expenditure for street lighting PFI and related PFI credit and the housing benefit administration grant had been incorrectly included in the apportionment calculation.</p> <p>These items relate to specific service lines therefore the income/expenditure for street lighting PFI should be shown against Highways & Transport and housing benefits grant shown as income in Other Housing services</p>	<p>Highways & Transport Services expenditure 4,261 Housing Services expenditure 4 Education & Children's Services income 1</p>	<p>Central Services to the public income 1 Central Services to the public expenditure 2 Cultural & Related expenditure 150 Environment & Regulatory expenditure 123 Planning Services expenditure 34 Education & Children's Services expenditure 237 Highways and transport Services income 1,735 Adult social care expenditure 303 Housing Services income 1,681</p>	<p>Nil</p>	<p>Nil</p>

<p>CIES - When removing the double counting for schools in the draft accounts, a figure of £134,180k was removed from both expenditure and income in Education and Children's Services. However audit work identified that this should have been £131,532k. The net effect of this error is that expenditure and income are both understated by £2,846k.</p>	<p>Education & Children's Services expenditure 2,648</p>	<p>Education & Children's Services income 2,648</p>	<p>Nil</p>	<p>Nil</p>
<p>CIES – When testing Council tax and Business rates income within Taxation and Non Specific Grant Income (Note 11), it was identified that figures used within the calculation were inconsistent with the Collection Fund Adjustment Account (Note 35(g)). We were satisfied from our work that the figures in Note 35(g) were correct</p>	<p>Income - Taxation and Non Specific Grant Income - Retained Business Rates 2,390</p>	<p>Income - Taxation and Non Specific Grant Income - Council Tax Income 2,390</p>	<p>Nil</p>	<p>Nil</p>
<p>CIES - Audit work had identified that Council dwellings valuation had increased by £15,471k therefore the Council disclosed this figure in the Exceptional Item. However, further work identified that of the £15,471k, £516k had been credited to the Revaluation Reserve and therefore should only £14,955k should have been disclosed in CIES</p>	<p>CIES Exceptional Item – Housing 516</p>	<p>CIES Local Authority Housing (HRA) 516</p>	<p>Nil</p>	<p>Nil</p>

Disclosure amendments

The main disclosure issues identified during the course of the audit are outlined below, all of which have been amended by management:

- Issue identified in relation to 1 officer being disclosed in the incorrect Remuneration band in Note 13 Table 1
- In Note 46, figure disclosed as the loss on disposal of schools transferring to North Tyneside Learning Trust (NTLT) included the loss on transfer of Priory Primary School of £1,214k which did not transfer to NTLT but became an Academy
- Financial instruments (Note 40) incorrectly disclosed all short term creditors as financial instruments however detailed testing identified HMRC creditors were included in short term creditors and as these do not fall due under contract they should not be recognised as financial instruments. In addition, officers performed a review of debtors and creditors and identified some which did not meet the definition of financial instruments
- Defined contribution pension schemes - the expected contributions to the plan for the next annual reporting period were not disclosed in the draft accounts
- Audit costs (Note 16) did not disclose rebates for prior years, also fees payable for grant were incorrectly disclosed
- The Annual Governance Statement did not include a specific statement on whether the Authority's financial management arrangements conformed with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)
- Related Party Transactions (Note 15) was updated to record that the Council is the sole shareholder in North Tyneside Trading Company.
- A number of other minor errors, omissions, clarifications and typographical errors were corrected.

We are also required to bring to your attention any disclosures where the Council's financial statements do not comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) and have not been corrected.

- Audit work identified that Accounting Policies had been included in the Statement of Accounts but not as a Note, as required by section 3.4.2.17 of the Code. We discussed this issue with officers and they are content with the position of the Accounting Policies within the Statement of Accounts.

05 Value for money

We are required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do this by considering the Council's arrangements against two criteria specified by the Audit Commission.

In the Audit Strategy Memorandum we identified one significant risk relevant to the value for money conclusion. We detail in the table below how we have addressed these risks and our conclusions.

Significant Value for Money risk

Change, Efficiency and Improvement (CEI) Programme

Description of the risk

The 2013/14 revenue budget included CEI Programme savings of over £12.2m. It is therefore essential that close monitoring is carried out to ensure the delivery of actual savings and efficiencies.

How we addressed this risk

We will test, on a sample basis, whether savings have been made in accordance with the CEI Programme. We will report our findings through the Audit Completion Report and Annual Audit Letter.

Conclusion

Our testing of a sample of 5 individual business cases identified that savings had been achieved either as originally intended or by compensating savings within the service which proposed the original saving

We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

Criteria 1: Financial Resilience – (met)

Comprehensive Income and Expenditure Statement

The Council's approach to the 2013/14 budget setting process was robust. As a result of round of close monitoring of the budget, the Council reported a General Fund underspend whilst also delivering savings of £12.240m.

Balance Sheet

The Council has disclosed a net liability of £45.243m as at 31 March 2014, down from £146.648m at 31 March 2013.

The net liability is made up of useable reserves of £63.420m and negative unusable reserves £108.663m. The useable reserves have increased by £9.085m due in the main to an increase in earmarked balances. In addition the unusable reserves have increased by £92.320m mainly as a result of the reduction of the pensions deficit.

It is not uncommon for local authorities to report negative net assets due to the impact of pension fund deficits. The Council's pension fund deficit of £360.230m will not need to be funded at a point in time and the Council has a plan for reducing the deficit over a 20 year period.

The Council is relatively prudent in setting aside earmarked reserves. Earmarked reserves were approximately £27m as at 31 March 2014. These reserves are in place for specific plans and projects and will help the Council manage the financial challenges it faces over the next few years.

At 31 March 2014, the Council's general fund reserve which is available to meet unforeseen circumstances remained at £6.604m, which is in line with the agreed reserves policy. In addition, the Council held a Strategic reserve of £8.601m, an increase of £1.5m from 2012/13.

2014/15 onwards

The Council has developed a 4-year Council Plan for 2014-18 with a 4 year financial plan to delivery it. The Council is progressing with the developing of a new savings programme – Creating a Brighter Future, formerly the Change, Efficiency & Improvement Programme (CEIP) which aims to reduce cost through better demand management and improved self service.

The Council has already made savings of over £45m for the period 2011/12 to 2013/14. In addition, the Council plans to achieve further savings of over £66.5m over the period 2014/15/ to 2017/18.

The savings programme was developed using knowledge of front line staff, priorities of stakeholders (including staff, members, and residents) and challenges the traditional methods of delivery. It has challenged all services to find savings resulting in the production of business cases. These business cases were subject to scrutiny before being included in the 2014/15 Budget. The 2014/15 budget, which was approved by Council in February 2014, included plans to achieve the £16.552m of savings required. The Council is currently on track to deliver these savings.

Initial preparations on the 2015/16 budget have begun with Services, together with their Cabinet members working over the summer to develop options/proposals to deliver the savings required for 2015/16.

We used the Audit Commission's financial ratios and value for money profile tools as part of our work and shared the results with officers. All matters were satisfactorily resolved.

Criteria 2: Securing economy, efficiency and effectiveness – (met)

The Council challenged all services to find savings resulting in the production of business cases. These business cases were subject to scrutiny before being agreed and included in the budget. This approach has been developed using knowledge of front line staff, priorities of stakeholders and challenges the traditional methods of delivery.

As outlined above, the CEI programme (now the Creating a Brighter Future programme) has been in place since 2011/12 and as a consequence the Council have made savings of £45m in the 3 years since then, with plans to save over £80m by the end of 2015/16.

The Council continues to receive external feedback, for example, a recent external evaluation provided very positive feedback on the Council's Adult Social Care service.

The Council is continuing to work with its local authority partners to develop the Combined Authority. This new way of working should help to deal with economic growth, skills and transportation within the North East.

Appendix A – Draft management representation letter

North Tyneside Council - audit for year ended 31 March 2014

This representation letter is provided in connection with your audit of the statement of accounts for North Tyneside Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

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

I confirm as Section 151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

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

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on North Tyneside Council's financial position, financial performance and cash flows

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against North Tyneside Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Laws and regulations

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

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

Fraud and error

I acknowledge my responsibility as Section 151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

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

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

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I have disclosed to you the identity of North Tyneside Council's related parties and all related party relationships and transactions of which I am aware.

Future commitments

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

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or

disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

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

Unadjusted disclosure

I confirm that the effects of the uncorrected disclosure summarised below is immaterial to the statement of accounts as a whole and has therefore not been corrected

- Accounting Policies had been included in the Statement of Accounts but not as a Note, as required by section 3.4.2.17 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. I am content with the position of the Accounting Policies within the Statement of Accounts.

Yours faithfully

Patrick Melia

Section 151 Officer

Appendix B – Draft audit report

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

Opinion on the Authority financial statements

We have audited the financial statements of North Tyneside Council for the year ended 31 March 2014 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 2013/14.

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 Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer 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. Our 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 us 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of North Tyneside Council as at 31 March 2014 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 2013/14.

Opinion on other matters

In our 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 we report by exception

We report to you if:

- in our 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 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or

- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

The Authority 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority 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 Authority'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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Authority 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 us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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 Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, 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 2014.

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 authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Gareth Davies

For and on behalf of Mazars LLP

The Rivergreen Centre

Aykley Heads

Durham, DH1 5TS

Appendix C – Independence

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

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