South Tyneside Council

Provisional Audit Planning Report

Year ended 31 March 2026

29 April 2026

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Audit Committee
South Tyneside Council
Town Hall & Civic Offices Westoe Rd
South Shields
NE33 2RL

Dear Audit Committee Members,

Provisional Audit Planning Report 2025/26

We are pleased to attach our Provisional Audit Planning Report for the forthcoming meeting of the Audit Committee. The purpose of this report is to provide the Committee with a basis to review our proposed audit approach and scope for the 2025/26 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards, and other professional requirements.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be, and should not be used, by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you at the next Audit Committee meeting as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully,

Claire Mellons

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment and further guidance (updated October 2025)' issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/contract-monitoring-2023-24-to-2027-28/terms-of-appointment-from-2023-24/terms-of-appointment-and-further-guidance-from-1-october-2025/3/)sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice 2024 (the NAO Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of South Tyneside Council. Our work has been undertaken so that we might state to the Audit Committee and management of South Tyneside Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of South Tyneside Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2025/26 audit strategy

2025/26 audit strategy overview: Rebuilding Assurance

The purpose of this report

As the Council's body charged with governance, the Audit Committee plays a crucial role in ensuring assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support a timely and efficient audit. Failure to achieve this will significantly increase the level of resources required to fulfil our respective responsibilities.

As part of our responsibilities, we assess and report on the adequacy of the Council's external financial reporting arrangements, as well as the effectiveness of the Audit Committee in fulfilling its role within those arrangements as part of our Value for Money assessment. Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit. Wherever necessary, we will consider invoking other statutory reporting powers to highlight any weaknesses in these arrangements. We direct Audit Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) for expectations on preparing financial statements (see Appendix A).

Our shared strategy to rebuild assurance

We are now in Phase 2 of the implementation of the Ministry for Housing, Communities and Local Government's (MHCLG) measures to address the backlog facing local government audit. Throughout 2023/24 and 2024/25, we have applied a structured, risk-based prioritisation approach to local government audits to support a return to unqualified audit opinions wherever feasible, while still meeting statutory backstop requirements. Our approach recognises that recovery depends heavily on the Council's own capacity and preparedness and that audit effort must be targeted where it can deliver meaningful assurance.

Management has overall responsibility for leading and sustaining the Council's recovery from a disclaimed audit opinion. This includes ensuring that the financial statements are prepared in accordance with proper practices and supported by complete, accurate and timely audit evidence.

To deliver this, it is essential that management:

- Provide high quality working papers and ensure that all audit evidence is complete, consistent and readily accessible.
- Allocate sufficient, knowledgeable resources throughout the audit cycle.
- Address the errors in accounting for property, plant and equipment (PPE) and PPE valuation methodology.
- Address the errors identified in prior year in respect to IFRS implementation for Leases and Private Finance Initiative contracts.
- Actively engage with auditors, promptly addressing findings and resolving weaknesses in financial reporting arrangements.
- Communicate transparently with the Audit Committee, as Those Charged with Governance, ensuring that Committee members have clear visibility of risks, progress and emerging issues.

In line with the National Audit Office's Local Audit Reset and Recovery Implementation Guidance (LARRIGs) - and specifically the guidance on rebuilding assurance following a disclaimed opinion - management must support the restoration of reliable opening balances and enable a phased progression from disclaimed to qualified and ultimately unmodified audit opinions. Achieving this requires sustained delivery of the "natural rebuild," through the completion of all planned audit procedures across successive annual cycles, alongside targeted work to rebuild assurance over historical balances, including both usable and unusable reserves, where cumulative gaps in evidence present the most significant challenges.

2025/26 audit strategy overview: Rebuilding Assurance

Our shared strategy to rebuild assurance continued

Appendix A explains the expected timeline to full assurance set out within the NAO's LARRIG 01 guidance, along with our assessment of the Council's status. During 2023/24 and 2024/25, the focus of the rebuild process has been on this "natural" rebuild, to complete all planned audit procedures for each respective audit year. As we set out in Appendix A, as set out in our Audit Results Reports dated 19 February 2025 and 20 January 2026, we were not able to complete all planned audit procedures for these years. This was caused by a number of factors, which included but is not limited to:

- Capacity constraints in the Council's finance team led to delays in provision of audit evidence and ultimately led to issues identified being unresolved as the Council finance team prioritised other account areas.
- Capacity constraints in the Council's valuations team led to significant delays in the provision of evidence to facilitate our PPE valuation procedures.
- Methodology issues were identified for the Council's PPE valuations. The scale of these issues meant that the Council could not resolve these in advance of the backstop date.
- Inefficiencies in provision of evidence, whereby requests for supporting evidence needed to be returned to management as they were not always clear on the evidence requested and evidence provided for audit was not always clear complete or of sufficient quality.

As part of our interim audit procedures for 2025/26, we will undertake a detailed risk assessment to evaluate the risk of material misstatement in the opening reserves balances at 1 April 2025, and to assess management's readiness to support the historic rebuild process over transactions and balances in 2022/23, and subsequent years, that were not subject to audit. This work is expected to be completed by 30 June 2026 and is essential to determining whether the gaps in assurance - particularly those relating to reserves and other cumulative balances - can be sufficiently addressed to support future progression towards qualified or unmodified audit opinions.

We will discuss the outcome of our risk assessment over the opening reserves balances with management to confirm our planned approach for 2025/26. However, because we were unable to complete all planned audit procedures for 2023/24 and 2024/25 for the reasons outlined above, it is unlikely that we will commence any rebuilding of assurance over the historic position during the 2025/26 audit cycle. In line with our established prioritisation principles, we will focus our audit resources on rebuilding assurance for those bodies where planned audit procedures were completed in 2023/24 and 2024/25, to support the sector wide objective of returning to unmodified audit opinions as quickly and sustainably as possible.

It is therefore critical that management ensure they can provide high quality working papers, robust audit evidence, and resolve the underlying issues identified in prior years as part of the 2025/26 audit cycle. This will be essential to avoid any further delay in the eventual process for rebuilding assurance over the Council's historic position.

2025/26 audit strategy overview: Rebuilding Assurance

Preparedness for audit

Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit. Our 2024/25 reporting included our assessment of the effectiveness of the Council's arrangements to support the external audit process across a range of relevant measures (reproduced in Appendix A). We concluded that improvements were required in relation to the Council's preparedness for audit in relation to:

- Delays in the provision of evidence to support the valuation of PPE land and buildings from the Council's valuer.
- The provision of working papers in line with the agreed Client Assistance Schedule and timetable.
- Effective co-ordination between the Council and EY on changes to the availability of key finance personnel to support the execution phase of the audit in accordance with the agreed project plan.
- The completeness and accuracy of the draft financial statements submitted for audit, including required IFRS 16 related entries and disclosures.

We will continue to report on our assessment of the quality of the Council's financial statements' preparation and support, to support ongoing transparency of the audit process to those charged with governance, and to facilitate benchmarking and tracking of progress in future years.

Scope of our audit

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. Additionally, we aim to ensure that the Council has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO Code. We will issue an Audit Results Report that the summarises our opinion on the financial statements by 30 November 2026 and other procedures required by the Code. This includes our assessment of the control environment, including our follow up of the recommendations that we made in 2024/25 (refer to Appendix C). In addition, our Auditor's Annual Report will conclude on whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Our Group risk assessment and procedures are outlined in Section 5.

Timeline

An audit timetable has been agreed with management. In Section 7 we include a provisional timeline for the audit. It is essential that all parties collaborate to ensure compliance with this timeline. As in previous years, we will agree upon a project plan for the operational timeline with management, in advance of the audit commencing at the beginning of July 2026.

Our independence considerations

No independence issues have been identified. Please refer to Appendix B for our update on independence.

2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus

The purpose of our audit is to obtain reasonable assurance to express an opinion about whether the Group financial statements as a whole are free from material misstatement, whether due to fraud or error.

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk/area of focus	Risk identified	Change from PY	Details
Presumptive risk of management override of controls	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We noted that Revenue Expenditure Funded from Capital under Statute (REFCUS) was material in the prior year. Therefore, if material in 2025/26, we will test a sample to confirm that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. We have also assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Accounting for Minimum Revenue Provision (MRP)	Fraud risk	New risk	We have identified that the Council have implemented a change in the Minimum Revenue Provision (MRP) calculation, whereby the approach has changed from a straight-line asset model to an annuity model. This change was made during 2025/26, taking effect from December 2025. This has had a material impact on the reported financial outturn, with MRP reducing significantly under the new methodology. This has, in turn, reduced the projected year end deficit being reported in the Council's outturn position from £12.94 million per the 2025/26 quarter two budget monitoring report to £7.63 million per the 2025/26 quarter three budget monitoring report. The budget monitoring reports indicate that the largest contributor to this improved projected deficit is an improved projected underspend by the Business & Resources directorate from £7.48 million in quarter 2 to £16.61 million in quarter 3. As a result, we consider this to be a specific risk of an area for potential management override of controls.

2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus continued

Risk/area of focus	Risk identified	Change from PY	Details
Valuation of land and buildings, including Council dwellings	Significant risk	Increase in risk	Land and buildings are the most significant assets on the Council's Balance Sheet. There are multiple valuation methods utilised by the Council such as Market Value (MV), Depreciated Replacement Cost (DRC) and Historic Cost. The EUV and DRC valuation methods for land and buildings have more complex judgements and assumptions associated and, due to the significant balances in these asset categories, small changes in these assumptions and judgements can have a significant impact upon the financial statements. We identified issues in the valuation methodology applied by the Council's internal valuer as part of our 2024/2025 audit. The issues were unable to be resolved before the backstop date, with the Council opting to revisit their approach for 2025/26. We also noted errors in the accounting for componentisation of PPE assets as part of our 2024/25 audit and management agreed to revisit the methodology for these transactions for 2025/26. Similarly, for Council Dwellings, we noted errors in the componentisation of capital additions as well as the valuation movement for dwellings that had differentiating factors from the valued beacon from the same category. In the 2025/26 financial statements the Council will also be required to apply CIPFA Bulletin 22 which reassesses the current regime of valuation for non-investment assets across the public sector. The guidance mandates a quinquennial revaluation or a five-year rolling programme for formal valuations, supported by annual indexation in the intervening years. Successful implementation will depend on the Council ensuring that their existing valuation programme is adapted in line with the guidance and that appropriate indices are selected to be applied in intervening years. The Council has not yet confirmed their planned approach to valuation of these assets in 2025/26 to us. We will therefore consider this, once known, as part of our ongoing planning and will tailor our risk and approach appropriately in response.

2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus continued

Risk/area of focus	Risk identified	Change from PY	Details
IFRS 16 implementation – Private Finance Initiative (PFI)	**Significant risk**	Increase in risk	The Council was required to apply IFRS 16 for the first time in 2024/25. Following review of the Council's models and methodology for implementation for PFIs, we noted that the approach was not in line with our expectations under CIPFA guidance. As a result, we utilised our EY Financial Accounting Advisory Services (EY FAAS) colleagues to review the methodology. EY FAAS raised several queries to management for response but, due to capacity constraints, these were not responded to before the backstop date. As a result, we were unable to obtain assurance over the implementation of IFRS 16 for Private Finance Initiative contracts. Accordingly, IFRS 16 implementation for PFIs will be addressed as part of the 2025/26 audit. Given prior-period issues and the related disclaimer, we assess a heightened risk of material misstatement.
Valuation of pension assets and liabilities	**Risk of material misstatement**	No change in risk or focus	Accounting for the Council's participation in the Tyne and Wear Pension Fund involves significant estimation and judgement, including financial and demographic assumptions. There is a risk that the net pension asset/liability recognised is materially misstated, as its recognition and measurement is subject to significant management judgement, including the application of the IAS 19 asset ceiling and the assessment of the Council's ability to realise future economic benefits. The Council engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. The triennial LGPS valuation has been completed, with a valuation date of 31 March 2025. There is a potential further risk that the triennial valuation highlights conditions that may mean the Council's pension assets and liabilities are not appropriately valued.
Airport valuation	**Risk of material misstatement**	No change in risk or focus	The Council's investment in Newcastle Airport is to be revalued in 2025/26 by an external valuer. The complexity of the valuation has meant we have identified this valuation as having a higher inherent risk of material misstatement. The assumptions applied in the valuation are highly subjective. We also note that the valuation has previously been completed internally by the Council, so engaging an external valuer means there will be a change in methodology in 2025/26.

2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus continued

Risk/area of focus	Risk identified	Change from PY	Details
Lease accounting	Risk of material misstatement	Change in focus	The Council was required to apply IFRS 16 for the first time in 2024/25. We identified errors in the Council's implementation, which included the recognition of IFRS 16 remeasurement of Right of Use Assets being accounted for as in year additions rather than as an opening balance adjustment. We also identified that the Council had not appropriately accounted for peppercorn leases and that components of the remeasurement calculations were incorrect. Due to capacity constraints, these matters were not resolved in 2024/25, and we were therefore unable to complete our planned audit procedures in respect of leases. As a result, we are required to address the implementation of IFRS 16 as part of our 2025/26 procedures. Given the value of the Council's leases, we deem this to represent a risk of material misstatement, rather than a significant risk. This risk has, therefore, been disaggregated from the risk pertaining to PFI contracts, which we have identified as a significant risk.
Understatement of Expected Credit Loss (ECL) methodology	Risk of material misstatement	New risk	During the 2024/25 audit, we identified issues in management's methodology for calculating the expected credit loss for Collection Fund and Social Care debtors, whereby significantly aged balances were not being included in the consideration. Following discussions with management, it was agreed that the methodology would be revised for 2025/26. Given the value of these debtors and the provision (£21.43 million in 2024/25) recognised by the Council, we consider there to be a greater risk of material misstatement in the financial statements.
Quality of financial statements	Risk of material misstatement	Change in focus	In the previous audit periods, we identified a high volume of errors and areas that required a significant effort by management to ensure that the accounting treatment and disclosures in the financial statements were compliant with CIPFA requirements. Further detail is included in Appendix A of this report. Due to time and capacity constraints, these matters could not be resolved by management ahead of the backstop date. As a result, we believe this matter gives rise to a risk of material misstatement in the areas we were unable to obtain assurance on in the prior year; these are PPE (including Council Dwellings), Short-term Collection Fund Debtors, Short and Long-term Creditors, Leases, PFI, HRA Expenditure, Other Expenditure, Reserves, Group Accounts, Cashflow Statement and Disclosures of Officers Remuneration and Exit Packages.

2025/26 audit strategy overview: Audit risks and materiality

Group materiality

Planning materiality
£13.27m

Group materiality has been set at £13.3 million, which represents 1.8% of gross expenditure in 2024/25 (2024/25: £736.99 million, 1.8%).

Performance materiality
£6.63m

Group Performance materiality has been set at £6.63 million, which represents 50% of materiality.

Audit differences
£0.66m

We will report all uncorrected misstatements relating to the income statement and balance sheet that have an effect on income and misstatements in the OCI over £0.66 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Council materiality

We have performed a calculation of the planning materiality figures based on the disclaimed 2024/25 financial statement figures. We have identified that the Group materiality figures are lower than the single entity materiality figures due to intercompany adjustments made. The allocated performance materiality for the Council must be below the Group performance materiality; therefore, we have restricted the single entity to be £6.60 million, being below group equivalent of £6.63 million.

Whilst we have restricted the single entity performance materiality, we have used the same percentages for determining Council materiality. Please see the below thresholds for Council materiality and audit differences:

Planning materiality: £13.35 million

Performance materiality: £6.60 million

Audit differences: £0.66 million

We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

2025/26 audit strategy overview: Value for Money

Our risk assessment

Under the NAO Code we are required to:

- Satisfy ourselves that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, having regard to NAO AGN 03.
- Design work to provide sufficient assurance to support reporting against the Code's specified reporting criteria outlined below; and
- Apply a risk-based approach to our work, informed by sector knowledge, the annual governance statement, evidence from the financial statements audit and relevant work of other bodies.

In undertaking our risk assessment, we obtain an understanding of the key processes the Council has in place, including financial management, risk management and partnership working arrangements. Our Auditor's Annual Report, which will be issued before 30 November 2026 will include a summary of our commentary on the arrangements in place against each of the three value for money criteria and recommendations raised as a result of any significant weaknesses identified. A key part of our work will be the follow up of previous recommendations to provide the Committee with assurance on the pace of planned improvements.

	Financial sustainability How the Council plans and manages its resources to ensure it can continue to deliver its services.	**Governance** How the Council ensures that it makes informed decisions and properly manages its risks.	**Improving economy, efficiency and effectiveness** How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
Risks of significant weaknesses in arrangements identified in 2025/26:	▪ Significant financial pressures on the Council's ability to deliver services	▪ Constraints on the resource capacity within the Council, including finance and wider teams with input to the financial statements, which impair the Council's ability to support their statutory financial reporting obligations.	▪ No significant risks identified
Recommendations identified in 2024/25 (refer to Appendix C):	▪ Although we did not report a significant weakness in financial sustainability, we issued a recommendation to address the risk of significant weakness. Please see Appendix C.	• We recommended that the Council continues to reassess roles, responsibilities and resource requirement for financial reporting, including an assessment of the support required from other areas within the Council in order for the financial reporting function to meet its objectives. • Although not a significant weakness, We also issued a recommendation relating to the independence of internal audit. Please see Appendix C.	▪ No recommendations made in 2024/25.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Presumptive risk of management override of controls*

What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
In accordance with ISA 240, the presumptive risk of management override of controls is present at every entity and we design the appropriate procedures to consider such risk. ▪ Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. ▪ Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud.	To address the risks outlined we will carry out a range of procedures including: ▪ Identifying fraud risks during the planning stages. ▪ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▪ Understanding the oversight given by those charged with governance of management's processes over fraud. ▪ Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions). ▪ Considering whether there are any fraud risk factors associated with related party relationships and transactions and if so, whether they give rise to a risk of material misstatement due to fraud. ▪ Considering the effectiveness of management's controls designed to address the risk of fraud and determining an appropriate strategy to address those identified risks of fraud. ▪ Performing mandatory procedures, including testing of journal entries and other adjustments in the preparation of the financial statements where we identify a risk of fraudulent reporting. ▪ Undertaking procedures to identify significant unusual transactions. ▪ Considering whether management bias was present in the key accounting estimates and judgements in the financial statements. Having evaluated this risk, we have considered whether we need to perform other audit procedures not referred to above. We concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure' and 'accounting for Minimum Revenue Provision (MRP)' risks are required.

Our response to significant risks

Inappropriate capitalisation of revenue expenditure*

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure. If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE) additions and REFCUS in the financial statements. These accounts had the following balances in the 2024/25 accounts: ▪ REFCUS: £11.9 million ▪ PPE additions: £86.1 million	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through: ▪ Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger. ▪ Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so. ▪ Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.	To address the risks outlined we will carry out a range of procedures including: ▪ Testing Property, Plant and Equipment (PPE) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. ▪ Assessing whether the capitalised spend clearly enhances or extends the useful like of asset rather than simply repairing or maintaining the asset on which it is incurred. ▪ Testing REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. Based on our work at the planning stage of the audit we do not expect there to be material REFCUS in the year. ▪ Seeking to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

Our response to significant risks

Accounting for Minimum Revenue Provision (MRP)*

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Misstatements that occur in relation to accounting for Minimum Revenue Provision (MRP) impact the Council's budget outturn position. In 2024/25, the Council's MRP charge was £19.3 million.	We have identified that the Council have implemented a change in the Minimum Revenue Provision (MRP) calculation, whereby the approach has changed from straight-line asset model to an annuity model. This change was made during 2025/26, taking effect from December 2025. This has had a material impact on the reported financial outturn, with MRP reducing significantly under the new methodology. This has, in turn, reduced the projected year end deficit being reported in the Council's outturn position from £12.94 million per the 2025/26 quarter two budget monitoring report to £7.63 million per the 2025/26 quarter three budget monitoring report. The budget monitoring reports indicate that the largest contributor to this improved projected deficit is an improved projected underspend by the Business & Resources directorate from £7.48 million in quarter 2 to £16.61 million in quarter 3. As a result, we consider this to be a specific risk of management override of controls. There is a risk that the in-year change is not appropriate and that this methodology has been applied to reduce the deficit being reported, in light of financial pressures.	To address the risks outlined we will carry out a range of procedures including: ▪ Review of the specialist report provided by Mitsubishi UFJ Financial Group (MUFG) to South Tyneside Council in respect of change in methodology. ▪ Obtaining from management their assessment of why the mid-year change in MRP calculation is allowable in line with capital financing regulations and the CIPFA Code. We will review and challenge this assessment, drawing on our EY technical experts as appropriate ▪ Performing a recalculation of MRP Provision using the annuity method outlined in CIPFA Code. ▪ Assessing the impact on the financial statements, including whether the disclosure requirements of the CIPFA Code have been met.

Our response to significant risks

Valuation of land and buildings, including Council dwellings

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
We have assessed there is a significant risk relating to the valuation of land and buildings. In the 2024/25 audited financial statements, the value of the Council's land and buildings were material. ▪ Council dwellings - £590.54 million ▪ Other buildings - £370.88 million ▪ Other land - £67.98 million A small change in the assumptions used in the valuation could result in a material impact for the financial statements.	Land and buildings are the most significant assets on the Council's Balance Sheet. There are multiple valuation methods utilised by the Council such as Market Value (MV), Depreciated Replacement Cost (DRC) and Historic Cost. The MV and DRC valuation methods for land and buildings have more complex judgements and assumptions associated and, due to the significant balances in these asset categories, small changes in these assumptions and judgements can have a significant impact upon the financial statements. We identified issues in the valuation methodology applied by the Council's internal valuer as part of our 2024/2025 audit. The issues were unable to be resolved before the backstop date, with the Council opting to revisit their approach for 2025/26. We also noted errors in the accounting for componentisation of PPE assets as part of our 2024/25 audit and management agreed to revisit the methodology for these transactions for 2025/26 In the 2025/26 financial statements the Council will be required to apply CIPFA Bulletin 22 which reassesses the current regime of valuation for non-investment assets across the public sector. The guidance mandates a quinquennial revaluation or a five-year rolling programme for formal valuations, supported by annual indexation in the intervening years. Successful implementation will depend on the Council ensuring that their existing valuation programme is adapted in line with the guidance and that appropriate indices are selected to be applied in intervening years.	To address the risks outlined we will carry out a range of procedures including: ▪ Engaging EY internal valuation specialists to assess the Council valuer's methodology and assumptions. ▪ Reviewing the work of the Council's valuer to assess the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▪ Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre, yield, future rental income); ▪ Considering the annual cycle of valuations to ensure that land and buildings assets have been valued as part of a five-year rolling programme as required by the CIPFA Code of Practice. ▪ Assessing the appropriateness of the methodology for accounting for componentised assets. ▪ Test accounting entries have been correctly processed in the financial statements. ▪ Challenging the assumptions of managements valuation calculations for Council Dwellings to ensure they are supportable and in line with expectations, such as the increase rate of 5% applied to Beacon properties that have differential factors from the actual valued building and capitalisation of "internals". ▪ Considering any specific changes to assets and ensure they have been appropriately reflected in valuations in the accounts. ▪ Review of the valuation methodology to confirm compliance with current valuation guidance and requirements of the CIPFA Bulletin 22. We will verify that the indexation rates used by the Council is aligned to the CIPFA provided rates.

Our response to significant risks

IFRS 16 implementation – Private Finance Initiative

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Misstatements that occur in relation to IFRS 16 implementation for Private Finance Initiative (PFI) balances would affect the both the balance sheet and income statement account accounts. These accounts had the following balances in the 2025/26 financial statements: Income statement accounts: ▪ Expenditure on PFI schemes £25.818 million Balance sheet accounts: ▪ PFI Assets £92.89 million ▪ PFI Liabilities £91.21 million	The Council were required to apply IFRS 16 for the first time in 2024/25. Following review of the Council's models and methodology for implementation, we noted that the approach was not in line with our expectations under CIPFA guidance. As a result, we utilised our EY Financial Accounting Advisory Services (EY FAAS) colleagues to review the methodology. EY FAAS raised several queries to management for response but, due to capacity constraints, these were not responded to before the backstop date. As a result, we were unable to obtain assurance over the implementation of IFRS 16 for Private Finance Initiative contracts. Consequently, we are required to address the implementation of IFRS 16 as part of our 2025/26 audit procedures. Given the issues identified in the prior period and the prior period disclaimer relating to the adoption of the new standard, we consider there to be a greater risk of material misstatement.	To address the risks outlined we will carry out a range of procedures including: ▪ Engaging EY internal specialists to review the PFI models and methodology for adopting IFRS 16 ▪ Gaining an understanding of the processes and controls developed by the Council relevant to the implementation of IFRS 16. ▪ Gaining assurance over valuation of the right of use asset included in the 2025/26 financial statements

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Valuation of pension assets and liabilities		
The Council's net pension liability is measured as the sum of the long-term payments due to members as they retire against the Council's share of the Tyne and Wear Pension Fund investments. At 31 March 2025 the Council's net liability totalled £13.45 million, relating to the unfunded pension balance. The funded pension asset was restricted by £242.15 million to nil in line with the accounting requirements of IFRIC 14.	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. The triennial LGPS valuation has been completed, with a valuation date of 31 March 2025. There is a potential further risk that the triennial valuation highlights conditions that may mean the Council's pension assets and liabilities are not appropriately valued.	To address the risks outlined we will carry out a range of procedures including: ▪ Liaising with the auditor of Tyne and Wear Pension Fund to obtain assurances over the information supplied to the actuary and confirm joint assurances in respect of employer and employee contributions. ▪ Engaging our actuarial specialists to assess the work of the actuary. This will involve a consideration of the liability and any calculation of the asset ceiling in accordance with IFRIC 14 where relevant. ▪ Liaising with the auditor of Tyne and Wear Pension Fund to obtain assurances over the triennial valuation of membership data as at 31 March 2025 which is to be reflected in the 2025/26 financial statements. ▪ Engaging our actuarial specialists to perform a roll forward of pension liabilities from the most recent triennial valuation (31 March 2025). ▪ Assessing the work of PwC, appointed to consider actuarial assumptions used at the year end for all local government sector bodies. ▪ Reviewing and testing the accounting entries and disclosures made within the Group and Council's financial statements in relation to IAS19. ▪ Considering the valuation and disclosure of unfunded liabilities, for which there are no plan assets to meet the pension liabilities. ▪ Reviewing the IAS 19 report for 2025/26 and the 2025 triennial valuation to determine if the conditions which resulted in the change in values related to conditions that existed in years prior to 31st March 2025;

Other areas of audit focus

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Airport valuation		
The relevant 2024/25 account balances in the audited financial statements were: Airport Investment : £12.97 million	The Council's investment in Newcastle Airport is to be revalued in 2025/26 by an external valuer. The complexity of the valuation has meant we have identified this valuation as having a higher inherent risk of material misstatement. The assumptions applied in the valuation are highly subjective. We also note that the valuation has previously been completed internally by the Council, so engaging an external valuer means there will be a change in methodology in 2025/26.	To address the risks outlined we will carry out a range of procedures including: ▪ Obtaining and reviewing calculations used in the determination of investment valuations. ▪ Considering the work performed by the Council's external valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. ▪ Engaging EY internal valuation specialists to assess the methodology and assumptions applied by the Council's external valuer.
Lease accounting		
The relevant 2024/25 account balances in the audited financial statements were: Right of use assets - £7.45 million Lease liabilities - £4.91 million	The Council were required to apply IFRS 16 for the first time in 2024/25. We identified errors in the Council's implementation, which included the recognition of IFRS 16 remeasurement of Right of Use Assets being accounted for as in year additions rather than as an opening balance adjustment. We also identified that the Council had not appropriately accounted for peppercorn leases and that components of the remeasurement calculations were incorrect. Due to capacity constraints, these matters were not resolved, and we were therefore unable to complete our planned procedures in respect of Leases. As a result, we are required to address the implementation of IFRS 16 as part of our 2025/26 procedures.	To address the risks outlined we will carry out a range of procedures including: ▪ Gaining an understanding of the processes and controls developed by the Council relevant to the implementation of IFRS 16. We will pay particular attention to the Council's arrangements to ensure lease and lease-type arrangements considered are complete. ▪ Reviewing the discount rate that is used to calculate the right of use asset and assess its reasonableness. ▪ Reviewing management policies, including whether to use a portfolio approach, low value threshold, and asset classes where management is adopting as the practical expedient to non-lease components. ▪ Gaining assurance over the right of use asset included in the 2024/25 financial statements ▪ Sample testing leases to ensure that transition arrangements have been correctly applied. ▪ Considering the accounting for leases provided at below market rate, including peppercorn and nil consideration, and the need to make adjustments to cost in the valuation of right of use assets at the balance sheet date.

Other areas of audit focus

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Appropriateness of Expected Credit Loss (ECL) methodology		
The relevant 2024/25 account balances in the audited financial statements were: Expected credit loss - £21.428 million	During the 2024/25 audit, we identified issues in management's methodology for calculating the expected credit loss for Collection Fund and Social Care debtors, whereby significantly aged balances were not being included in the consideration. Following discussions with management, it was agreed that the methodology would be revised for 2025/26. Given the value of these debtors and the provision recognised by the Council, we consider there to be a greater risk of material misstatement in the financial statements.	To address the risks outlined we will carry out a range of procedures including: ▪ Obtaining a paper on management's updated methodology to confirm it is compliant with IFRS 9 Financial Instruments. ▪ Assessing the appropriateness and adequacy of the expected credit loss allowance calculated under the Council's updated methodology. ▪ Performing a recoverability assessment for a sample aged debts, with particular focus on Collection Fund and Social Care debtors, to see if they support the calculation methodology applied by management.
Quality of financial statements		
We attach this risk to each of the account areas where we were unable to complete all planned audit procedures for the 2024/25 audit. These are PPE (including Council Dwellings), Short-term Collection Fund Debtors, Short and Long-term Creditors, Leases, PFI, HRA Expenditure, Other Expenditure, Reserves, Group accounts, Cashflow Statement and Disclosures: Officers Remuneration and Exit Packages.	In the previous audit periods, we have noted capacity constraints within the finance team where the Council have been unable to support the audit to the agreed timescale to meet the backstop date. As a result, this has contributed to the disclaimer of opinion issued in preceding periods.	To address the risks outlined we will carry out a range of procedures including: ▪ Engaging in regular communication with the Council finance team to ensure delivery against the agreed upon project plan deadlines. ▪ Considering using the lower end of recommended testing thresholds to areas where we were unable to complete all planned procedures in the preceding audit period. ▪ Performing detailed financial statements review and complete review of CIPFA Disclosure requirements to assess compliance with requirements of the Code.

03 Value for money

Value for money

Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with the financial statements, the Council is required to bring together a commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

Financial sustainability

How the Council plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the Council ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Value for money

Planning and identifying risks of significant weakness in value for money arrangements

The NAO's guidance notes require us to conduct a risk assessment that collects sufficient evidence to document our evaluation of the Council's arrangements, allowing us to draft a commentary under the three reporting criteria. This involves identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. In considering the Council's arrangements, we consider:

- The annual governance statement;
- Evidence of arrangements during the reporting period;
- Evidence obtained from our audit of the financial statements;
- The work of inspectorates and other bodies; and
- Any other evidence that we deem necessary to facilitate the performance of our statutory duties.

We then evaluate whether there is evidence indicating significant weaknesses in arrangements. According to the NAO's guidance, determining what constitutes a significant weakness and the extent of additional audit work required to address the risk is based on professional judgment. The NAO indicates that a weakness can be considered significant if it:

- Exposes, or could reasonably be expected to expose, the council to significant financial loss or risk;
- Leads to, or could reasonably be expected to lead to, significant impact on the quality or effectiveness of service or on the council's reputation or unlawful actions;
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

When planning work identifies a risk of significant weakness, the NAO's guidance requires us to consider the additional evidence needed to verify whether there is a significant weakness in arrangements. This involves conducting further procedures as necessary. We are required to report our planned procedures to the Audit Committee.

Reporting on value for money arrangements

If we determine that the Council has not made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, the NAO Code mandates that we reference this by exception in the audit report on the financial statements.

Additionally, we are required to provide a commentary on the value for money arrangements in the Auditor's Annual Report. The NAO Code specifies that this commentary should be clear, readily understandable, and highlight any issues we wish to draw to the Council's or the wider public's attention. This may include matters that are not considered significant weaknesses in arrangements but should still be brought to the Council's attention. It will also cover details of any recommendations from the audit and the follow-up of previously issued recommendations, along with our assessment of their satisfactory implementation. Our 2025/26 Auditor's Annual Report must be issued in draft by 30 November 2026 to comply with the revised requirements of the NAO Code.

Value for money

Status of our 2025/26 value for money planning

We have yet to complete our detailed value for money planning. We have outlined our judgements on arrangements in 2024/25, and risks identified during the 2025/26 planning phase as at the date of this report below. As a result, a significant area of focus will be on the Council's financial sustainability arrangements as well as the capacity of the finance and wider teams to support the statutory financial reporting obligations. We will update the next Audit Committee meeting on the outcome of our value for money planning and our planned response to any additional identified risks of significant weaknesses in arrangements.

Criteria	2024/25 judgements on arrangements	2025/26 risk assessment	2025/26 expected procedures to respond
Financial sustainability	We identified a risk of significant weakness in arrangements relating to the significant financial pressures in Adult and Children Services. We concluded that this did not constitute a significant weakness in 2024/25.	▪ We have reviewed the Council's budget outturn report and noted continued budgetary pressures and identified that the deficit has been reduced due to an in-year change in Minimum Revenue Provision (MRP) calculation methodology. ▪ As a result, we have broadened our financial sustainability risk in 2025/26 to relate to the Council as a whole, rather than just the pressures in delivery of Adult and Children Services.	We will: ▪ Consider the robustness of the Council's 2025/26 savings plans including delivery included in the Medium-term financial plan (MTFP). In doing so, we will also corroborate actual savings reported for the year against underlying evidence. ▪ Assess whether the assumptions used in the MTFP are reasonable and supported by appropriate and reliable information. ▪ Gain an understanding of the governance process for the development and approval of the MTFP. ▪ Consider the robustness of the Council's reserve policy. ▪ Engage in discussions with wider officers of the Council involved in the budgetary process and those involved in the service areas under the greatest financial pressure. ▪ Review whether the 2025/26 and 2026/27 budgets were set on a prudent basis and aligned to the MTFP. ▪ Review significant overspends and confirm that these are in line with the sector and the Council's service delivery responsibilities. ▪ Assess the level of usable reserves against financial sustainability risks. ▪ Assess the robustness of treasury management arrangements as well as the Council's reliance on borrowing. ▪ Review the revised MRP methodology and confirm this is in line with statutory requirements and guidance for 2025/26.

Value for money

Status of our 2025/26 value for money planning

We have yet to complete our detailed value for money planning. We have outlined our judgements on arrangements in 2024/25, and risks identified during the 2025/26 planning phase as at the date of this report below. As a result, a significant area of focus will be on the Council's financial sustainability arrangements as well as the capacity of the finance and wider teams to support the statutory financial reporting obligations. We will update the next Audit Committee meeting on the outcome of our value for money planning and our planned response to any additional identified risks of significant weaknesses in arrangements.

Criteria	2024/25 judgements on arrangements	2025/26 risk assessment	2025/26 expected procedures to respond
Governance	We reported a significant weakness in arrangements. Constraints on the resource capacity within the Council, including finance and wider teams with input to the financial statements, which impair the Council's ability to support their statutory financial reporting obligations	▪ The prior year significant weakness is an indicator of a risk in the current year. We identify this risk as relevant again for 2025/26.	▪ We will continue to assess the Council's arrangements to facilitate the external audit process. ▪ We will monitor the Council's progress against the agreed upon project plan for audit procedures and the quality of responses to requests for audit evidence. ▪ We have reported a significant weakness relating to the finance team capacity in both 2023/24 and 2024/25. If similar matters are identified as part of the 2025/26 audit, then we will consider whether we need to use any of our statutory auditor powers, such as the issuance of statutory recommendations for consideration by full Council, to highlight the seriousness of the matter.
Improving economy, efficiency and effectiveness	We did not identify any risks of significant weaknesses.	▪ No risks identified.	▪ Not applicable – no risks identified.

04 Audit materiality

Materiality

Group materiality

For planning purposes, Group materiality for 2025/26 has been set at £13.27 million. This represents 1.8% of the Group's 2024/25 gross expenditure on provision of services. It will be reassessed throughout the audit process. We have calculated planning materiality using 1.8% of gross expenditure as the Council is a not-for-profit entity, so focus of the users will be on annual expenditure rather than profit. We have provided supplemental information about audit materiality in Appendix F.

Gross expenditure on provision of services

£736.99m

Planning materiality **£13.27m**

Performance materiality **£6.63m**

Audit differences **£0.66m**

We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £6.63 million which represents 50% of group materiality. We adopt 50% of group materiality due to the prior period disclaimer and level of prior period misstatements.

Audit difference threshold – We will report to you all uncorrected misstatements over £0.66 million, relating to the income statement and balance sheet that have an effect on income and misstatements in the OCI.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee or are important from a qualitative perspective.

We have performed a calculation of the planning materiality figures based on the disclaimed 2024/25 financial statement figures. We have identified that the Group materiality figures are lower than the single entity materiality figures due to intercompany adjustments made. The allocated performance materiality for the Council must be below the Group performance materiality; therefore, we have restricted the single entity to be £6.60 million, being below group equivalent of £6.63 million.

Whilst we have restricted the single entity performance materiality, we have used the same percentages for determining council materiality. Please see the below thresholds for Council materiality and audit differences:

Planning materiality: £13.35 million
Performance materiality: £6.60 million
Audit differences: £0.66 million

We have not scoped in any components of the Group at planning stage, other than the Council itself. We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

05 Scope of our audit

Audit process and strategy

Objectives of our audit scoping

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. Additionally, we aim to ensure that the Council has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO Code. We will issue an audit report that covers:

1. **Financial statement audit**

Our opinion on the financial statements:

- Whether the financial statements give a true and fair view of the financial position of the group and its expenditure and income for the period in question; and
- Whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the National Audit Office.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Internal audit

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

In 2024/25, the Council's Internal Audit Annual Report concluded that there is a sound system of control in place, reporting substantial assurance.

Scoping the group audit

Group scoping

The Council prepares its annual report and financial statements on a group basis. In line with ISA (UK) 600, our audit strategy for performing an audit of a group with multiple components is risk-based and our scoping of the group audit responds to the risks of material misstatement that we have identified for the group financial statements.

In the prior period, the Council's subsidiary South Tyneside Homes was assigned specific scope, and we planned to perform procedures centrally.

The subsidiary and its housing services were transferred into the Council during 2024/25, and the subsidiary is expected to be immaterial to the Group in 2025/26. The Council intend to wind the company up, but this remains a live entity at the planning phase of the 2025/26 audit.

The other group entities are immaterial or dormant and therefore are not in scope for group audit procedures.

We have commenced our risk assessment procedures and group scoping for 2025/26 . Based upon our preliminary assessment, we have not identified any Individually Relevant Components (IRCs) or Additionally Relevant Components (ARCs) other than the Council which is assigned full scope again for 2025/26. For the residual balances in the Group financial statements relating to the out-of-scope group entities, we will perform further risk assessment procedures to confirm that there is no risk of material misstatement within those balances.

There are no material residual balances for the Group outside of South Tyneside Council. We will communicate any changes to the above expectations to the Audit Committee. We will also reassess our group scoping at year-end and remain alert to changes that would impact our assessment.

06 Audit team

Audit team

Audit team leadership

The engagement team is led by Claire Mellons, who has overall responsibility for the performance of the audit and for the auditor's report issued on behalf of EY.

There are no changes to the core team members from the team who performed the 2024/25 audit.

Our approach to the use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where EY specialists are expected to provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations team
Defined benefit obligation assets and liabilities	EY Actuaries
Valuation of Airport investment, Waste Plant and Energy Centres	EY SAT
PFI	EY Financial Accounting Advisory Services

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Group's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- Assess the reasonableness of the assumptions and methods used
- Consider the appropriateness of the timing of when the specialist carried out the work
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Claire Mellons
Partner in Charge

Kelita Naidoo
Manager

Ben Wade
Assistant Manager

Jonny Mason
Lead Senior

Specialist 1
(EY Real Estates)

Specialist 2
(Specialist PWC consulting actuary and EY Actuaries)

Specialist 3
(EY SAT)

Specialist 4
(EY FAAS)

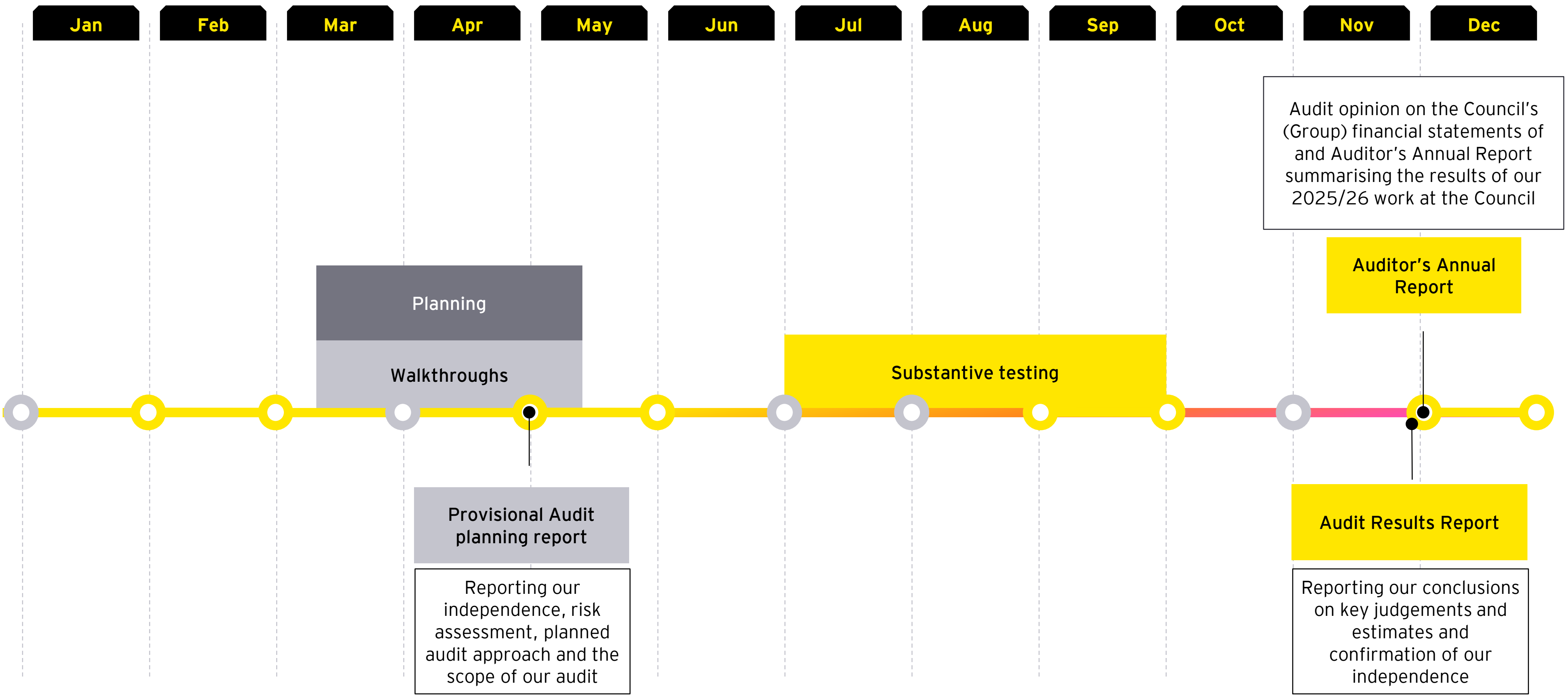
07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2025/26.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Appendices

Appendix A — Rebuilding assurance: responsibilities

The Council's responsibilities

As set out in Appendix B our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular, the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- assign responsibilities clearly to staff with the appropriate expertise and experience;
- provide necessary resources to enable delivery of the plan;
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable, and the start date of the audit will be delayed.

Observations from 2024/25

As we have outlined in prior years, our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit. We presented our views on the effectiveness of the Council's arrangements to support external financial across a range of relevant measures as part of our 2024/25 Audit Results Report.

We have repeated this assessment on the following page. Where we have been unable to undertake all planned procedures, this is likely to extend the timetable to recover assurance on the Council's financial statements, see the following page for further details.

Appendix A – Rebuilding assurance: responsibilities continued

Factors impacting the execution of the 2024/25 audit

Area	Status (R / A / G)	Explanation	Further detail
Timeliness of the draft financial statements	Effective	The financial statements were published by the 30 June 2025 deadline set out in the Accounts and Audit Regulations. This included the Council's Annual Governance Statement, which meant that inspection period fully complied with the requirements of the Accounts and Audit Regulations 2015 for this year.	N/A
Quality and completeness of the draft financial statements	Requires improvement	There were a number of non-material internal inconsistencies, typographical and arithmetical errors in the draft financial statements that we would expect to be identified by internal quality review procedures prior to publication.	N/A
Timeliness and quality of evidence supporting key accounting estimates	Ineffective	Significant delays were experienced in the provision of supporting evidence from the Council's internal valuation team to support the estimate of valuation of land and buildings in the financial statements. In addition to these delays, the quality of evidence and explanations provided were not of the required quality resulting in multiple further requests for clarification and evidence which resulted in significant delays to the audit process. Through audit team procedures and consultation with internal valuation specialists, we also identified fundamental concerns with the valuation methodology used by the Council's internal valuation team. These were raised with management, who determined that it would not be possible to resolve the issues within the audit timeline and would instead revisit this for 2025/26. Management were unsuccessful in engaging an external specialist to value their shareholding in Newcastle International Airport. The finance team made their own estimate of the valuation. Although the valuation was deemed within a reasonable range, management's methodology that was not in line with standard valuation practice. As a result of the delays and quality of evidence not being at a standard we expect, we were unable to express an opinion on the financial statements for 2024/25.	We were unable to complete all our planned procedures for PPE valuations. We expect to raise a scale fee variation in relation to delays in delivery and additional audit procedures required in light of issues encountered. The absence of external specialists in determining the valuation of the Airport Investment led to additional procedures being requested, for which we expect to request a variation to the audit scale fee.
Delivery of working papers in accordance with agreed client assistance schedule	Requires improvement	The initial working papers were largely provided to the agreed timetable. However, delays were experienced in obtaining responses from those outside of the finance team for areas such as the valuation of PPE, recognition of grant income and legal expenses.	N/A

Appendix A — Rebuilding assurance: responsibilities continued

Factors impacting the execution of the 2024/25 audit

Area	Status (R / A / G)	Explanation	Further detail
Access to finance team and personnel to support the audit in accordance with agreed project plan	Requires improvement	There were noticeable improvements in finance team support for the audit during 2024/25, which included additional oversight from the Council's Head of Finance. The audit process remain heavily reliant on a couple of specific members of the finance team. This meant that at times where these individuals were not present there were delays in responses to audit inquiries, contributing to delays in delivery against the agreed project plan for the audit. Many of our requests for information had to be returned to management for an updated response or additional information due to inadequate responses.	This links to the significant weakness in arrangements relating to finance and wider support team capacity. We expect to raise a scale fee variation in relation to delays in delivery.
Volume and value of identified misstatements	Ineffective	Our completed testing detected 7 reportable misstatements. These misstatements were not investigated and resolved in year. We also identified potential misstatements in other areas, including valuation of PPE and the consolidation workings for the Group accounts, which management stated they would not progress and instead use their time to work on other audit requests.	This links to the significant weakness in arrangements relating to finance and wider support team capacity.
Volume of misstatements in disclosure	Requires improvement	We identified 18 disclosure misstatements which we have communicated to management who have agreed to amend accordingly. We would expect several of these misstatements in disclosure to have been identified through the Council's own quality review procedures.	This links to the significant weakness in arrangements relating to finance and wider support team capacity.
Quality of working papers and supporting evidence	Requires improvement	There has been a noticeable improvement in the quality of the Council's working papers following the 2023/24 audit. However, there are areas where improvements are still required, such as collation of year end debtor balances. There were a number of occasions where requests for supporting evidence needed to be returned to management as they were not complete or the evidence provided was not of sufficient quality.	This links to the significant weakness in arrangements relating to finance and wider support team capacity. We expect to raise a scale fee variation in relation to delays and quality in delivery.

Key:

Red: Ineffective. In our judgement, significant improvements are required in the Council's arrangements to support the rebuilding of assurance. Action should be taken to respond immediately.

Amber: Requires Improvement. Matters and/or issues had an impact on the delivery of the audit and should be addressed in future years.

Green: Effective. There were no significant matters that impacted the timing or effectiveness of audit procedures.

Appendix B - Independence and Fees

The FRC Ethical Standard 2024 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
▪ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▪ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▪ The overall assessment of threats and safeguards; ▪ Information about the general policies and process within EY to maintain objectivity and independence ▪ The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the audit committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).	▪ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▪ Details of non-audit/additional services provided and the fees charged in relation thereto; ▪ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▪ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▪ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▪ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence (for breaches of the FRC Ethical Standard include details of its significance); and ▪ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Appendix B - Independence and Fees continued

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Claire Mellons, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2024 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. At the time of writing, there are no non-audit services provided to the Council by EY. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with FRC ES Section 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Appendix B - Independence and Fees continued

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2025 and can be found here: EY UK 2025 Transparency Report.

Appendix B — Independence and Fees continued

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The agreed fee presented is based on the following assumptions:

- officers meeting the agreed timetable of deliverables;
- our financial statement opinion and value for money conclusion being unqualified;
- appropriate quality of documentation is provided by the Council;
- an effective control environment; and
- compliance with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

	Current Year 2025/26	Prior Year 2024/25
	£	£
Scale Fee	403,891	392,890
Scale Fee Variation	Note 3	TBC - Note 2
Total audit	**TBC**	**TBC**
Total fees	**TBC**	**TBC**

All fees exclude VAT

1. As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DHLUC, PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2023/24 audits.
2. The 2024/25 work has just been completed, and a final fee will be determined shortly. We submitted a scale fee variation to the PSAA based upon additional resource required for build back, group procedures, IFRS 16 implementation, prior period adjustments, quality and preparation issues, technical accounting issues, Value for Money and internal experts.
3. For 2025/26 the scale fee represents the base fee, i.e., not including any extended testing. The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:

- Consideration of correspondence from the public and formal objections.
- New and revised accounting standards, for example full adoption or additional disclosures in respect of IFRS 16.
- Non-compliance with law and regulation with an impact on the financial statements.
- VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
- The need to exercise auditor statutory powers.
- Prior period adjustments.
- Modified financial statement opinions
- Rebuilding of assurance risk assessment

Appendix C — Prior year recommendations

As part of our annual audit procedures we will follow up the specific open and in progress recommendations reported within our 2024/25 reporting, including those relating to value for money arrangements. The eight open recommendations from prior years are outlined below, along with the response from management.

Classification of recommendations		
Grade 1: Key risks and / or significant deficiencies which are either critical to the achievement of strategic objectives or significant risks to material compliance with regulatory requirements. Management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on objectives and compliance, or impact the operation of a single process, and so require prompt but less urgent immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which consider merit attention but do not require to be prioritised by management.

Internal control weaknesses

No.	Finding and/or risk	Recommendation and grading	Management response / Implementation timeframe
1.	PPE and Council Dwellings accounting treatment In the prior year Audit Results Reports dating back to our 2020/21 audit, we have issued low risk ratings with regards to the Council's Depreciation calculations for Vehicles, Plant and Equipment purchased in-year, Inconsistency between the accounting policy and implementation of the useful lives for plants, and Review of DRC inputs. We also reported the inappropriate capitalisation of PPE additions. During the current year audit, we identified more significant issues with PPE valuation methodology (including Council Dwellings) which require a significant amount of work from the asset valuation and finance team.	As the challenges with PPE (including Council Dwellings) were present throughout the sampled population, we recommend that management revisits the PPE population and ensures compliance with CIPFA requirements and the most recent RICS guidance with regards to the valuation of PPE and capitalisation thereof. We have made recommendations relating to the PPE valuation (review of useful lives and DRC inputs) since our 2020/21 audit. ▪ Grade 1	**Management response:** Recommendation accepted. We recognise this as an area that requires improvement and will ensure a positive whole council response.

Appendix C — Prior year recommendations continued

Internal control weaknesses

No.	Finding and/or risk	Recommendation and grading	Management response / Implementation timeframe
2.	Group financial statements Management processed a material prior year adjustment to the 2023/24 Group Asset related to Defined Benefit Scheme in relation to an audit adjustment which was identified as part of the audit of the 2023/24 subsidiary financial statements, but not reflected in the South Tyneside Council Group financial statements for that year.	We recommend that management reviews and considers the impact of findings from the subsidiary audits on the Group Financial Statements. Where the impact of the findings may have a material effect on the Group Financial Statements, we further recommend that these findings are brought to our attention as the Group Auditor. ▪ Grade 2	**Management response:** Recommendation accepted. We will ensure better co-ordination between accounting activity within subsidiary accounts and the Council's main group accounts.
3.	Quality of financial statements The draft financial statements contained a high number of misstatements, disclosure recommendations including clerical and casting errors, inconsistencies in the Group accounts and consolidation workings, material prior year adjustment, and significant accounts areas that reflected fundamental issues with regards to the application of the applicable accounting standards relating to Group accounts, PPE, leases, right-of-use assets and PFI liabilities.	Arrangements should be put in place to ensure that sufficient time and review processes are in place to produce a draft set of financial statements that are of a high quality and compliant with the CIPFA Code requirements. This should include completion and review of the CIPFA Code disclosure checklist by the Council as part of preparing the financial statements. ▪ Grade 1	**Management response:** Recommendation accepted. We will review our internal quality assurance arrangements including capacity requirements ahead of the 2025/26 accounts production.
4.	Airport valuation Management's model for producing a valuation in respect of the Council's investment in Newcastle International Airport did not meet generally accepted valuation practice.	We recommend that management obtain an external expert valuation based on the income approach for future valuations. ▪ Grade 2	**Management response:** Recommendation partially accepted. We will as per the current year seek external valuation of the Council's investments but need to consider the value for money from securing these services against the continued use of an internal valuation methodology which would still result in a fair approximation.

Appendix C — Prior year recommendations continued

Internal control weaknesses

No.	Finding and/or risk	Recommendation and grading	Management response / Implementation timeframe
5.	Accounting for schools (PPE) We have identified a deficiency in respect of management's review of accounting for schools with academies conversions and foundation schools remaining on the balance sheet inappropriately. We have not completed our audit procedures on PPE therefore were not able to quantity the full impact.	We recommend that management performs a review over the fixed asset register to ensure that academy conversions and foundation schools are excluded from the PPE balance recognised in the financial statements. We recommend that this matter is addressed alongside the wider PPE valuation exercise undertaken by management. • Grade 3	**Management response:** Recommendation accepted and further checks will be put in place.
6.	Grant register During the audit, we noted that there was a grant register in place, however, the register did not include key information such as management's assessment of terms and conditions of each grant, consideration of the agent vs principal accounting as well as the probability of potential clawbacks. As we have reported 3 uncorrected misstatements relating to grant income, we have rated this control deficiency as moderate.	We recommend that grant register is updated and reviewed regularly alongside consideration of the grant agreements, grant allocation letters and historical S106 grant conditions. ▪ Grade 3	**Management response:** Recommendation accepted
7.	Holiday pay accrual To calculate the average number of days carried forward for Council staff in the holiday pay accrual the sampling data used is from financial year 2008/09. We have quantified the impact of this by looking at the maximum and lowest possible value for the accrual and are satisfied it does not have a material impact.	We recommend that the Council use more up to date data when calculating the holiday pay accrual going forwards. ▪ Grade 3	**Management response:** TBC
8.	Signing of Contracts In the prior years, we identified instances of contracts and agreements (by service providers and leases) not being signed	We recommend that the Council undertakes a review of contracts in place to ensure all have been appropriately signed by both parties. ▪ Grade 3	**Management response:** TBC

Appendix C — Prior year recommendations continued

Value for money arrangements

No.	Value for money reporting criteria	Recommendation	Management response
1.	Financial sustainability	Recommendation - Other We recommend that management and members continue to focus on the financial pressures relating to the delivery of the Adult and Children's care services and encourage difficult decisions to be taken where required to identify efficiencies in light of the concerning financial outlook.	**Management response:** Building upon the work in developing the 2026-31 Medium Term Financial Plan, there will be a sharper focus around financial performance and financial planning of social care services as they account for an increasing proportion of the Council's revenue budget.
2.	Governance	Recommendation - Other We recommend that those charged with governance confirm they are comfortable that appropriate arrangements to maintain independence are in place with the internal audit function due to their involvement in management functions, including the preparation of the Annual Governance Statement and the Strategic Risk Register.	**Management response:** Following discussions at Audit Committee, the Assurance and Risk Manager will no longer play the lead role in the development of the Annual Governance Statement. Whilst the Assurance and Risk Manager supports the regular review and development of the risk register, the ownership and accountability for identification and mitigation of risks sits with the relevant senior officers supported by the Cabinet and the Audit Committee.
3.	Governance	Recommendation - Significant Weakness We recommend that the Council continue to reassess roles, responsibilities and resource requirement for financial reporting, including the wider teams at the Council who support the financial reporting process, including an assessment of the support required in order for the financial reporting function to meet its objectives.	Management response: Roles and responsibilities are being revisited to ensure more appropriate distribution of workload with more adequate time built in for QA as well as more coordination with wider services supporting the audit process. The finance team will continue to engage with external audit to reduce resource requirements arising from misunderstandings related to information requests and follow - up enquiries

Appendix D — Regulatory update

Key regulatory changes

There are a number of key regulatory developments underway relating to local authority governance and the audit of the Council's financial statements. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on South Tyneside Council
English Devolution and Community Empowerment Bill	The Bill has completed all scrutiny stages in the House of Commons and is now at Committee stage (Grand Committee) in the House of Lords. The following measures therefore remain proposals until Royal Assent is granted: ▪ **Local audit system reforms:** The Bill includes provisions to reform elements of the local audit framework in England alongside support measures intended to address the audit backlog. The Bill will also enable changes to the way audit oversight and local audit responsibilities operate. Section 61 of the Bill provides for the establishment of the Local Audit Office (LAO). Legislation will set out that the main objective of the LAO is to secure the effective operation of the system of audit, with a view to meeting the needs of users of audited accounts. The LAO will appoint auditors to non-NHS bodies, determine audit fees and prepare one or more Code of Audit Practice. ▪ **Combined authorities and Combined County Authorities:** The Bill expands powers and functions of combined authorities and places combined county authorities on a clearer statutory footing. This will allow further transfer of functions from constituent councils. ▪ **Devolution of functions to "Strategic Authorities":** The Bill expands the category of Strategic Authorities and allows transfer of responsibilities from central government and councils. ▪ **Local Government Reorganisation:** The Bill supports changes to council structures to support devolution.	▪ Local audit system reforms may result in changes to audit timescales or responsibilities and there may therefore be transition risks in future years. ▪ The Bill provides that the Council must have an audit committee, and that at least one member of the committee be an independent person.
Renters Right Act	▪ The Renter's Rights Act became law on 27th October 2025. Under the Act, Councils are going to gain new powers to investigate landlords; act against rogue landlords; and ensure landlord compliance with new standards expected of them. ▪ Local housing authorities will receive £18.2 million in 2025/26 to support preparations for the implementation of the Renters' Rights Act 2025 and to build enforcement capacity. Funding will be allocated based on the number of private rented sector properties in each local area.	Enforcement guidance for local Councils has now been published. The guidance provides the critical information that enforcement officers will need to know to carry out their work in line with the new legislation. There will be a bespoke programme of training, webinars and resources through 'Operation Jigsaw', a cross-local Councils initiative; Changes will start coming into effect from 1st May 2026.

Appendix D — Regulatory update continued

Key regulatory changes continued

Name	Summary of key measures	Impact on South Tyneside Council
Public Office (Accountability) Bill	The Public Office (Accountability) Bill aims to impose a duty on public authorities and public officials to "at all times act with candour, transparency and frankness in their dealings with inquiries and investigations." Breach of the duty would be a criminal liability. The Bill is expected to apply not only to both core public bodies delivering public services but also private bodies delivering public functions such as those on a government contract. The Bill also proposes: ▪ A new statutory duty on public authorities to promote and take steps to maintain high standards of ethical conduct, as defined by the Seven Principles of Public Life, or "Nolan Principles"; ▪ Reforms that will make it easier to prosecute misconduct in public office; and ▪ An offence of misleading the public.	▪ While the Bill continues to make its way through the House of Commons Committee processes, the Council should ensure that training and support for Councillors is enhanced to take account of greater expectations in relation to local government standards.
Fair Funding Review	▪ On 20 November 2025, the government announced a multi-year Local Government Finance Settlement in a decade, together with the Fair Funding Review . Key measures include: ▪ There will be a single settlement for 2026/27 to 2028/29 ▪ The government plans to use up to date English Indices of Multiple Deprivation, together with up-to-date services cost and demand data to calculate individual council allocations for 2026/27 to 2028/29; and ▪ The Children and Young People's Services formula will use the latest index of deprivation affecting children. The new indices are expected to lead to greater transparency and a reduced reliance on competitive bidding for funds. The Government also announced it will simplify 33 funding streams, worth almost £47 billion over three years.	Using new indices will result in some Councils seeing increases in their allocations, whilst others see decreases. The government has, however, set out transitional arrangements to help with managing change: ▪ A Recovery Grant funding guarantee to upper tier authorities in receipt of Recovery Grant; ▪ Funding floors and phasing in of new allocations across the multi-year settlement; and ▪ Additional money in the national settlement for children's social care and a new ring-fenced combined Homelessness, Rough Sleeping and Domestic Abuse grant over three years. .

Appendix D — Regulatory update continued

National Audit Office reporting

There are a number of key publications from the National Audit Office that have an impact on the Council. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key messages	Impact on South Tyneside Council
Local government finance report 2026 to 2027	The 2026-27 Local Government Finance Report introduces a multi-year settlement covering 2026/27 to 2028/29 and implements the Fair Funding Review 2.0. Updated distribution formulas will reallocate resources between councils, reflecting more recent demographic and deprivation data. The report confirms the continuation of council tax referendum principles and introduces significant changes to Special Educational Needs and Disabilities (SEND) funding, including the extension of the statutory override for DSG deficits to 2027/28 and a government-funded write-off of approximately 90% of historical DSG deficits. These policy changes represent one of the most substantial re-baselining exercises in recent years.	▪ Councils must re-model their Medium-Term Financial Plans (MTFPs) to account for formula redistribution effects and redesigned SEND funding arrangements. The ongoing restrictions on council tax increases will continue to limit local financial flexibility. For many authorities, particularly those with substantial DSG deficits, the reforms will have material implications for reserves management and financial stability.
Exceptional Financial Support for local authorities for 2025-26	Exceptional Financial Support (EFS) remains a mechanism for councils facing acute short-term financial pressures. For 2025-26, thirty authorities received in-principal approval for EFS, allowing them to treat certain revenue costs as capital expenditure through capitalisation directions. The government has removed the additional 1% borrowing premium previously applied and has imposed conditions including enhanced assurance reviews and restrictions on community-asset disposals. The NAO notes that, although EFS can prevent immediate failure, it shifts the burden to future years through increased borrowing.	▪ For the sector, the continuation of EFS signals sustained financial fragility. Authorities using EFS must demonstrate credible, independently-scrutinised recovery and savings plans, along with significant improvements in governance, financial management, and internal controls. ▪ Councils should expect intensive oversight and stringent follow-up from central government when accessing this mechanism.
Local audit reform: Government response to the consultation to overhaul local audit in England	The government response sets out a comprehensive overhaul of the local audit system in England. Central to the reforms is the creation of the Local Audit Office (LAO), which will assume responsibility for appointing auditors, preparing Codes of Audit Practice, enforcing quality standards, and overseeing audit delivery. A phased transition plan will move existing responsibilities from Public Sector Audit Appointments (PSAA) and other bodies to the NAO between 2026 and 2027, with the aim of stabilising the system, addressing audit backlogs, and restoring confidence in the timeliness and quality of local audit.	▪ For councils, the reforms will lead to more prescriptive expectations around audit readiness, governance, documentation quality, and responsiveness. Authorities should anticipate tighter reporting deadlines and increased scrutiny of working papers, internal controls, and VFM arrangements.

Appendix D — Regulatory update continued

National Audit Office reporting continued

Name	Summary of key messages	Impact on South Tyneside Council
Local Government Financial Sustainability	The National Audit Office most recently reported on the context of local government finances in February 2024, which included their consideration of service and financial pressures. They concluded that although total local government funding has risen modestly in recent years, it has not kept pace with population growth, rising service demand, or the increasing complexity and cost of supporting people with high needs. Real-terms funding per person fell between 2015-16 and 2023-24, while demand for essential services such as adult social care, children's social care, SEND provision and homelessness continued to escalate. The NAO highlights growing evidence of strain across services, including delays in Education, Health and Care Plans and a sharp rise in families housed in temporary accommodation for longer than legally permitted. Repeated delays to long-promised funding reforms mean councils continue to rely on short-term, stop-gap measures. Exceptional Financial Support has become increasingly common, but while it prevents immediate failure, it also shifts financial risk into future years, reflecting underlying structural weaknesses in the local government finance system	▪ The report signals deepening financial fragility across the sector, with many councils facing heightened risk of issuing Section 114 notices unless systemic pressures are addressed. Rising demand and cost escalation in statutory services are absorbing an ever-greater share of local authority budgets, reducing the capacity to invest in preventative activity and long-term service improvement. The NAO warns that widespread reliance on temporary fixes—including Exceptional Financial Support—creates additional future liabilities and limits councils' ability to plan sustainably. Without coordinated, cross-government reform of funding, accountability and service oversight frameworks, councils will remain locked in reactive financial management, with growing consequences for service quality, citizen outcomes and long-term financial resilience.
Unlocking land for housing	The National Audit Office reported in February 2026 that the government aims to deliver 1.5 million new homes by July 2029. To support this ambition, various land-unlocking programmes have been introduced to address constraints such as inadequate infrastructure, land assembly challenges, and site viability issues. Since 2016, £10.5 billion has been allocated across 768 projects, with £8.4 billion committed and £5.7 billion spent. Although these programmes collectively predict enabling around 713,000 homes, the NAO highlights that only a small proportion—around 33,300 homes—can currently be evidenced as completed, pointing to gaps in monitoring and programme assurance. Additionally, the creation of the National Housing Delivery Fund and a new National Housing Bank from April 2026 signals a shift toward a more consolidated and strategic funding model.	▪ The sector will experience increased expectations to produce detailed and evidence-based infrastructure planning to secure funding from the new mechanisms. Councils will be required to strengthen the robustness of business cases, improve monitoring of actual housing delivery, and anticipate tighter central-government scrutiny of riskier or larger projects. The shift to a single-gateway funding structure will also compel councils to maintain well-developed pipelines to access multi-year support.

Appendix D — Regulatory update continued

National Audit Office reporting continued

Name	Summary of key messages	Impact on South Tyneside Council
Improving local areas through developer funding	The NAO identifies developer contributions—primarily Section 106 agreements and the Community Infrastructure Levy (CIL)—as essential tools for funding local infrastructure and affordable housing. However, the report finds significant variation across councils in both the application and governance of these mechanisms. Negotiated viability assessments often reduce the contributions developers agree to provide, while only around half of planning authorities have formally adopted CIL. Developer contributions account for roughly 44% of affordable housing delivery nationally, yet over 17,000 S106-linked affordable homes with planning consent lacked a housing association buyer at the time of review, indicating a delivery bottleneck. The government is providing additional planning capacity funding and establishing a Section 106 Affordable Homes Clearing Service to support councils in unlocking stalled developments.	▪ For councils, strengthening internal governance and transparency around developer contributions will be increasingly important. Authorities will need improved planning capacity, including specialist viability expertise, to mitigate risks of reduced contributions and ensure developer obligations are properly monitored. With the proposed Infrastructure Levy no longer being taken forward, councils must optimise and professionalise the existing S106 and CIL frameworks.

Appendix E — Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	Audit planning report
Planning and audit approach	Communication of: ▪ The planned scope and timing of the audit ▪ The planned use of internal audit ▪ The significant risks identified When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
Significant findings from the audit	▪ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▪ Significant difficulties, if any, encountered during the audit ▪ Other significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management ▪ Circumstances that affect the form and content of our auditor's report ▪ Other matters if any, significant to the oversight of the financial reporting process	Audit results report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▪ Whether the events or conditions constitute a material uncertainty related to going concern ▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▪ The appropriateness of related disclosures in the financial statements	Audit results report

Appendix E — Required communications with the Audit Committee continued

Required communications	What is reported?	Our Reporting to you When and where
Misstatements	▪ A request that any uncorrected misstatement be corrected ▪ Material misstatements corrected by management ▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▪ The effect of uncorrected misstatements related to prior periods	Audit results report

Fraud	▪ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity
	▪ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist
	▪ Unless all of those charged with governance are involved in managing the entity, unless prohibited by law or regulation any identified or suspected fraud involving:
	  ▪ Management;
	  ▪ Employees who have significant roles in internal control; or
	  ▪ Others, when the identified or suspected fraud is other than clearly inconsequential.
	▪ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected
	▪ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud
	▪ Any other matters related to fraud, relevant to Audit Committee responsibility
		Audit results report

Related parties	Significant matters arising during the audit in connection with the entity's related parties	Audit results report

Appendix E — Required communications with the Audit Committee continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of the relevant ethical requirements, including those related to independence, that we apply for the audit engagement, including any independence requirements specific to audits of financial statements of the entity. Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▪ The principal threats ▪ Safeguards adopted and their effectiveness ▪ An overall assessment of threats and safeguards ▪ Information about the general policies and process within the firm to maintain objectivity and independence ▪ Breaches of IESBA Code of Ethics, local independence regulations or professional standards (for breaches of the FRC Ethical Standard, include details of the breach and its significance) Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place. Communication of relevant information to those charged with governance, to enable them to provide concurrence on the non-audit services being provided.	Audit planning report Audit results report
External confirmations	▪ Management's refusal for us to request confirmations ▪ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	▪ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▪ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of.	Audit results report

Appendix E — Required communications with the Audit Committee continued

Required communications	What is reported?	Our Reporting to you When and where
Internal controls	▪ Significant deficiencies in internal controls identified during the audit	Audit results report
Group audits	▪ An overview of the work to be performed at the components and the nature of the group audit team's planned involvement in the work to be performed by component teams ▪ Instances when the group audit team's review of the work of a component team gave rise to a concern about the quality of that team's work, and how the group audit team addressed the concern ▪ Any limitations on the ability to obtain sufficient appropriate audit evidence in support of the group audit opinion, for example, where the group audit team's access to people or information may have been restricted ▪ Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others when the fraud has the potential for having a "more than inconsequential" effect ▪ Significant deficiencies identified in the group's system of internal control	Audit planning report Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	▪ Any circumstances identified that affect the form and content of our auditor's report	Audit results report

Appendix F — Additional audit information

Objective of our audit

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Other required procedures during the course of the audit

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, whether it is materially inconsistent with our understanding and the financial statements.
- Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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