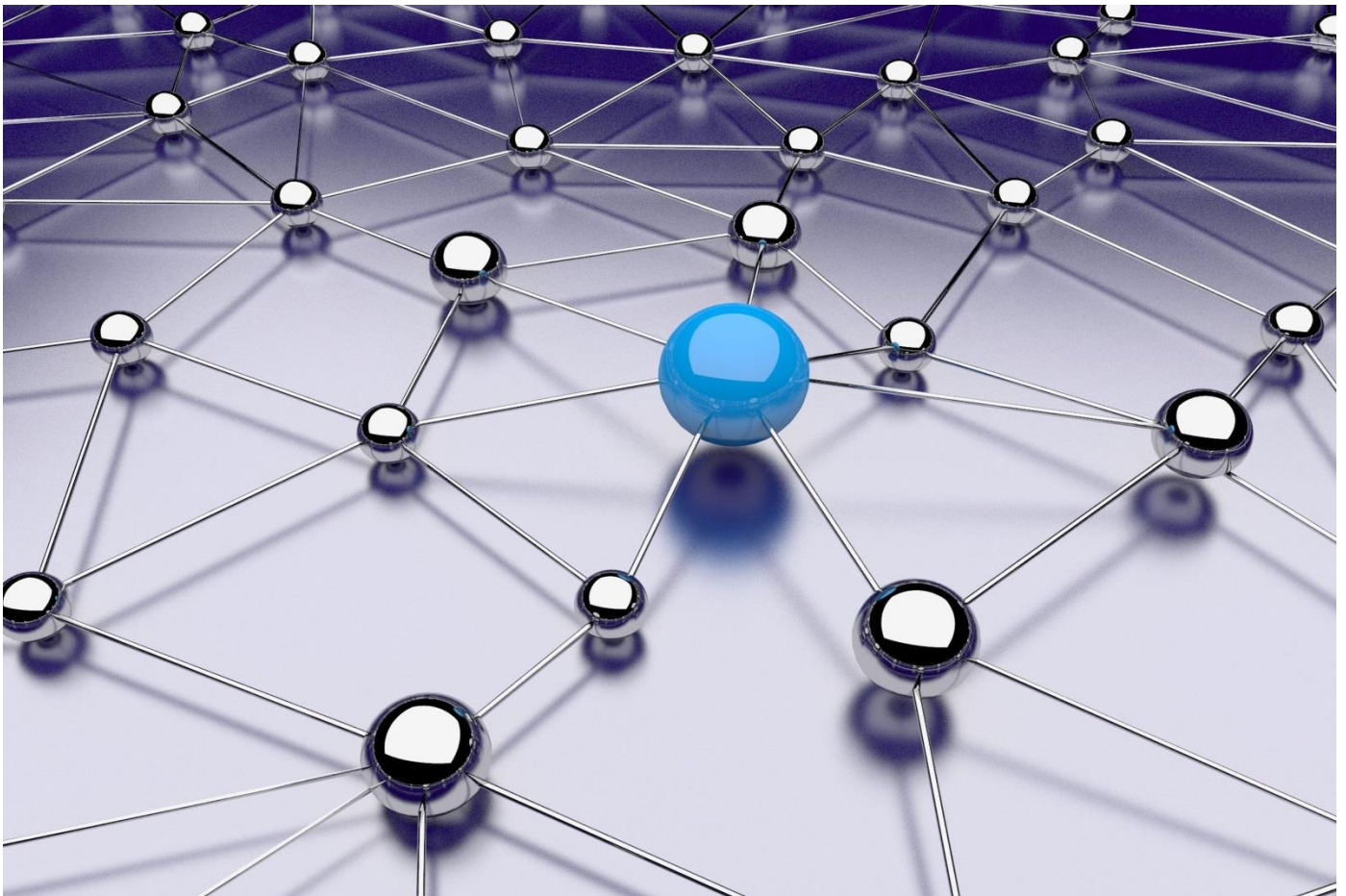


Annual Audit Letter 2015/16

North Tyneside Council

October 2016



North Tyneside Council

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

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26 October 2016

Dear Members

North Tyneside Council Annual Audit Letter 2015/16

We are pleased to present to you the North Tyneside Council 2015/16 Annual Audit Letter.

We carried out our audit in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Local Audit and Accountability Act 2014.

We issued an unqualified opinion on the financial statements and an unqualified value for money conclusion for the year.

I would like to express my thanks for the assistance of the Council, in particular senior officers as well as Members of the Audit Committee; the continued constructive approach to our audit is appreciated. We look forward to working with officers in the coming year as they continue to streamline the financial statements ahead of the earlier deadlines for 2017/18.

If you would like to discuss any matters in more detail, please do not hesitate to contact me.

Yours faithfully

Gareth Davies
Partner
Mazars LLP

01 Overall messages

Purpose of this letter

This Annual Audit Letter provides a summary of our work and findings for the 2015/16 audit period for Members and other interested parties of North Tyneside Council (the Council).

We presented our Audit Completion Report to the Audit Committee on 21 September and full Council on 22 September 2016 which, together with the follow-up letter we issued, provides more detail of the work we have undertaken in 2015/16. Our outline plan was set out in the Audit Strategy Memorandum we issued for the year and we updated Members throughout the year. The key conclusions for each element of our audit are summarised below.

Our audit of the financial statements

We issued our audit report including an unqualified opinion on the Council's financial statements on 22 September 2016.

Our audit proceeded smoothly and we are grateful for the cooperation of the finance team. There were a number of errors identified, in relation to Property, Plant and Equipment, however none of these impacted upon the Council's usable reserves. Further details are provided in the sections that follow.

Our value for money (VfM) conclusion

We performed our work in line with the guidance issued by the National Audit Office to provide us with sufficient assurance the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

We issued an unqualified value for money conclusion on 22 September 2016. Further details are provided in the sections that follow.

Whole of Government Accounts (WGA)

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments. We issued our certificate, closing this year's audit, on 18 October 2016 on completion of our work on your Whole of Government Accounts return by the deadline of 21 October 2016.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Local Audit and Accountability Act 2014. These include responding to questions on the financial statements raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions or objections in relation to the Council's 2015/16 financial statements from local electors, nor did we exercise our wider reporting powers.

Further details

Further details in respect of our audit of the financial statements are available in our Audit Completion Report (and follow-up letter) presented to the Audit Committee and full Council on 21 and 22 September 2016.

02 Financial Statements

Audit of the financial statements

We audited the Council's financial statements in line with auditing standards and we reported the detailed findings of the audit in our Audit Completion Report and subsequent follow-up letter. We issued an audit report including an unqualified opinion on the Council's financial statements on 22 September 2016 (with the formal certificate issued on 18 October 2016 following completion of the Whole of Government Accounts return work).

Preparation of the accounts

The draft financial statements were of a good quality overall, as was the standard of supporting working papers and the co-operation of officers throughout was appreciated.

Issues arising from the audit of the accounts

The audit progressed smoothly and we had the full cooperation of management and the finance team. There were only a small number of disclosure errors. A number of errors in relation to Property, Plant and Equipment were identified however we were satisfied these overall did not have a material impact on the financial statements.

The Council has an action plan in place to prepare for the earlier closedown in 2017/18; we will continue to work with the Council over the coming year to identify areas where processes could be streamlined.

Significant risks

We identified and carried out work in respect of the following significant risks:

- management override of controls (an inherent risk on all audits);
- revenue recognition (when income is recognised);
- expenditure recognition (when expenditure is recognised); and
- pension transactions and balances (material figures subject to complex actuarial assumptions).

Our testing provided us with the assurance sought, subject to the internal control recommendations we agreed with management.

Annual Governance Statement (AGS)

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

Weaknesses in internal control

We identified no significant deficiencies in internal control (noting our work is not intended to express an opinion on the effectiveness of the system of internal control). We highlighted several internal control recommendations as set out below.

- Members' interests: ensuring changes to interests are declared within 28 days as required by the Code of Conduct.
- Adult Social Care: ensuring there is adequate evidence to support rates paid for care.
- Property, Plant and Equipment: consistency of the Valuer's judgement in respect of similar assets.

- Private Finance Initiative: inclusion of retention monies in estimates.
- Cut-off testing: recommendation arising from testing.
- Property: ensuring there is a signed tenancy agreement in place.
- Journals: maintaining an audit log of deleted journals.
- Several recommendations arising from our IT follow-up audit in relation to user access.

Officers have agreed actions to address each of these recommendations.

Assurance to the National Audit Office

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments. We issued our certificate, closing this year's audit, on 18 October 2016 on completion of our work on your Whole of Government Accounts return by the deadline of 21 October 2016.

03 Value for money conclusion

We are required to reach a conclusion on whether the Council has arrangements in place to secure value for money (VfM) in its use of resources.

We do this by considering the Council's arrangements against the two criteria specified by the National Audit Office. This guidance asks us to conclude on whether *'in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people'*.

VfM sub-criteria	Description
Informed decision-making	Financial and performance information and reliable and timely financial reporting. Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	Effective planning of finances. Organisational development.
Working with partners and other third parties	Working with third parties effectively. Commissioning services effectively.

We identified one significant risk in relation to our VFM review, in relation to the level of savings required over coming years; we were able to gain sufficient assurance in relation that risk.

As part of our work, we also:

- reviewed your annual governance statement;
- reviewed the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities (where applicable); and
- carried out any risk-based work we determined to be appropriate.

Summary comments from our work are set out in the next pages.

Conclusion

On the basis of our work, we were satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

We have highlighted in our commentary the significant challenges facing the Council in coming years.

Significant VfM risk

VfM significant risk – level of savings required

Description of the risk

The Council is facing continuing financial pressures from reduced funding, increased demand and changing responsibilities. The Council is responding to these challenges via a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services, encapsulated in its 'Target Operating Model' and 'Creating a Brighter Future' programme.

The latest medium-term financial strategy forecasts the need to make savings of £14.2 million in 2015/16, as well as a further £15.7 million in 2016/17. In addition, the Council needs to make further savings of £23.6 million in 2017/18 and £16.5 million in 2018/19 in order to deliver a balanced budget.

The level of savings the Council needs to achieve over the period of its medium-term financial strategy, on top of savings already achieved in recent years, represents a significant risk to the value for money conclusion.

How we addressed this risk

We carried out audit procedures reviewing the robustness of:

- the medium-term financial strategy;
- budget monitoring reports and other finance updates; and
- a sample of the savings plans and underlying assumptions to their delivery.

Our Audit Completion Report sets out more details of the work we carried out, with summary comments included below.

Medium-term financial strategy

The Council approved an updated medium-term financial strategy (MTFS) in February 2016, covering 2016-2019, based on the refreshed 'Our North Tyneside' strategic plan and building on the previous year's MTFS. We considered the robustness of the MTFS as a whole, critically challenging the assumptions it has been based on. Overall, our assessment is that the MTFS is robust, subject to the deliverability of the planned savings, which the Council itself acknowledges is a key financial risk to monitor. The Council is aware it needs to keep its MTFS under review, in light of known key financial risks as well as any emerging ones and that strong underlying budget monitoring remains crucial to the overall resilience of the Council.

Budget monitoring

The Council has continued to report regularly on its financial performance to both Cabinet and the Finance sub-Committee. The 2015/16 outturn was an overall net underspend of £1.6m. The latest budget monitoring report to Cabinet in September 2016 highlights early significant financial pressures as at the end of July 2016 which will require close monitoring and underline the scale of financial challenges ahead.

Savings plans

We reviewed a sample of savings in order to assess the reasonableness of plans in place and their deliverability. Overall, we obtained appropriate evidence to support the savings being projected. Close monitoring of the achievement of savings is critical to the medium-term financial strategy.

VfM significant risk – level of savings required

Conclusion

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

The scale of financial challenges facing the Council is increasing each year. A robust Medium-Term Financial Strategy is in place, predicated upon the achievement of targeted savings linked to the Council's transformation programme.

The Council is well aware that it needs to maintain a focus on robust underlying budget management as well as monitoring the achievement of savings and developing plans for future years' savings.

We set out below other summary commentary from our Audit Completion Report in respect of our VfM conclusion work.

Informed decision-making

The Council has continued to regularly report on its financial performance via regular reports to Cabinet and the Finance sub-committee. As noted from the most recent finance report (September 2016), the financial pressures on the Council are increasing. The Council is well aware of this and recognises the need to maintain robust budget monitoring and regularly report on its financial performance along with taking corrective action when required.

Sustainable resource deployment

The Council recognises the importance of a robust workforce strategy and having a sustainable workforce in the future to support its strategic priorities, which may be increasingly made up of a mix of public, private and voluntary support. The demands of coming years, will challenge the Council in sustaining a fit-for-purpose workforce.

Working with partners and other third parties

The Council is party to an increasingly wide range of partnerships and recognises the importance of these in delivering on its objectives.

Fundamental to the Council's overall future state is the Creating a Brighter Future transformation programme, underpinned by the establishment of a 'Target Operating Model' which is central to ensuring the Council's structure is fit-for-purpose in the future and that it can commission services effectively. Fully setting out this target operating model is a significant task which requires breaking down services and critically examining (and challenging) what is needed; this work is in progress.

04 Future challenges

In addition to continuing reductions in central government funding, the Council has highlighted the following as areas of potential governance risk for 2016/17 in its Annual Governance Statement:

- Housing Revenue Account (risks arising from reduced income);
- Delivery of the Creating a Brighter Future Programme (CBF – a new plan for delivery representing major cultural change encapsulated within the Target Operating Model);
- The Better Care Fund Agreement with North Tyneside Clinical Commissioning Group (financial pressures on the CCG);
- Risks arising from the business rates retention changes;
- On-going information governance risks to manage;
- On-going management of partnerships which will be increasingly important as the Council changes how it delivers services; and
- Potential education policy changes.

In addition, the Council will need to monitor any impact on its finances and operations arising from the ongoing devolution debate in the North East and the UK vote to leave the EU.

In the meantime, it is important that the Council continues to focus on robust budget management and delivery of the savings required, taking corrective action where appropriate.

05 Fees and closing remarks

As outlined in our Audit Strategy Memorandum presented to the Audit Committee on 30 March 2016, Public Sector Audit Appointments Ltd (PSAA) set a scale fee for our audit and certification work for 2015/16. The fees applicable to our work in 2015/16 are summarised below.

Audit fee work

Element of work	2014/15 Final fee	2015/16 Scale Fee (as previously reported)	2015/16 Final fee
Code audit work	£181,020	£135,765	£135,765
Certification work	£16,100	£16,970	£16,970*
Total	£197,120	£152,735	£152,735

*The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim. We will confirm the final fee charged for certification work when we issue our 2015/16 Certification Report.

Non audit fee work

Element of work	2014/15	2015/16
Skills for Funding Agency subcontracting controls assurance	n/a	£1,500
Pooled Capital Receipts return	£1,800	£1,800
Teachers' Pensions return	£3,750	£3,750
SCITT (Schools Initial Teacher Training)	n/a	£2,000
Total	£5,550	£9,050

Closing remarks

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

- attendance at Audit Committee meetings where we inform the Committee about progress on the audit, report our key findings and update it about developments in the public sector and the wider environment; and
- hosting relevant events, such as our Accounts workshops and our regional governance forum.

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

Report	Date issued
2015/16 Audit Fee Letter	April 2015
Audit Strategy Memorandum	March 2016
Progress reports (verbal or written) to Audit Committee	To each meeting
Audit Completion report, including follow-up letter	September 2016
Auditor's Report	September 2016
Annual Audit Letter	October 2016

Appendix A – materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assumed that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We considered materiality whilst planning and performing our audit.

Whilst planning, we made judgements about the size of misstatements which we considered to be material and which provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

In 2015/16 we set materiality at the planning stage at £6.604 million (being capped at the level of the General Fund balance) with a clearly trivial threshold of £0.198m below which identified errors will not usually be reported. We set lower materiality levels for the accounting entries we consider to be more sensitive, for example, senior officer's remuneration, as we considered these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, remained unchanged (as the level of the General Fund balance did not change).

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit and we reported in our Audit Completion Report all unadjusted misstatements we identified other than those which were clearly trivial, and obtained written representation that explained why these remain unadjusted.

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

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