

**Title of Report: Audit Completion Report Year Ended 31 March 2019 and
Gateshead Council Statement of Accounts 2018/19**

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report updates the Audit and Standards Committee on the outcome and findings of the audit of Gateshead's Statement of Accounts 2018/19 by the Council's external auditor Mazars.

Background

- 2 The Accounts and Audit Regulations 2015 require that the Council's Statement of Accounts should be approved by a committee. In Gateshead's governance framework, this is the Accounts Committee. However, best practice guidance outlines that the Audit and Standards Committee should also review the financial statements and external auditor's opinion. Review by this Committee is an additional step in the process to comply with best practice.
- 3 The annual audit of the Council's Statement of Accounts and use of resources has now been substantially completed for 2018/19 and the Council's external auditor, Mazars has issued its report, subject to the completion of outstanding work.
- 4 The Audit Completion Report covers:
 - The Council's Statement of Accounts including significant findings, internal control recommendations and a summary of misstatements;
 - The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources including a value for money conclusion.
- 5 The external auditor's report is attached at Appendix 1 and the Council's Statement of Accounts is attached at Appendix 2.
- 6 Although Mazars anticipate completing their work in July, it should be noted that they also place reliance on the work of other auditors, including Ernst and Young (EY) work to give assurance on the Tyne and Wear Pension Fund (TWPF) disclosures in the Council's Statement of Accounts, and disclosures in relation to the Council's interest in the airport. They also need to review the work of KPMG in respect of external Audit of The Gateshead Housing Company (TGHC) Statement of Accounts in order to be able to place reliance on the TGHC figures incorporated into the Group Accounts.

- In relation to TGHC, KPMG are to provide Mazars with access to their files to allow the necessary Group Accounts work to be completed. It is anticipated that Mazars will receive sufficient assurance from KPMG's files by the statutory deadline of 31 July to allow the Council's accounts to be full signed off. Mazars will provide a verbal update on progress at Committee.
7. An update position will be presented to the Committee by Mazars. A follow-up letter will be provided, prior to signing the auditor's report.

Audit Completion Report

8. Mazars' Audit Completion Report is included as Appendix 1 to this report. The key messages are as follows:
- Audit Opinion – At the time of issuing the report, and subject to satisfactory conclusion of the remaining audit work, Mazars anticipate issuing an unqualified opinion, without modification, on the financial statements.
 - Identified misstatements – the auditors' work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is set out below.
 - Value for Money – at the time of issuing the report and subject to the satisfactory conclusion of the remaining audit work, Mazars anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
 - Whole of Government Accounts (WGA) – the auditors anticipate completing their work on the WGA submission by the deadline of 13 September 2019 and reporting that the submission is consistent with the audited financial statements.
 - Internal control recommendations in relation to the SLA between the Council and TGHC, rules relating to privilege accounts, leavers access to IT systems, and out of date user access.
9. To provide a full picture of the economic and financial activities of the Council and its exposure to risk, the accounting statements of material subsidiaries and associate companies were consolidated with those of the Council. In 2018/19 the only material subsidiary was TGHC due to the pension liability.
10. The Statement of Accounts is materially consistent with the 2018/19 revenue and capital outturn reports considered by Cabinet on 25 June 2019. Along with minor adjustments and presentational changes, the following significant findings and misstatements to the Statement submitted for audit on 31 May 2019 have been identified through the audit process:

Significant Findings

- Significant risk of management override of controls – no issues
- Significant risk of fraud – work ongoing
- Significant risk property, plant and equipment revaluation – work ongoing
- Significant risk defined benefit liability valuations – work ongoing
- Judgement on airport valuation – work ongoing

Significant Issues Discussed with Management

11. There have been significant issues this year in relation to accounting for pensions. These are national issues and are not specific to Gateshead Council. There are three issues:
 - **McCloud Judgement** – this relates to claims of discrimination in respect of protection offered to some, but not all, pension scheme members. In December 2018, the Court of Appeal ruled in a test case that this did amount to unlawful discrimination. At the time the Council was producing its draft statement of accounts, the Government intended to appeal to the Supreme Court and the outcome was uncertain. As such, the issue was disclosed as a contingent liability. During the audit period, the Government was not granted leave to appeal meaning that some sort of restitution is more likely requiring the estimated impact to be reflected in the pension disclosures, subject to materiality.
 - **Guaranteed Minimum Pension (GMP)** – this relates to indexation and equalisation of the GMP benefits between males and females; and
 - **Asset Values** – this relates to the estimation of assets by the actuary using values at the end of December 2018/end of January 2019 was accurate given higher than expected returns in the final quarter of 2018/19.
12. For each of these issues, the Council engaged with the actuary to obtain updated figures which have been reflected in the statement of accounts.

Unadjusted Misstatements

- **Changes to the Insurance provision** – being an overstatement specific to one individual insurance claim.
13. A number of adjustments have been made between the draft accounts and the final accounts. These are summarised below:

Adjusted Misstatements

- **Comprehensive Income and Expenditure Statement (CIES)** – removal of cash and cash equivalents belonging to other entities incorrectly posted against short-term deposits rather than bank overdraft. This was also adjusted for 2017/18.
- **Pensions Liability** - adjusted actuarial assumptions in relation to the McCloud judgement.
- **Comprehensive Income & Expenditure Statement (CIES)**: amendments were made to the income and expenditure lines of the CIES due to recalculation of internal recharges and insurance charges. This did not affect the overall cost of services in the CIES.

Disclosure Amendments

14. A number of presentational and disclosure errors have been amended. Further detail is outlined in the external auditor's report.

15. None of the changes to the Statement of Accounts impact on the revenue and capital outturn positions reported to Cabinet, nor do they affect the position of any usable reserves. Management have assessed the identified unadjusted misstatement as not being material, either individually or in aggregate to the financial statements, and does not plan to adjust.

Recommendation

16. The Committee is requested to note the contents of the external auditor's Audit Completion Report and any update reports and review and comment on the Statement of Accounts 2018/19, prior to submission to the Accounts Committee.

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