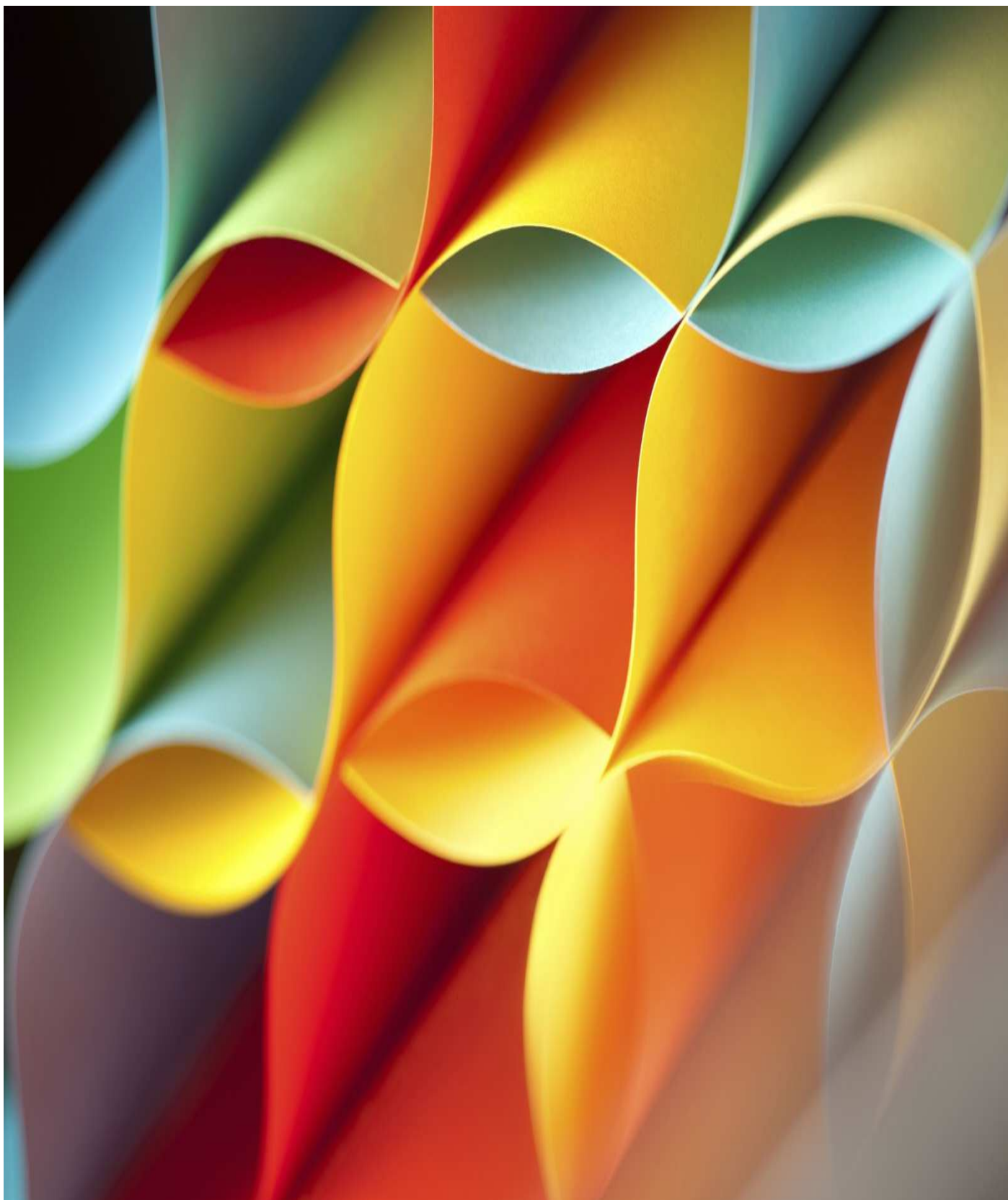


Audit Completion Report

North Tyneside Council – year ended 31 March 2015

September 2015



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Members of the Council
North Tyneside Council
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15 September 2015

Dear Members

Audit Completion Report – Year ended 31 March 2015

We are pleased to present our Audit Completion Report for the year ended 31 March 2015. 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 on 25 March 2015. 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

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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 audited body and we take no responsibility to any member or officer 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 2015 to the members of North Tyneside Council and forms the basis for discussion at Council meeting on 24 September 2015.

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; and
- receive feedback from you on 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 3 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 details of internal control recommendations in section 4 and a summary of misstatements discovered as part of the audit in section 5.

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2015. At the time of preparing this report the following matters remain outstanding:

Area outstanding	Work to be completed
IAS19 assurance from Tyne and Wear Pension fund auditor PWC	We have not yet received and reviewed the required assurance from the auditors of Tyne and Wear Pension Fund (PwC) over IAS 19 (pensions) related entries in the financial statements.
Comprehensive Income & Expenditure Statement / Housing Revenue Account – Expenditure testing	Work is ongoing in a small number of areas
Reserves	Work is ongoing in a small number of areas

We will provide an update on these outstanding matters in the form of a letter to Members of the Council. 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 2 October 2015. Our proposed audit report is set out in Appendix B.

02 Commentary on the financial statements

Comprehensive Income and Expenditure Statement (CIES)

The CIES shows the cost of providing services for 2014/15 prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2014/15. The statement shows a surplus for the year for the provision of services of £34.8m. As with other local authorities, the statement differs from the Council's reported performance on its revenue budget for 2014/15 because of items of expenditure which are correctly charged to CIES under accounting rules but are not charged to the General Fund under statute. The Council's performance against its revenue budget is set out in the Explanatory Foreword to the Statement of Accounts. The outturn position was on budget following transfers to reserves.

The CIES then accounts for other items, primarily the gains arising from the revaluation of Property, Plant and Equipment and a significant actuarial adjustment in the defined benefit liability for pensions and the bottom line result on the CIES is a surplus of £43m.

Movements in Reserves Statement (MIRS)

The MIRS takes the surplus on the provision of services of £34.8m, and adjusts it for the entries in the CIES that were required under accounting rules, but which are not chargeable to the General Fund under statute. Note 4 to the financial statements sets out the adjustments between the accounting basis and the funding basis.

The MIRS statement culminates in the closing balance on each of the Council's reserves. Total Useable Reserves represent real resources available to the Council. Between 31 March 2014 and 31 March 2015 these increased from £63.4m to £87.8m. The General Fund balance, which is available to meet unforeseen circumstances, remained at £6.6m.

Housing Revenue Account (HRA)

The HRA shows the financial performance of the Council's ring-fenced housing provision. The statement shows a surplus for the year for the provision of services of £34.1m (originally £6.5m) after being adjusted for the £26.5m misstatement noted in section 5 for an increase in council house valuations and also a minor adjustment for pensions interest. As with the CIES, this position differs from the Council's reported performance on the HRA for 2014/15 because of items of expenditure which are correctly charged to HRA under accounting rules but are not charged to the HRA under statute.

The HRA performance against its revenue budget is set out in the Explanatory Foreword to the Statement of Accounts. The outturn position represented a net underspend on the revenue budget for 2014/15 of £0.7m. The overall HRA balance increased from £2.8m to £3.7m.

Capital expenditure

The Council's capital programme aims to ensure that North Tyneside has the assets and infrastructure it needs, within the limits of affordability. Capital expenditure in 2014/15 was £88.6m, and £23m of this was financed from capital grants and contributions.

Balance Sheet

The Balance Sheet shows the value of the Council's assets and liabilities on a single date at the year end. It shows the Council's net assets of £174m which was an increase of £43m on last year. The most significant movement from last year relates to a £106m increase in the net book value of property, plant and equipment due to an increase in council house valuations, housing PFI additions and an increase in the valuation of assets (mainly schools) which are valued at depreciated replacement cost due to the specialist nature of asset and for which the building cost indices have increased. This is offset by an increase in the net pension liability of £60m following the latest assessment by the actuary and an increase of £20m in the Finance and PFI lease creditor due to PFI capital spend on Housing for older people. In addition there have been other smaller movements to make up the £43m movement, a £7m decrease in borrowing, a £4m decrease in capital grants receipts in advance, a £3.5m decrease in provisions and a £3m increase in short term debtors less creditors.

The Council's net assets are matched by reserves which comprise both useable (£87.8m) and unuseable (£86m) reserves. Useable reserves comprise the General Fund balances including schools balances (£14.2m), earmarked balances £53.4m, the HRA balance of £3.7m, £7.4m in a capital receipts reserve, £1.7m in the major repairs reserve and £7.3m of capital grants unapplied. Note 35 to the financial statements sets out the Council's useable earmarked balances in more detail, showing that £43.4m is held in General Fund earmarked reserves and £10m relates to the HRA. Although these reserves are earmarked, and in some cases they are ring-fenced for specific purposes, they do

provide the Council with some flexibility in managing in the current challenging financial environment.

03 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; and
- 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.

We updated our understanding and evaluation of internal control processes and procedures as part of our audit planning, including completion of a fraud risk assessment.

We obtained information from the Audit Committee and management on processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud.

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

There is a risk of fraud in financial reporting relating to income recognition due to the potential to inappropriately record revenue in the wrong period. ISA 240 allows the presumption of fraud relating to revenue recognition to be rebutted in exceptional circumstances, but given the Council's range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2014/15.

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, April and May 2015 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- for major grant income, we agreed amounts to third party documentation.

Audit conclusion

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

Pension liability

Description of the risk

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 risk

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

We liaised with the auditors of Tyne and Wear Pension Fund (PwC) and carried out procedures as appropriate.

Audit conclusion

Subject to review of the response from the local government pension scheme auditor PwC, our audit has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Accounting for schools

Description of the risk

CIPFA has issued guidance to Councils for 2014/15 in relation to the assessment and subsequent accounting for schools assets. We have discussed this guidance with officers to identify the Council's intentions in relation to the recognition of maintained schools assets in the 2014/15 financial statements.

How we addressed this risk

We assessed the robustness of the Council's conclusion in relation to the treatment to the assets of maintained schools and performed substantive testing at the year end, including the review of any prior period adjustments if appropriate.

Audit conclusion

Our work has provided the assurance we sought in relation to accounting for schools and has not highlighted any issues to bring to your attention.

Accounting policies and disclosures

We have reviewed North Tyneside Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

04 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.

We have not identified any significant deficiencies as a result of our work this year that we need to bring to your attention.

IT audit review

The objective of this work was to evaluate the controls in place over the IT environment (applications and underlying infrastructure), by:

- Understanding the IT environment, applications, interfaces and related controls; and
- Assessing the design and operating effectiveness of the controls in place over the main processes:
 - physical security;
 - backup and disaster recovery;
 - access management; and
 - change management.

Our work concluded that reliance can be placed on the IT General Controls operating over the systems identified as material for the 2014/15 financial audit and the underlying infrastructure.

No significant issues were identified that could have an impact on the financial accounts; however we made improvement recommendations on:

- removing all inflammable materials from the Data Centre.;
- performing regular testing of the disaster recovery plan;
- ensuring that access creation/modification is performed based on a formally documented and authorised request, clearly stating the access rights required by the new user/mover and access is restricted on a need-to-have basis;
- disabling generic accounts when they are inactive;
- ensuring that disabling leavers access is requested on a timely basis and all leavers have a formally documented and authorised disabling request;
- assigning a random, individual password at first logon;
- implementing a periodic review aiming to determine if user accounts are still required, covering users that have not logged on for more than 90 days, generic accounts and administrative accounts; and
- testing Operating System updates on sample (not critical) servers prior to implementation around the Council.

Relevant action plans have been established by the Council in order to address the identified risks.

05 Summary of misstatements

We set out below the misstatements identified during the course of the audit.

The first table outlines the non-trivial misstatements that were identified during the course of our audit for adjustment. Management has assessed these as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the material misstatements that have been adjusted by management during the course of the audit.

None of the adjusted misstatements identified during the audit resulted in a change to the Council's underlying financial position but the unadjusted misstatements below would increase the surplus by £700k.

Unadjusted misstatements 2014/15

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Bad debt provision on general fund (note 26)			331	
	Cr: CIES surplus		331		
£331k write offs not taken into account when calculating the bad debt provision resulting in the bad debt provision being overstated / debtors being understated by £331k and the surplus understated by £331k.					
2	Short term creditors other entities and individuals			369	
	Cr CIES surplus		369		
Audit testing of creditor amounts identified one item (£89k) where work was not carried out until 2015/16 therefore the creditor should not have been recognised. Our extrapolation of this error suggests an estimated overstatement of creditors of £369k.					

Adjusted misstatements 2014/15

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: PPE – Council houses Note 19			26,479	
	Cr. Useable reserves		26,479		

Audit work on council dwellings identified that the fair value at the end of the year was £26.479m higher than the carrying amount in the balance sheet. This adjustment impacts on various entries in the statements due to the nature of local authority accounting where adjustments are made to the CIES to arrive at the resources that are specified by statutory provisions to meet future capital and revenue expenditure. Adjustments have been made for this misstatement to the HRA, the MIRS, and Note 4 which sets out adjustments between accounting basis and funding basis under regulations.

Disclosure amendments

The financial statements have been amended for a number of other minor errors, omissions, rounding error corrections, clarifications and typographical errors. The main disclosure note misstatements identified during the course of the audit are outlined below, all of which have been amended by management.

Note reference	Error
Note 5 first table on page 50 and reconciliation to subjective analysis	Total employee expenses comparative for 2013/14 incorrectly included £2.8m relating to holding codes but credits were shown against other service expenses so employee costs too high and other service expenses too low. In 2014/15 childcare salary sacrifice deductions of £543,000 have been disclosed as a reduction of total employee expenses and the expense paid to third party supplier has been included in other service expenses. In 2013/14 the net figure of these two amounts was disclosed in other service expenses.
Note 5 Table reconciliation to subjective analysis	Testing identified that a £5m error had been made when calculating the "amounts not included in cost of services" which resulted in the fees & charges income amount shown in the draft accounts being too low and the support services and recharges income amount being too high.
Note 13 Housing benefit administration grant	The grant amount was disclosed as £1.5m but this included council tax transition grant. Amended to £1.2m and other grants (less than £1m) increased by £325,000.
Note 23 Kier North Tyneside Ltd	Amount due to Kier for other service streams was incorrectly calculated and should be £2.8m not £1.8m.
Note 29 Short term creditors	Other entities & individuals" included a balance of £3.3m which should be categorised as "Central Government bodies".
Note 31 long term borrowing maturity profile	Maturity profile for LOBO loans was incorrect - shown as £20m due in more than 2 to 5 years whereas £10m should be disclosed as due in 1 to 2 years and £10m in between 2 and 5 years This also impacts on note 41 maturity analysis table on page 117.
Note 41 Financial instruments - fair value of fixed rate borrowing liabilities	Error made when calculating the change in fair value of fixed rate borrowings liabilities, £58m disclosed instead of £57.8m.
Note 41 Financial Instruments -	The amount shown in the note setting out 'Other Financial Instruments' for short term debtors was reduced from £40.8m to £37m to reflect £3m VAT incorrectly included and an audit adjustment of £750,000 reclassified from short tem debtors to long term debtors.

06 Value for money

We are required to conclude whether, for 2014/15, 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: financial resilience and economy, efficiency and effectiveness.

We are also required to identify any significant risks in relation to Value for Money and then carry out specific work to address the risks. In the Audit Strategy Memorandum we identified a significant risk relevant to the value for money conclusion:

Significant Value for Money 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 has provided the assurance we sought in relation to financial resilience for 2015/16 and has 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. Summary findings in relation to the VFM significant risk that we identified can be seen in the table below. On the basis of our work, 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 ending 31 March 2015. We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

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 on budget with £7.1m contributed to reserves. The budget for 2014/15 included savings of £16.5m from the delivery of the Change, Efficiency and Improvement programme (CEI), now the Creating a Brighter Future (CBF) programme. These CBF savings are monitored by members at regular intervals as part of the overall financial position of the Council and were fully achieved in the year.

The Council adopts a prudent approach to its finances and has set aside reserves, both for unforeseen circumstances and for specific earmarked purposes. These secure the Council's immediate financial resilience. The Council has a

range of earmarked reserves for specific plans and projects that will help the Council to deliver its priorities. These reserves 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 currently has total useable reserves and balances at 31 March 2015 of £87.8m (2013/14 £63.4m) (analysis shown below with 2013/14 comparatives shown alongside):

Reserve / balance	£m 2014/15	£m 2013/14
General Fund balance	6.6	6.6
Earmarked General Fund reserves	43.4	33.2
Schools balances	7.6	6.6
HRA balance	3.7	2.9
Earmarked HRA reserves	10	3.1
Major repairs reserve	1.7	0.6
Capital receipts reserve	7.4	6.5
Capital grants unapplied reserve	7.3	3.9
Total	87.8	63.4

The financial outlook remains extremely challenging. As more and more savings are required, it has become increasingly difficult to achieve them without impacting directly on services. The Council anticipates that there will be further pressures in coming years. 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 (increased from £44m), £14.2m of this reduction must be made during 2015/16, which comes on top of the £28.790m 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. The Council approved a balanced budget for 2015/16 in February 2015. The net General Fund revenue budget was set at £156.8m and includes savings of £14.2m to be achieved through the Creating a Brighter Future Programme (CBF). The savings are embedded within service budgets and monitored as part of the overall financial position of the Council. The budget report sets out the factors and assumptions impacting on the budget, including current service pressures of £2m. Officers are working to deliver plans that will ensure pressures identified are managed and that spending remains within budget at the end of 2015/16.

Recent developments have added to the financial pressure on the Council. The Council is already working to manage the potential loss of £774,000 public health grant recently announced by the Department of Health. The Government's summer budget also announced a reduction in social housing rents for each of the years 2016-2020 and the extension of Right to Buy and sale of high value council housing stock which will impact on the HRA for 2016/17 and beyond. In addition, the Council is closely monitoring the position on services funded through North Tyneside CCG which ended 2014/15 with a deficit of £6.4m and has a planned deficit of £14.3m for 2015/16. The CCG is working with healthcare providers, NHS England and officers at North Tyneside Council to develop a financial recovery plan which aims to secure a balanced position for 2016/17 but the delivery of this plan could have implications for Adults and Children's social care services. Work is in progress to manage the position for 2015/16 but this remains a risk area for the Council.

The Council's three year planning timeframe for its Financial Strategy should assist in ensuring that there is a sustainable plan in place and provide the medium term planning horizon for workforce, assets and finance. The 2014-2018 Council Plan 'Our North Tyneside Plan' sets out the policy priorities as Our People, Our Place, Our Economy and Working with Our Partners. These priorities are being put into operation through the Creating a Brighter Future Programme. The Council's operational priorities are Ready for School, Ready for Work and Life, Cared for, Safeguarded and Healthy and A Great Place to Live, Work and Visit.

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 the Council's extensive consultation with residents, businesses and partner organisations and shaped by the priorities in the Council Plan.

Securing economy, efficiency and effectiveness

Like most local 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 also sought to implement an ambitious transformation programme and is seeking to build resilience within local communities and the voluntary sector. Economic development builds a stronger community and creates additional capacity and opportunity. Effective programme and project management is critical to deliver the required changes, manage the associated risks and ensure that the desired outcomes are delivered for the Council, the community and its residents.

The VFM profiles produced by the Audit Commission last year identify the Council as having above average expenditure per head in two areas. Firstly, expenditure on sexual health services are in the highest 5% when compared to others. 2013/14 was the first year the Council had responsibility for Public Health and most of the early spend was a continuation of the existing block contract. Since then, a retendering exercise has been completed which has reduced the cost of this contract and introduced additional levels of service for the same unit costs. The second area of high spend is on culture and sport where spend is in the highest 10% when compared to others. This high spend is in line with the priorities of the Council Plan 2014-2018. The Council made a conscious decision to invest in cultural services to improve residents' wellbeing and to make North Tyneside a destination of choice. Revenue growth was approved in 2013/14 to accommodate investment in joint service centres which housed library operations (e.g. Shiremoor Library Joint Service Centre and Wallsend & Whitley Bay Customer First Centre).

Significant risk summary findings

Area	Auditor challenge and findings	Conclusion														
<p>Review of 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.</p>	<p>We carried out a review of the savings as reported in the 2014/15 budget. A random sample of CEI business cases was selected and reviewed with officers. Our work identified that savings shown in the CEI (now CBF) programme have been achieved either as originally intended or by compensating savings within the service which originally proposed the saving. In addition we carried out a review of savings required in the 2015/16 budget which included a detailed challenge of the progress of monitoring and action plans for a sample of savings.</p> <p>Findings</p> <p>The 2015/16 Budget was approved by Council in February 2015. The budget was balanced with £1.4m contribution from reserves. The Council is required to identify savings of £14.158 million during the year as set out below by Creating a Brighter Future (CBF) theme:</p> <table border="1" data-bbox="360 1503 1179 1787"> <thead> <tr> <th>CBF Budget Theme Summary</th> <th>Budget Saving 2015/16 £'000</th> </tr> </thead> <tbody> <tr> <td>Ready for School</td> <td>1,415</td> </tr> <tr> <td>Ready for Work and Life</td> <td>257</td> </tr> <tr> <td>Cared For, Safeguarded & Healthy</td> <td>5,930</td> </tr> <tr> <td>Great Place to Live, Work & Visit</td> <td>649</td> </tr> <tr> <td>Enabling</td> <td>5,907</td> </tr> <tr> <td>TOTAL</td> <td>14,158</td> </tr> </tbody> </table> <p>We selected a sample of these 2015/16 savings and asked officers to provide detailed plans and proposals to support the headline figures and challenged whether these will be fully realisable. We were satisfied that there were plans in place to achieve the required savings but noted there are pressures of £2m, one main issue being corporate parenting and placements- £1.8m pressure - where demand continues to outstrip available resources. Officers are working on early intervention and prevention strategies which will take time to embed. In addition the service</p>	CBF Budget Theme Summary	Budget Saving 2015/16 £'000	Ready for School	1,415	Ready for Work and Life	257	Cared For, Safeguarded & Healthy	5,930	Great Place to Live, Work & Visit	649	Enabling	5,907	TOTAL	14,158	<p>Our review of achievement of savings in 2014/15 and earlier years however has shown that forecast savings are achieved in year and also that there are detailed plans in place to achieve the required savings in 2015/16.</p> <p>The Council is closely monitoring recent developments which have added to financial pressures</p>
CBF Budget Theme Summary	Budget Saving 2015/16 £'000															
Ready for School	1,415															
Ready for Work and Life	257															
Cared For, Safeguarded & Healthy	5,930															
Great Place to Live, Work & Visit	649															
Enabling	5,907															
TOTAL	14,158															

	<p>budget includes CCG income of £0.3m. We have noted above the deficit financial position of the CCG which could result in this income not being received and so add to the pressures.</p>	
<p>Review of the Medium-Term Financial Plan</p>	<p>We reviewed the Council's Medium Term Financial Plan and considered the robustness of budget estimates and significant assumptions made.</p> <p>Findings</p> <p>The Council introduced a three year Medium Term Financial Plan (MTFP) which was approved by Council in February 2015. The MTFP is aligned to the priorities of the Council Plan 2014-2018. The following issues were considered In assessing the robustness of the budget:</p> <ul style="list-style-type: none"> • the general financial standing of the Council; • the underlying budget assumptions from the financial strategy; • future budget pressures and growth proposals, including the impact of prudential borrowing for the 2015-2019 Investment Plan; • the adequacy of the budget monitoring and financial reporting arrangements in place; • the adequacy of the Authority's internal control systems; • the adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority; and • the implications of the Local Government Finance Settlement on the Authority's financial plan. <p>Based on our review, we are satisfied that the revenue estimates are considered robust and that the level of reserves is considered adequate to cover the financial risks faced by the Council in the medium term. However, this assessment is based on the requirement that spending will be reduced to meet the funding gap in the MTFP as any shortfall will put the Council's financial sustainability at risk.</p> <p>We challenged the financial assumptions included in the MTFP such as:</p> <ul style="list-style-type: none"> • employees' pay increases; • levels of investment income; • non achievement of required savings; and • Adults and Children services demand issues. <p>Taking account of the above we are satisfied that the Council has considered the key assumptions. All of the contingency amount of £1.3m included in the 2015/16 budget has been set aside. Officers are working to ensure that this is adequate to mitigate the risk that some of the assumptions applied may differ from actual events during 2015/16. It should be noted that there are also reserves in place should there be a shortfall, with £1.4m already set aside to support the 2015/16 budget. The current Financial Plan maintains the General Fund balance at the planned level of £5m over the life of the financial plan. This is in line with the Council's agreed Reserves and Balances Policy.</p> <p>The Council anticipates that there will be further pressures in coming years. Reductions in Central Government funding combined with increasing pressures, especially in demand-led services, means that there will be a need to make efficiencies estimated to be between £53-£56m over the next three years. £14.2m of this must be made during 2015/16, which comes on top of the £28.8m delivered over the last two years. The size of these savings represents a continuing and increasing challenge to the Council's effective financial planning and medium term financial</p>	<p>The MTFP is aligned to priorities and the budget plans are based on robust estimates and assumptions.</p>

	<p>sustainability. The Council has considered the assumptions relating to government funding (RSG) over this period and calculated its funding gap on this basis.</p> <p>The CBF programme sets out savings required of £17m for 2016/17 and £11.2m for 2017/18, although these plans may be revised if they are not considered to be achievable in the timescales.</p> <p>We are satisfied that there are plans in place to achieve the savings required to balance the budget in 2015/2016. Discussions are taking place to develop plans for future years.</p>	
<p>Review of budget monitoring reports and finance position updates</p>	<p>We reviewed the budget monitoring reports and other finance updates throughout 2014-15 and considered the robustness of the budget monitoring arrangements.</p> <p>Findings The risk that expenditure will exceed budget is mitigated by the existence of a robust revenue monitoring framework. Some key features of this framework are:</p> <ul style="list-style-type: none"> - Base budgets are adjusted for approved savings plans and standard budget monitoring identifies areas where plans are failing to deliver savings targets; - As part of bi-monthly budget monitoring, a report is tabled which collates all CBF programme savings (formerly CEI programme) and gives a red amber green (RAG) rating to progress; and - Budget monitoring papers are scrutinised by Finance sub committee and are seen at monthly SLT meetings. In addition the Deputy Mayor and Cabinet member for Finance have an informal meeting with Cabinet members responsible for those savings which are rated as red and amber. <p>In addition to the above, in the monthly updates to Cabinet there have been no unexpected significant under/overspends identified in 2014-15 or 2015-16 to date which have not been managed. This is in line with the performance in previous years and the Council has a good record of managing its budget.</p> <p>The Council complies with the Prudential Code which is reported on a Regular basis along with capital monitoring and complies with the Treasury Management Code. Budget holder responsibility and accountability is recognised as set down in Financial Regulations and in the roles and responsibilities section of the Budget Management Handbook.</p>	<p>The Council has a robust budget monitoring arrangements in place. The Council also has arrangements in place to ensure that financial position updates are reported.</p>
<p>Progress made in identifying savings required for 2016/17 and 2017/18</p>	<p>We reviewed the progress the Council has made in identifying the future savings required.</p> <p>Findings The CBF programme has been developed to ensure that the focus is on helping people to help themselves, thereby managing demand for council services, managing costs, working better with partners and designing services to deliver customer priorities.</p> <p>The Council has updated its budget savings programme for the two years 2016/17 -2017/18 in light of the summer budget. The original target savings have been increased from £17m and £11m respectively to £20m in each year. Senior officers and Cabinet members are currently working through the proposals for delivery of the savings in line with the usual and agreed process. The final business cases will go forward to November 2015 Cabinet.</p>	<p>The Council continues to make progress in identifying savings required. Work is already underway on proposed savings plans for future years in accordance with the Council's timetable.</p>

<p>Progress on the Council's Creating a Brighter Future CBF Programme</p>	<p>We have reviewed the progress on the Council's CBF programme.</p> <p>Findings</p> <p>The purpose of the CEI and now CBF Programme is to help groups and services identify opportunities for significant change in order to secure the best outcomes for North Tyneside residents and to ensure the efficiency, sustainability and continued value for money of council services within the available budget. The programme is intended to look at</p> <ul style="list-style-type: none"> • the services that the council provides • the way in which services are delivered • how the council operates and getting the best out of our employees through workforce development and engagement <p>CBF priorities have been established for the following areas:</p> <ul style="list-style-type: none"> • Ready for School; • Ready for work and life; • Cared for , safeguarded and healthy; and • Great place to live work and visit. <p>Within the plans, there are a range of options being considered including looking at alternative service delivery models, partnership working and improving workforce strategies. The Council is planning to define a set of outcomes and priorities that will have measures sitting beneath them which will enable the Council to redesign and review services moving forward. There is clear evidence that the Council is challenging the way that services are delivered and whether they are receiving value for money.</p>	<p>The Council continues to make progress on CBF Programme</p>
<p>Progress on two key capital projects - the development of the former Swan Hunter site and coastal regeneration</p>	<p>We were concerned that any problems in project delivery could impact adversely on the Council's delivery of change in the area, delay much needed improvements and incur unnecessary costs. As part of our audit work this year we selected two key projects for our focus, the Swans and Coast regeneration projects, to assess how well the risks were being managed.</p> <p>Findings</p> <p>North Tyneside Council has shown ambition and drive in the work around the regeneration of the Swans site and the Coast. The Swan's site is one of the most complex regeneration sites in Northern Europe and officers recognise the complexity of the project and the risks that arise as a result of reclaiming the site. It is in the nature of the project that the higher risks will mean delay due to any issues which arise for instance the contamination issues. Work is progressing and actions have been agreed by officers at each monthly governance board meeting.</p> <p>The Council can point to successes in the regeneration of the Coast that have brought significant benefits to the people of North Tyneside. Most recently around 4,000 visitors to Whitley Bay used the seaside land train, as part of a four-day trial and following positive feedback, the Council is considering making a land train or a similar vehicle a more permanent seasonal feature. The Council has recently gone out to tender for the procurement of an operator for the Dome and officers are currently evaluating proposals. The new procurement process will mean the heritage lottery funding bid will be submitted in November 2015. Members are being updated as appropriate on progress.</p>	<p>The Council continues to make progress on the financial planning of the two major projects.</p>

	<p>Our review of arrangements identified that:</p> <ul style="list-style-type: none"> • project management arrangements were clear and streamlined, with regular meetings of each project team and a monthly project board meetings with appropriate representation from senior officers; • our review of risk documentation and other key supporting evidence for the management arrangements for the project indicated a robust and comprehensive approach was being adopted; • there have been some contentious issues to address and consequent delays in the projects to date; these are perhaps not unexpected due to the nature of the projects and the complexity of the arrangements. The evidence reviewed suggests that the Council has continued to manage its way through these in a professional manner; • Feedback from the recent engagement event on the Coast regeneration Masterplan indicated that on the whole views were positive. There were issues raised for example on the central promenade which are currently being discussed but generally proposals around beach huts, cycle hire and shelters were well received; and • On the Swans project there are issues still to be resolved, for instance there are risks around the timeline which the Investment programming board are working on. The complexities and risks affect timing of delivery but all delivery partners and the Council are well aware of these and meet monthly to discuss with extra board meeting taking place when need be to resolve critical issues. <p>We do not have any recommendations to make in relation to the arrangements for the projects.</p>	
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Appendix A – Draft management representation letter

To be provided to us on headed note paper

24 September 2015

Dear Mr Davies

North Tyneside Council - audit for year ended 31 March 2015

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 2015 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 the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Head of Finance 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 affect 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 other 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 the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

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

Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

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

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

Impairment review

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

Future commitments

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

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 the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the statement of accounts as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours faithfully for and on behalf of North Tyneside Council

Janice Gillespie
Head of Finance

Appendix to letter of representation

Schedule of unadjusted misstatements

Unadjusted misstatements 2014/15					
		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Bad debt provision on general fund (note 26)			331	
	Cr: CIES surplus		331		
£331k write offs not taken into account when calculating the bad debt provision resulting in the bad debt provision being overstated / debtors being understated by £331k and the surplus understated by £331k.					
2	Short term creditors other entities and individuals			369	
	Cr CIES surplus		369		
Audit testing of creditor amounts identified one item (£89k) where work was not carried out until 2015/16 therefore the creditor should not have been recognised. Extrapolation of this error amounts to £369k.					

Appendix B – Draft audit report

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

Opinion on the Council financial statements

We have audited the financial statements of North Tyneside Council for the year ended 31 March 2015 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, 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 2014/15.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Head of Finance and auditor

As explained more fully in the Statement of the Responsibilities for the Statement of Accounts, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, 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 Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance 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 2015 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 2014/15.

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 Council 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 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the 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 Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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 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 us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

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 2015.

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 30 September 2015

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.