

**Title of Report: Audit Completion Report Year Ended 31 March 2020 and
Gateshead Council Statement of Accounts 2019/20**

Report of: Darren Collins, Strategic Director, Resources and Digital

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 2019/20 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 As a result of COVID-19, the Accounts and Audit (Coronavirus)(Amendment) Regulations 2020 extended the statutory deadlines for 2019/20. The publication date for final, audited accounts moved from 31 July 2020 to 30 November 2020.
- 4 The annual audit of the Council's Statement of Accounts and use of resources has now been substantially completed for 2019/20 and the Council's external auditor, Mazars has issued its report, subject to the completion of outstanding work.
- 5 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.
- 6 The external auditor's report is attached at Appendix 1 and the Council's Statement of Accounts is attached at Appendix 2.
- 7 Although Mazars anticipate completing their work in October, 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.

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 on the financial statements, including drawing attention to the Valuer's material uncertainty statement on property, plant and equipment (PPE).
 - 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. Further work is ongoing in relation to the valuation of PPE.
 - Value for Money – at the time of issuing the report 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 timetable for the Council's submission has not yet been published by MHCLG. Audit work will be completed as soon as possible once these details have been clarified.
 - Internal control recommendations in relation to the note 10 on grants, Beacon properties records, review of bad debt provisions, and sign off of Housing Rents.
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 2019/20 the only material subsidiary was TGHC due to the pension liability.
10. The Statement of Accounts is materially consistent with the 2019/20 revenue and capital outturn reports considered by Cabinet on 23 June 2020. Along with minor adjustments and presentational changes, the following significant findings and misstatements to the Statement submitted for audit on 7 July 2020 have been identified through the audit process:

Significant Findings

- Significant risk of management override of controls – no issues.
- Significant risk of revenue recognition – no issues.
- Significant risk of defined benefit liability valuations – subject to the completion of outstanding work. Assurance awaited from the pension fund auditor EY.
- Significant risk property, plant and equipment valuation – Attention to be drawn to material valuation uncertainty disclosure as a 'emphasis of

matter'. Work remains ongoing in relation to the Council's shared waste facility and the current valuation of primary schools.

- Significant risk valuation of short and long-term debtors – subject to outstanding work.
- Enhanced risk valuation of long-term investments – no issues.

Significant Issues Discussed with Management

11. The following significant matters have been discussed with management:

- the impact of COVID-19 on the Council's financial statements;
- the valuation of the Council's land and buildings, including the Valuer's material uncertainty statement;
- the valuation of the Council's shared waste facility;
- the significant variances arising from the triennial valuation of the Pension Fund;
- the valuation and assumptions made in the downward valuation of the Airport shares, as well as the expected credit loss for the Council's long-term loan notes to the Airport;
- the calculation of the impairment of debtors; and
- the Council's assessment of whether there are any post balance sheet events.

Unadjusted Misstatements

- **Changes to the Insurance provision** – being an overstatement specific to one individual insurance claim.
- Reclassification of short-term to long-term debtors

12. 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)** – reanalysis of the deficit recognised on the investment in Newcastle Airport.
- **Bad Debt Provision** – correction of over provision for council tax and business rates.
- **CIES** – correction of group income and expenditure.

Disclosure Amendments

13. A number of presentational and disclosure errors have been amended. Further detail is outlined in section 4 of the external auditor's report.

14. 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

15. 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 2019/20, prior to submission to the Accounts Committee.

Contact name: Darren Collins Ext - 3582