



# Audit Completion Report

Gateshead Council

Year ending 31 March 2019

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26 July 2019

Dear Members

**Audit Completion Report – Year ended 31 March 2019**

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 4 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0781 375 2053.

Yours faithfully

Signed: {{\_es\_:signer1:signature }}

Cameron Waddell  
For and on behalf of Mazars LLP

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# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Gateshead Council ('the Council') for the year ended 31 March 2019, and forms the basis for discussion at the Accounts Committee meeting on 26 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control
- Revenue recognition
- Property, plant and equipment revaluation
- Defined benefit liability valuation

## Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

### Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

### Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 13 September 2019. We anticipate reporting that the WGA submission is consistent with the audited financial statements

### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts.

# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Property Plant & Equipment	●	Valuation work to be completed
Pensions	●	Work ongoing in relation to assurance from Pension Fund auditor
Valuation of Newcastle Airport	●	Work ongoing in relation to assessing valuation report from GT
Group Accounts	●	Work to be completed
Whole of Government Accounts	●	Work to be completed
Audit Closure Procedures	●	This includes internal consistency checks, agreeing amendments and post balance sheet events.

### Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Accounts Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum other than -

- the identification of an area of management judgement in relation to the valuation of Newcastle Airport shares
- the appointment of our own expert to consider the valuation of Newcastle Airport shares (for which the Council obtained an external expert's valuation).

## Materiality

We set materiality at the planning stage of the audit at £12.995 million for the Council and £13.338 million for Group using a benchmark of 2% of Gross Revenue Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is [Xm], using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Accounts Committee), at [xm] based on [x%] of overall materiality.

## Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Accounts Committee in a follow-up letter.

## 2. SIGNIFICANT FINDINGS

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

- our audit conclusions regarding significant risks outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 8 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council’s financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks.

Significant risk	Description of the risk
Management override of controls (relevant to Council and Group accounts)	Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.
	<b>How we addressed this risk</b> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"><li>• Accounting estimates impacting on amounts included in the financial statements;</li><li>• Consideration of identified significant transactions outside the normal course of business; and</li><li>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>
	<b>Audit conclusion</b> <p>Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.</p>



## 2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Risk of fraud in revenue recognition in relation to fees, charges and other income (relevant to Council accounts only)	<p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and grant income.</p> <p>However, we do not feel that sufficient scope exists to rebut this risk in respect of the recognition of fees, charges and other income given the demand led nature of these revenue streams . This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>
	<p><b>How we addressed this risk</b></p> <p>We will:</p> <ul style="list-style-type: none"><li>• substantively test fees, charges and other income to ensure it has been correctly classified and recognised;</li><li>• test journals; and</li><li>• obtain direct confirmation of year-end bank balances and test the reconciliations to the ledger.</li></ul>
	<p><b>Audit conclusion</b></p> <p>Work is ongoing in this area</p>

Significant risk	Description of the risk
Property, plant and equipment revaluation (relevant to Council accounts only)	<p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.</p> <p>Although the Council employs an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>
	<p><b>How we addressed this risk</b></p> <p>We will consider the Council's arrangements for ensuring that PPE values are reasonable and will use an external expert (Gerald Eve) to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We will also assess the competence, skills and experience of the valuer.</p> <p>Where necessary we will also perform further audit procedures on individual assets to ensure that the basis and level of revaluation is appropriate.</p>
	<p><b>Audit conclusion</b></p> <p>Work is ongoing in this area</p>

## 2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Defined benefit liability valuation (relevant to Council and Group accounts)	The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.
	<b>How we addressed this risk</b>  We will discuss with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is carried out annually by the NAO's consulting actuary (PWC).
	<b>Audit conclusion</b>  Work is ongoing in this area

### Area of management judgement

Judgement: valuation of the Council's investment in Newcastle airport (relevant to Council accounts only)	Description of the management judgement
	The valuation of the Airport shares held by Gateshead Council (along with other North East Councils) had remained unchanged for some years.  In 2018/19, the Council has obtained an external valuation, from Grant Thornton via the lead Authority, South Tyneside MBC.
	<b>How our audit addressed this area of management judgement:</b>  We carried out a critical review of the basis of valuation of the Council's investment in Newcastle Airport, including the appointment of our own internal expert.
	<b>Audit conclusion</b>  Work is ongoing in this area



## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

### Significant matters discussed with management

There have been significant issues this year relating to accounting for pensions. These issues are not specific to the Council, but are national issues impacting on all local government and related bodies, including police and fire. There have been three issues, but the most significant issue has been the impact of what is known as the McCloud judgement.

The nature and impact of the McCloud judgement was included as a Contingent Liability the Council's draft financial statements. It relates to claims of discrimination in respect of protections offered to some, but not all, pension scheme members as part of reforms to public sector pensions. 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 financial statements, the Government intended to appeal to the Supreme Court and the outcome was uncertain.

During the audit period, the Government was not granted leave to appeal, meaning that some form of restitution across all public sector pension schemes seems more certain, requiring the estimated impact of this to be reflected in the pension disclosures in the financial statements, subject to materiality considerations.

The other two issues have been:

- Guaranteed Minimum Pension (GMP) indexation and equalisation, which relate to the move to a single-tier new State Pension and equalisation of the GMP benefits between males and females, which has been accounted for to varying degrees by each actuary; and
- Asset values, which relates to whether the estimation of assets by the actuary using asset 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.

For each of these issues, our approach has been to suggest that the Council and The Gateshead Housing Company (TGHC) engages with the actuary of the scheme, to assess the potential impact of these issues, to see whether the impact is material, and if so, to make amendments to the financial statements.

Whilst none of these issues impact on the Council in terms of a bottom-line impact on the General Fund balance, it will impact on TGHC and therefore the Group. In addition, both McCloud and GMP will place upward pressure on employers pension contributions reflecting an increased pension liability to recover over the life of the scheme.

We also discussed with Management the external valuation and the assumptions made in valuing the Airport shares.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. Draft accounts were received from the Council on 31 May 2019 and were of a good quality.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. To date, we have received questions from one member of the public.

Our draft audit report, in full, is set out in Appendix B.

### 3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

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

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	3
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1

### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

**Other deficiencies in internal control – Level 2**

**Description of deficiency**

There is no up to date service level agreement (SLA) in place between the Council and The Gateshead Housing Company (TGHC).

**Potential effects**

This may lead to arrangements between the two parties being out of date

**Recommendation**

Given the services provided by TGHC to the Council, the current SLA needs to be up to date

**Management response**

It is proposed that the current Management Agreement is varied by way of an exchange of letters between the Council and TGHC setting out new performance metrics, reporting a monitoring processes in order to bring the monitoring of performance quickly in line with current requirements and best practice. The Council will continue to engage with the Regulator for Social Housing to determine whether their approval of the variations is required.

It is also proposed that a review of the current model for delivery of the management of the Council's housing stock be carried out. On completion, a further report will be presented to Cabinet on options for the future governance and delivery arrangements for the management of council housing prior to wider consultation.

In the meantime, Cabinet agreed on 16 July 2019 to the renewal of the Management Agreement for a period of up to two years to allow time for the review to be concluded and any revised arrangements implemented.

**Description of deficiency**

Our work identified that the rules relating to privilege accounts were not outlined in the IT Security policy nor in the other standard, procedures and policies.

**Potential effects**

Although high privilege access to IT systems is only granted to authorised staff, without clear guidance on who they should be issued to and how they should be used, there could be inappropriate or fraudulent accesses to IT resources and/or fraudulent or unintentional data alteration or entry

**Recommendation**

Create policies for privilege accounts.

**Management response**

Awaiting response

### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

#### Other deficiencies in internal control – Level 2

##### Description of deficiency

We undertook 100% testing of leavers during 2018/19 to determine if access from the following IT systems - Active Directory, Agresso, Capita, iTrent or CareFirst - had been removed within one week of leaving dates as recorded by Human Resources (HR). We identified that

- 2 leavers did not have access to Active Directory removed within one week of leaving;
- For Agresso system 7 leavers identified who had not been removed from the system as at the date of testing. Mitigating controls were in place, in that all of these leavers had been removed from the Active Directory;
- Within Capita system 2 leavers were identified who had not been deactivated on Capita however in both cases access to Active Directory had been removed;
- Within CareFirst system one leaver still had access to this system however Active Directory access had been promptly removed.

##### Potential effects

If leavers continue to have access to IT systems when they are no longer employees there is a risk of

- Inappropriate or fraudulent accesses to IT resources
- Fraudulent or unintentional data alteration or entry.

##### Recommendation

Ensure that existing policies and procedures are always implemented to ensure that Assyst tickets are raised for leavers and/or that HR reports are complete.

##### Management response

Awaiting response

# 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

## Other recommendations on internal control – Level 3

### Description of deficiency

The iTrent and Capita system users are not regularly reviewed to identify any out of date user accesses.

### Potential effects

Staff who no longer require access to systems should be promptly removed to prevent inappropriate or fraudulent accesses to IT resources or fraudulent or unintentional data alteration or entry.

### Recommendation

Officers should ensure that the access rights of out of date users are removed.

### Management response

Awaiting response

## Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

### Description of deficiency

As part of our review of Active Directory users (the initial log in to the Council's systems) in March 2018 we identified 25 non system type generic i.e. unnamed accounts, of which 6 had been disabled so could not be used, 10 ,whilst being usable, had not been used in financial year 2017/18, leaving 9 accounts which had been used. None of those generic accounts had administrative access so limited scope as to what they could do on the system.

### Potential effects

- Inappropriate or fraudulent accesses to IT resource;
- Fraudulent or unintentional data alteration or entry; and
- Loss of the audit trail / logs of user actions.

### Recommendation

In order to avoid unauthorised access to the network, programs and data, we recommend closely monitoring the active accounts in order to ensure:

- Generic accounts are disabled when not used;
- User access is assigned on a need-to-have basis and disabled once it is not needed.

### 2018/19 update

Our work has identified that there is minimal risk of Active Directory generic accounts leading to problems as a separate log-in is required for these accounts. We therefore haven't repeated recommendation this year



# 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of [£xm].

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

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

## Unadjusted misstatements 2018/19 as at 12 July 2019

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Insurance provision			450	
	Cr: Communities and environment – expenditure		450		
Being overprovision in relation to one specific insurance claim which will be settled in future years					

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Adjusted misstatements 2018/19 as at 12 July 2019

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Current assets – cash and cash equivalents		4,669	
	Cr: Current liabilities – cash and cash equivalents			4,669
Removal of cash and cash equivalent balances belonging to other entities was incorrectly posted against short – term deposits rather than bank overdraft				
2	Dr Care Wellbeing and Learning - expenditure	9,058		
	Dr Communities & environment - expenditure	4,494		
	Dr Corporate Resources - expenditure	3,919		
	Cr Corporate Service & Governance and Office of the Chief Executive – expenditure	1,590		
	CR Other corporate income and expenditure		1593	
	Dr Schools - expenditure	4794		
	CR Financing and investment income	2,788		
	Cr: Pension liability			25,050
To account for the impact on liabilities as at 31 March 2019 due to GMP indexation/equalisation and McCloud judgement				
3	Dr: Care Wellbeing and Learning – income	2,384		
	Dr Communities & environment – income	950		
	Dr Corporate Service & Governance and Office of the Chief Executive - income	77		
	Cr Care Wellbeing and Learning – expenditure		2,563	
	Cr Communities & environment - expenditure		1,260	
	Dr Corporate Resources - expenditure	2,178		
	Cr Corporate Service & Governance and Office of the Chief Executive – expenditure		281	
	Cr Other corporate income and expenditure		14	
	Cr: Schools expenditure		118	
	Cr Financing and investment income		107	
	Cr Corporate Resources – expenditure		1,246	

Being correction required to remove insurance fund internal recharges

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Adjusted misstatements 2018/19 as at 12 July 2019

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
4	Dr Communities & Environment - income	4,127			
	Cr Corporate Resources - income		233		
	Cr Corporate Service & Governance and Office of the Chief Executive - income		625		
	Dr Care Wellbeing and Learning - expenditure	7			
	Cr Communities & environment - expenditure		4,307		
	Dr Corporate Resources - expenditure	111			
	Cr Corporate Service & Governance and Office of the Chief Executive - expenditure	96			
	Cr Other corporate income and expenditure - expenditure		36		
	CR Housing revenue account - income		8		
	Dr Housing revenue account - expenditure	868			

Being the removal of additional internal recharges in respect of Design capital and tech costs

### Adjusted misstatements 2017/18 as at 12 July 2019

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
	Dr: Current assets – cash and cash equivalents			4,886	
	Cr: Current liabilities – cash and cash equivalents				4,886

Removal of cash and cash equivalent balances belonging to other entities was incorrectly posted against short – term deposits rather than bank overdraft

# 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

## Disclosure amendments as at 12 July 2019

Our audit identified a number of presentational and disclosure errors which have been amended. Only those which are considered significant have been listed here:

- Note 10 – Discrepancies were identified in the table between client working paper and the Statement of Accounts. These were incorrect amounts disclosed in relation Government Grants for –
  - Department for Education;
  - Department for Work and Pensions; and
  - Department for Health and Social Care
- Note 14 – Audit testing identified that the incorrect Over £50k remuneration table had been included in draft accounts. The revised table was audited and found to be correct.
- Note 24 –Contingent Liability was disclosed in relation to the McCloud/GMP pensions issue. However, further information has now been received that will allow this issue to be quantified. See pensions issues above
- Note 26d - an error was identified in relation to the disclosure of maturity date of one loan resulting in the maturing in 5- 10 years line of the table being overstated by £6m and maturing in more than 10 years line of the table being understated by £6m.
- HRA I & E Note 8 Item 8 adjustment – The Note refers to "impairment charges" £13,879k however there are no impairments in year. This is a downward revaluation of non current assets and description has been changed.

# 5. VALUE FOR MONEY CONCLUSION

## Our approach to Value for Money

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making.
- Sustainable resource deployment.
- Working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>A formal Council Constitution is in place that sets out the scheme of delegation for decisions. This was updated in May 2019 and is available on the Council's website.</p> <p>The Council have clear decision-making processes in place along with clear governance structures which are reviewed regularly and updated when necessary to ensure they remain fit for purpose.</p> <p>The Annual Governance Statement provides a summary of the governance framework and management organisational arrangements in place to ensure informed decision-making and explains how assurance on the effectiveness of these arrangements in the year has been provided to the Audit and Standards Committee.</p> <p>The Council's system of internal control is subject to review by Internal Audit, who have given an opinion that there continues to be an adequate system of internal control in place.</p>	Yes
Sustainable resource deployment	<p>Council formally approved the 2018/19 budget of £203.466 million at the meeting on 22 February 2018. During the year, the Council received a further £3.477 million of funding, resulting in total available revenue funding of £206.943 million. The additional funding was mainly in relation to Government grants, including –</p> <ul style="list-style-type: none"><li>• Adult Social Care winter funding - £1.133 million; and</li><li>• Skills Funding Agency miscellaneous grants - £1.249 million</li></ul> <p>Included within the approved budget was the requirement to achieve savings of £13.650 million during the year (see below for the results of our work on these savings).</p>	Yes

# 5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Cabinet received the 2018/19 outturn report on 25 June 2019. The report identified that the net expenditure position was £205.804 million, following a movement in earmarked reserves of £3.940 million which was in line with the revenue budget approved by members on 22 February 2018. This position extends the Council's track record of delivering increasingly challenging revenue outturns within budget.</p> <p>The Council ended 2018/19 with general reserves of £14.807 million, an increase of £1.139 million from 2017/18. A further £31.848 million was also held in earmarked general fund reserves in line with the level anticipated when the budget was approved.</p> <p>The level of general fund balances is approved annually by Council as part of the MTFS review. The Capital Strategy reflects the Council's priorities. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in this strategy. The implications of the capital programme are appropriately reflected in the MTFS.</p> <p>In our Audit Strategy Memorandum we identified a significant risk in relation to this criteria. In order to assess the robustness of the Council's plans, we have:</p> <ul style="list-style-type: none"><li>• completed testing of the achievement of the Council's monitoring and action plans for a sample of savings included in the budget;</li><li>• reviewed the updated Medium-Term Financial Strategy;</li><li>• reviewed budget monitoring reports and other finance updates; and</li><li>• reviewed progress in identifying further savings.</li></ul> <p>Our findings from this work are outlined below.</p> <p><b>Achievement of 2018/19 savings programme</b></p> <p>Included within the approved budget was the requirement to achieve savings of £13.650 million during the year (see below for the results of our work on these savings). This target was made up of individual projects, each with a savings target. These amounts were deducted from base budget allocations. If any service identified that it could not meet any of the savings identified then it was required to make alternative savings from other budgets within the service.</p>	Yes



# 5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment (continued)	<p>The final outturn for achieved savings was £7.845 million, meaning that the Council achieved approx. 58% of the target, a substantial reduction on the 2017/18 saving of 71% . This reduction was due to the non delivery of a number of schemes and has resulted in the unachieved savings being carried forward into 2019/20. This highlights the ongoing challenge to achieve savings in a financially challenging environment. However the Council managed to make compensating savings elsewhere to achieve a reported underspend of £1.139m.</p> <p>We tested a sample of the 2018/19 savings plans and assessed delivery against the target level of savings. The main issues identified were in relation to the non delivery of savings relating to Care, Wellbeing and Learning schemes and were due to a delay in embedding arrangements. Work is ongoing to strengthen arrangements in this area.</p> <p><b>Arrangements for achievement of 2019/20 savings programme</b></p> <p>Included in the Council's 2019/20 budget, approved by Council on 22 February 2019, is a savings target of £13.113 million. Officers have carried out detailed work in this area and have identified savings plans for a number of individual projects to achieve this target.</p> <p>The Council has introduced new arrangements to strengthen the budget framework and the revenue monitoring process for 2019/20 and beyond. This framework will introduce clear responsibilities so that budget holders will be held accountable for the delivery of their budget areas.</p> <p>The same detailed monitoring arrangements for the savings plans remain in place. Based on our review of the arrangements in place and management's responses to our challenge on the deliverability of a sample of savings plans we have no issues to report however officers do acknowledge that achieving the required savings remains challenging.</p>	

# 5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment (continued)	<p><b>Review of 2020/21 savings target</b></p> <p>The Councils medium term financial strategy has identified a 2020/21 funding gap of £13.654 million. The process of working with Directorates to identify savings has already began. When a list of savings schemes has been identified, due by Autumn 2019, it will then be challenged by both officers and members before being subject to a public consultation exercise which is due to begin in November 2019 and will last approx. 6 weeks. The outcome of this consultation will be fed back into the process before a detailed savings plan will be produced and challenged as part of the 2020-21 budget process.</p> <p><b>Review of the Medium Term Financial Strategy (MTFS)</b></p> <p>Previously, the Council have presented an update MTFS to Cabinet in July every year however due to the ongoing delays in the Government issuing future funding guidance to Councils, (for example, delays due to Brexit and Green Paper on social care) this will now not be reported until September 2019. However the MTFS approved in July 2019 covers the period 2019/20 to 2023/24 and therefore this covers the period of our work.</p> <p>Despite the above, early work on the MTFS refresh is progressing well. The Council's financial challenge, based on current financial guidance outlines a funding gap of £65 million over the next 5 years with 40 million over the next three years.</p> <p>Due to the scale of the ongoing financial challenge, the Council have reviewed and updated their budget framework and revenue monitoring process to take account of the challenges. The cumulative impact of the financial pressure over a number of years means that the ability to deliver the budget from underspends in other areas is rapidly diminishing.</p>	

# 5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Council has written procedures for procuring products and services, which are within its Constitution. Contract Procedure Rules outline the financial regulations currently in place.</p> <p>The Council's risk register includes a strand on partnership working due to the importance of this area. It is involved in a number of significant partnerships, including:</p> <ul style="list-style-type: none"><li>• South Tyne and Wear Waste Management Partnership.</li><li>• Gateshead Regeneration Partnership.</li></ul>	Yes

## Overall assessment ('reality check')

Having gathered evidence in each area we have conducted a final 'reality check', which included consideration of our cumulative knowledge of the Council and, in particular:

- reports by statutory inspectorates, other regulators and external advisors;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

We do this to identify anything that would make us reconsider our conclusion

Evidence	Auditor assessment
<b>Outputs by statutory inspectorates or other regulators</b>	<p>We have considered 2017/18 reports from both OFSTED and CQC are part of our work. Inspections carried out by the above bodies did not identify issues that would make us reconsider our conclusion. This included an OFSTED report on Children's Social Care Services which was assessed as Good. The report identified that children and families in Gateshead receive a good-quality service.</p> <p>During the year the Council , via The Gateshead Housing Company, received a Regulatory Notice from the Regulator of Social Housing (the Regulator) in April 2019. This was in relation to the Council breaching the Home standard due to the failure to meet statutory health and safety requirements across a range of areas including fire safety, asbestos and electrical safety. The Regulator had learnt that up until mid-2018, Gateshead MBC did not have a programme in place to carry out risk assessments across its stock. Although fire risk assessments were carried out on Gateshead MBC's high rise properties, they were not carried out in other stock until very recently. The Regulator noted that TGHC had commissioned the review in mid-2018 which identified these issues and that Gateshead MBC has since been working to ensure the required statutory checks, and relevant safety actions, are completed. However, taking into account the breadth and scale of this failure, and the potentially longstanding nature of the issues, the regulator has determined that it is proportionate to find a breach of the Home standard in this case.</p> <p>This issue has not resulted in any direct financial consequence for the Council however the regulator will work with the Council and will consider if any further action should be taken, including whether to exercise any of its powers. We will monitor the progress made in this area during 2019/20 but given the current position we do not feel that this is a Value for Money Conclusion qualification issue</p>

# 5. VALUE FOR MONEY CONCLUSION

## Overall assessment ('reality check' continued.)

Evidence	Auditor assessment
Achievement of performance and other targets	We reviewed the 'Value for Money Profiles' (based on data from Public Sector Audit Appointments). We did not identify any indicators which would suggest weaknesses in the Council's arrangements, or any information contrary to our knowledge of the Council.
Performance against budgets and other financial targets	We reviewed the Council's Year End Assessment of Performance and Delivery 2018/19 reported in June 2019. This did not identify any matters suggesting a material weakness in the Council's arrangements or any information contrary to our knowledge of the Council.

## Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

Mr Cameron Waddell  
Partner  
Mazars LLP  
Salvus House  
Aykley Heads  
Durham DH1 5TS

Date: X July 2019

### Gateshead Council and Group - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of Gateshead Council and Group for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

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

#### My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

#### My responsibility to provide and disclose relevant information

I have provided you with:

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

I confirm as Strategic Director, Corporate Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

#### Accounting records

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

#### Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year.

#### Accounting estimates, including those measured at fair value

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

#### Contingencies

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

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

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### (CONTINUED)

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

There are no contingent gains which should be disclosed.

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

**Laws and regulations**

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

Gateshead Council and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

**Fraud and error**

I acknowledge my responsibility as Strategic Director, Corporate Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

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

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting Gateshead Council and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

**Related party transactions**

I confirm that all related party relationships, transactions and balances (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

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

**Impairment review**

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

**Charges on assets**

All Gateshead Council and Group's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

**Future commitments**

We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

**Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

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





# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### (CONTINUED)

**Group Disclosure**

I confirm that I have assessed the other companies in which the Council have an interest and confirm that they do not perform key services on behalf of the Council and are financially immaterial.

**Going concern**

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

**Unadjusted misstatements**

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

Yours sincerely

Strategic Director, Corporate Resources  
Date.....



# APPENDIX B

## DRAFT AUDITOR'S REPORT

### Independent auditor's report to Gateshead Council and Group

#### Report on the financial statements

#### Opinion

We have audited the financial statements of Gateshead Council and Group for the year ended 31 March 2019, which comprise Gateshead Council and Group Movement in Reserves Statement, Gateshead Council and Group Comprehensive Income and Expenditure Statement, Gateshead Council and Group Balance Sheet, Gateshead Council and Group Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Gateshead Council and Group as at 31<sup>st</sup> March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of Gateshead Council and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director, Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director, Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Gateshead Council and Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Strategic Director, Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.



# APPENDIX B

## DRAFT AUDITOR’S REPORT (CONTINUED)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Responsibilities of the Strategic Director, Corporate Resources for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Strategic Director, Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Strategic Director, Corporate Resources is also responsible for such internal control as the Strategic Director, Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Strategic Director, Corporate Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless Gateshead Council and Group is informed of the intention for dissolution without transfer of services or function to another entity. The Strategic Director, Corporate Resources is responsible for assessing each year whether or not it is appropriate for Gateshead Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

**Auditor’s responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Authority’s website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor’s report.

**Matters on which we are required to report by exception under the Code of Audit Practice**

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

# APPENDIX B

## DRAFT AUDITOR’S REPORT (CONTINUED)

**Conclusion on Gateshead Council and Group’s arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Gateshead Council and Group has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

**Basis for conclusion**

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether Gateshead Council and Group had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether Gateshead Council and Group put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

**Responsibilities of Gateshead Council and Group**

Gateshead Council and Group is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

**Auditor’s responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that Gateshead Council and Group has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of Gateshead Council and Group’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Use of the audit report**

This report is made solely to the members of Gateshead Council and Group, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of Gateshead Council and Group those matters we are required to state to them in an auditor’s 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 members of Gateshead Council and Group, as a body, for our audit work, for this report, or for the opinions we have formed.

# APPENDIX B

## DRAFT AUDITOR’S REPORT (CONTINUED)

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Gateshead Council and Group’s Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Gateshead Council and Group’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

Cameron Waddell  
Partner  
For and on behalf of Mazars LLP  
Salvus House  
Aykley Heads  
Durham DH1 5TS

x July 2019



# APPENDIX C

## INDEPENDENCE

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

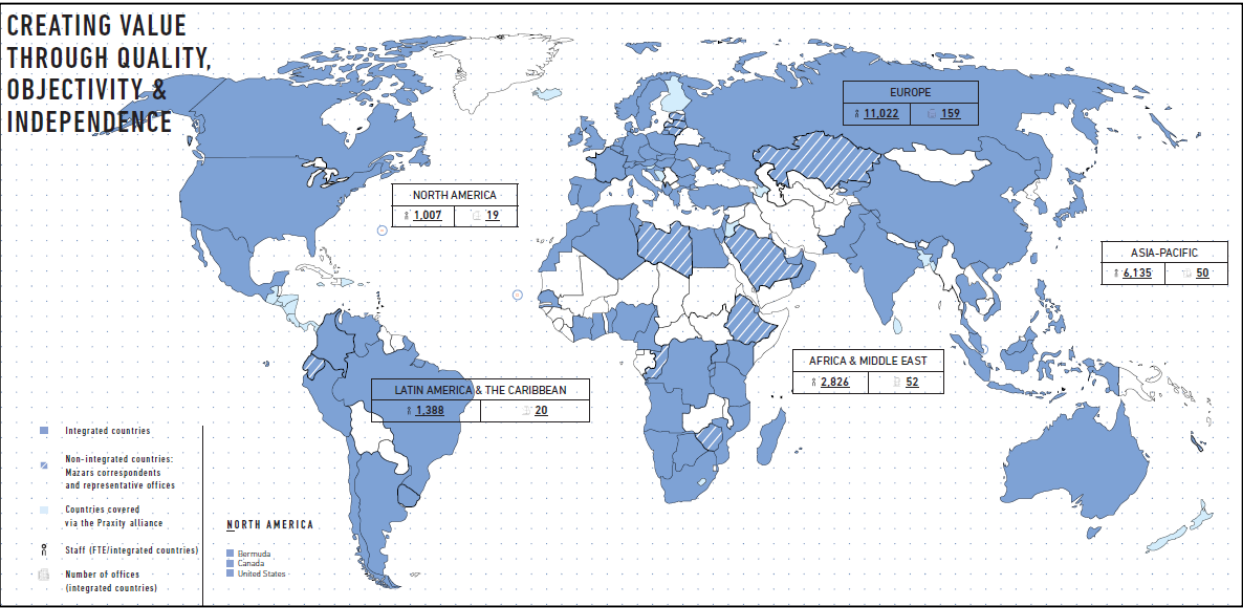
We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

# MAZARS AT A GLANCE

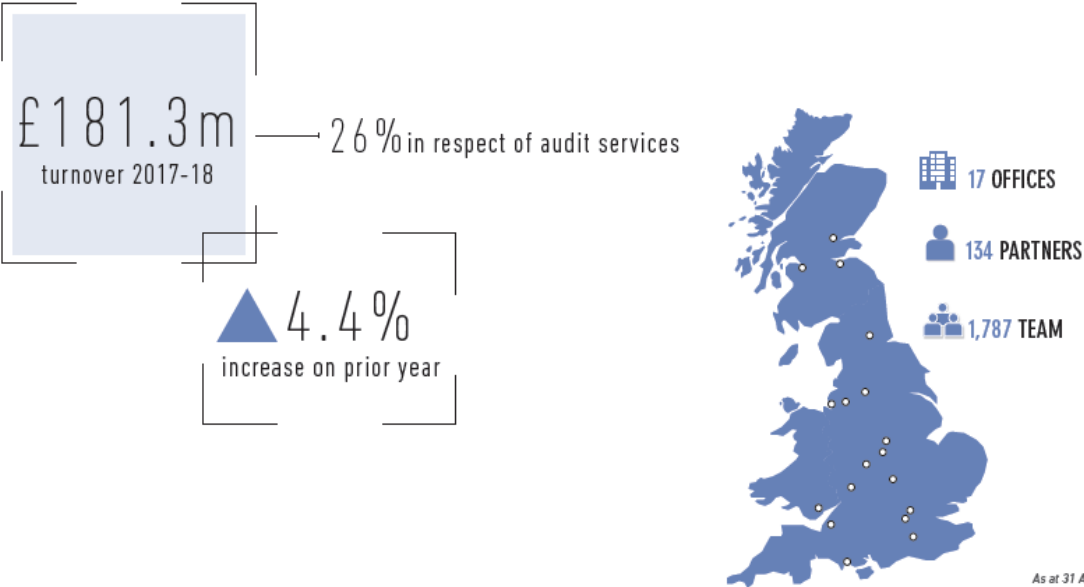
## Mazars LLP

- Fee income €1.6 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

## Mazars Internationally



## Mazars in the UK



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