

# APPENDIX 2

## Audit Completion Report

Gateshead Metropolitan Borough Council  
Year ended 31 March 2021

September 2021



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Audit and Standards Committee and Accounts Committee Members  
Gateshead Metropolitan Borough Council  
Gateshead Council  
Civic Centre  
Regent Street  
Gateshead  
NE8 1HH

12 September 2021

Dear Committee Members

## **Audit Completion Report – year ended 31 March 2021**

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. 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 26 April 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We noted in our Audit Strategy Memorandum that our risk assessment in respect of our VFM work was not complete; following completion of this risk assessment, we did not identify any significant risks of weaknesses in arrangements.

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 07813 752 053.

Yours faithfully

Cameron Waddell  
Partner  
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# 01

Section 01:

**Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 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 on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 04 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls (Council and Group);
- Net defined benefit liability valuation (Council and Group);
- Valuation of property, plant and equipment (Council only);
- Valuation of current and non-current debtors (Council only);
- Covid-19 grant income recognition (Council only); and
- Valuation and completeness of provisions (Council only).

Section 05 sets out internal control recommendations and section 6 sets out audit misstatements. Section 07 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021, other than testing of Property, Plant and Equipment valuations where additional work has been required as a result of the full revaluation of the Council's entire portfolio of assets.

At the time of preparing this report, matters remaining outstanding as outlined in section 02. We will provide an update to you in relation to the matters outstanding through issuance of a follow-up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



### Audit opinion

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

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 07 of this report.



### Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



### 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. No questions or objections have been received.

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# 02

Section 02:

**Status of the audit**

## 2. Status of the audit

Our work is on-going; there are currently no matters of which we are aware that would require modification of our audit opinion, subject to completion of work in the areas detailed below.

Audit area	Status	Description of the outstanding matters
<b>Net defined benefit liability (pensions)</b>		Assurance from the Pension Fund auditor. There is likely to be an amendment as a result of a material variance between the actual and estimated return on assets that was originally used by the Actuary.
<b>Property, Plant and Equipment</b>		We are awaiting some responses to queries in respect of the sampled valuations, noting the significant increase in work required in 2020/21, due to the revaluation of the Council's entire portfolio of assets.  Review of the valuation of the District Energy Facility by our own expert is ongoing.  Further detail is set out in the significant risk section of this report (section 04).
<b>Covid-19 grant income</b>		Completion of work in respect of the treatment of Covid-19 grant income.
<b>Group accounts</b>		Receipt of assurance from the auditor of The Gateshead Housing Company is expected in the week commencing 27 September 2021. We will then also need to review the component auditor's work.
<b>Other</b>		Completion of various other work, including debtors testing,
<b>Closing procedures</b>		Review of the revised financial statements and consideration of any post balance sheet events.



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.

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# 03

## Section 03: **Audit approach**



# 3. Audit approach

## Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in April 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

Our provisional materiality at the planning stage of the audit was set at £12.958m for the Group and £12.592m for the Council using a benchmark of 2% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements is £13.735m and £13.712m for the Group and Council respectively, using the same benchmark.

## Group audit approach

Group component	Approach adopted*	Key points or other matters to report
The Council	Full audit – Mazars LLP	As set out in this report.
The Gateshead Housing Company (TGHC)	Full audit – KPMG LLP	Receipt of assurance from the auditor of The Gateshead Housing Company is expected in the week commencing 27 September. We will then also need to review the component auditor's work.

\* Full audit is the performance of an audit of the component's financial information prepared for group reporting purposes using component materiality.

## Use of experts

Changes to our planned approach since issuing our Audit Strategy Memorandum are shown in italics below.

Item of account	Management's expert	Our expert
<b>Defined benefit net liability</b>	AON Hewitt (Actuary)	Report commissioned by the National Audit Office from PwC in respect of actuaries nationally.
<b>Property, Plant and Equipment (PPE)</b>	BNP Paribas Real Estate Ltd	We take into account relevant information available from third parties. <i>We have also engaged our own internal valuation expert to review, for reasonableness, a sample of the Council's PPE, given the full portfolio revaluation in 2020/21.</i>
<b>Shared Waste Private Finance Initiative (PFI facility)</b>	Hilco Appraisal Ltd	Cluttons LLP & Hickman Shearer Ltd (latter for the plant & machinery specialist element).
<b>District Energy Centre (DEC)</b>	<i>Hilco Appraisal Ltd</i>	<i>Hickman Shearer Ltd</i>
<b>Financial instrument disclosures</b>	Link Asset Services	No expert required.



# 04

## Section 04: **Significant findings**

# 4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement 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 18 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;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

## Significant risk – management override of controls

<b>Management override of controls</b>	<b>Description of the risk</b>
	<p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>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.</p>
	<p><b>How we addressed this risk</b></p>
	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>• accounting estimates impacting 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>
	<p><b>Audit conclusion</b></p>
	<p>There are no significant issues arising from our work that we are required to report to you.</p>



## 4. Significant findings – significant risk: net defined benefit liability (pensions)

<b>Net defined benefit liability (pensions)</b>	<b>Description of the risk</b> <p>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.</p>
	<b>How we addressed this risk</b> <p>We:</p> <ul style="list-style-type: none"><li>critically evaluated the Council’s arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and</li><li>challenged the reasonableness of the Actuary’s assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office;</li><li>critically assessed the competency, objectivity and independence of the Actuary;</li><li>liaised with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively;</li><li>compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office;</li><li>agreed data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements; and</li><li>critically reviewed the component auditor’s work in respect of The Gateshead Housing Company’s pensions liability which is consolidated in the group financial statements.</li></ul>
	<b>Audit conclusion</b> <p>Our work is on-going, with the following key areas outstanding:</p> <ul style="list-style-type: none"><li>receipt and consideration of the assurance from the Pension Fund auditor, which we have been informed may be slightly later than the target date of the end of September; and</li><li>the Council has obtained a revised report from the Actuary, due to the significant difference between the assets estimated by the Actuary and used in the draft accounts, compared to the actual assets at the year-end per the Pension Fund accounts. This has resulted in the financial statements being revised, due to the material difference between the estimate and the actual, which has been more pronounced than in prior years due to the volatility of assets in the final quarter of 2020/21. At the time of issuing this report, our work on the revised report has not been completed.</li></ul> <p>We will provide an update on outstanding matters to the Committees via our formal follow-up letter, which will include an updated summary of misstatements.</p>



## 4. Significant findings – significant risk: valuation of property, plant and equipment

Valuation of property, plant and equipment (PPE)	Description of the risk
	<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 property, plant and equipment (including the Council's PFI shared waste facility). The Council employs valuation experts to provide information on valuations, however there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment (PPE) due to the significant judgements and number of variables involved.</p>
	<p>The risk has increased as a result of the economic downturn arising from COVID-19. As a result of the pandemic, Valuers included material uncertainty statements in their 2019/20 valuation reports, which in turn led to local authorities disclosing this material uncertainty in their financial statements. We will consider the impact of any such disclosures as part of our audit work.</p>
	<b>How we addressed this risk</b>
	<p>We:</p> <ul style="list-style-type: none"><li>critically assessed the Council's arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated;</li><li>critically assessed the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuers, including the PFI shared waste facility;</li><li>considered the competence, skills and experience of the Valuers and the instructions issued to the Valuers;</li><li>critically reviewed the output from our own expert's assessment of the valuation of the PFI shared waste facility;</li><li>substantively tested capital expenditure additions and disposals during the year;</li><li>substantively tested the Council's property, plant and equipment to gain assurance that they exist and are owned by the Council;</li><li>substantively tested revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated;</li><li>critically consider any material uncertainties expressed by the Valuers used by the Council and consider any implications on our audit work; and</li><li>where necessary, performed further audit procedures on individual assets to ensure the basis of valuations is appropriate.</li></ul>
	<b>Audit conclusion</b>
	<b>Key observations:</b>
	<ul style="list-style-type: none"><li>the Council has revalued its entire portfolio of property, plant and equipment in 2020/21, therefore, this has significantly increased the amount of testing required; and</li><li>we have used our internal valuation expert to review, for reasonableness, a sample of valuations.</li></ul>
	(continued overleaf)



## 4. Significant findings – significant risk: valuation of property, plant and equipment (continued)

### Valuation of property, plant and equipment (PPE) - continued

#### Audit conclusion (continued)

##### *Challenges to the Council and its Valuer:*

- the valuation date of 1 April 2020 and whether data from after that point has been appropriately used in the valuations;
- the approach to considering the 'modern equivalent' asset in depreciated replacement cost valuations, including the land element of schools;
- the inclusion of a 4% contingency for depreciated replacement cost valuations carried out on an 'instant build' basis;
- the assumptions leading to the Valuer's judgement for obsolescence factors used; and
- the assumptions used for land valuations (value per acre), in particular the Civic Centre

##### *Material uncertainty statement*

The Council's Valuers have again included a material uncertainty statement in their valuation reports. The Council has, in turn, drawn attention to this in its disclosure of key assumptions (Note 5).

We have critically reviewed this, in light of the guidance issued by the valuation body The Royal Institute of Chartered Surveyors (RICS).

The Council and its Valuers remain of the view that a material uncertainty statement is appropriate, given the date of valuation of 1 April 2020.

Given the above, we will similarly draw attention to this material uncertainty statement in our auditor's report, via an emphasis of matter paragraph, similar to last year. The draft wording is set out in Appendix B.

##### *Key areas outstanding*

Our work is on-going, with the following key areas outstanding:

- sample testing of valuations – work to date has identified some errors, however, completion of our work is required in order to conclude on whether any extrapolated errors would be material;
- sample testing of valuations identified one school with a valuation of £12.875 million which should have been brought back on balance sheet (a former Academy) in 2019/20 but this was not done until 2020/21;
- sample testing of valuations identified that the PFI schools were understated by approximately £6.5 million due to the incorrect useful economic life being used; and
- our own expert's review of the valuation of the District Energy Centre (DEC), due to the latter being a specialist valuation, for which the Council itself commissioned an external valuation.

We will provide an update on outstanding matters to the Committees via our formal follow-up letter, which will include an updated summary of misstatements.

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# 4. Significant findings – significant risk: valuation of current and non-current debtors

<b>Valuation of current and non-current debtors</b>	<p><b>Description of the risk</b></p> <p>There is an increased risk that the valuation of debtors, both current and non-current, will be impacted by the economic downturn. The Council’s non-current debtors also includes loans to other bodies and Newcastle Airport. The Council has provided for the potential impairment of current debtors which may also be impacted by the economic downturn.</p> <hr/> <p><b>How we addressed this risk</b></p> <p>We:</p> <ul style="list-style-type: none"> <li>critically reviewed the basis of valuation of current and non-current debtors disclosed in Note 22, including the Council’s assessment of expected credit losses (the latter including the long-term loan notes to Newcastle Airport);</li> <li>critically reviewed the adequacy of the impairment of debtors allowance;</li> <li>challenged the assumptions made by the Council, in particular in light of the economic downturn.</li> </ul> <hr/> <p><b>Audit conclusion</b></p> <p>We obtained the assurance sought, with the following issues identified:</p> <ul style="list-style-type: none"> <li>substantive testing of current debtors identified a non-material debtors balance with a partner which was no longer a valid debtor, therefore, should be written off. This has arisen due to a disputed debtor and is partially offset by a linked creditor, with details being set out in the unadjusted misstatements section 06 of this report;</li> <li>substantive testing of current debtors identified a further debtors balance with local authorities, which contained amounts owing which may similarly no longer be valid, dating back some years: this was a clearly trivial balance;</li> <li>substantive testing of current debtors further identified a trivial balance that the Council appeared to owe to itself; whilst trivial, we have recommended the Council reviews this as controls should ensure the Council is not raising a debtor with itself; and</li> <li>non-current debtors contain the Airport loan notes, in respect of which an expected credit loss of £0.197 million has been recognised, however, the loss has been incorrectly accounted for as a provision, as it should have been netted off against the loan notes within non-current debtors.</li> </ul>
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# 4. Significant findings – significant risk: COVID-19 grant recognition

<b>COVID-19 grant recognition</b>	<b>Description of the risk</b>
	Throughout 2020/21, the Government has provided substantial sums of financial support to local authorities.  Use of management judgement will be required to determine if the Council is acting as an agent or principal in relation to the administration of these grants and in relation to determining whether the recognition criteria have been met. The recognition criteria can also differ, depending on whether there are conditions attached or not, as well as whether the grant has been fully spent.  We have, therefore, identified accounting for the completeness, accuracy, classification and valuation and allocation of this income as a significant risk.
	<b>How we addressed this risk</b>
	We: <ul style="list-style-type: none"><li>critically reviewed the Council’s approach in determining whether they have been acting as an agent or principal in relation to COVID 19 grants; and</li><li>substantively tested COVID 19 grant income recorded in the ledger to grant allocations and notifications, including whether the appropriate accounting treatment has been followed (e.g. whether there are conditions attached and whether the grant amount has been fully spent).</li></ul>
<b>Audit conclusion</b>	
There are no significant issues arising from our work that we are required to report to you.	





# 4. Significant findings – enhanced risk: valuation and completeness of provisions

## Key areas of management judgement - enhanced risk

**Valuation and completeness of provisions**

**Description of the management judgement**

The Council provides for probable liabilities of uncertain timing or amount, via its current and non-current provisions. Provision for probable liabilities is based on management’s assessment of the liabilities and their expected timing of settlement and / or the amounts. As this is subject to management estimation and other assumptions, we have highlighted this as an enhanced risk.

**How our audit addressed this area of management judgement**

We:

- substantively tested provisions disclosed in Note 24 “Provisions, Contingent Liabilities and Contingent Assets”;
- critically reviewed the assumptions made by management;
- critically reviewed contingent liabilities and whether any should be classified as provisions; and
- assessed the completeness of provisions, taking into account our wider knowledge of the Council, from review of minutes and agendas, discussions with senior officers and the Monitoring Officer.

**Audit conclusion**

We obtained the assurance sought, with the following issues identified:

- Airport Expected Credit Loss of £0.197 million for the Council’s loan notes to the Airport: whilst a trivial amount, the accounting treatment was incorrect as the expected credit loss should have been netted off against the loan notes under non-current debtors and not disclosed as a provision;
- business rates appeals provision of £2.472 million: this should be split between non-current and current provisions;
- contingent liability for water resale liability: this was not quantified, therefore, we recommended the Council revise the disclosure to set this out; and
- minor amendments to the narrative for provisions.



# 4. Significant findings

## Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 30 June 2021, ahead of the revised statutory deadline and were of a good quality, supported by comprehensive working papers.

## Significant matters discussed with management

- **Property, Plant and Equipment (PPE) valuations:** significant additional work has been required, with the level of sample testing more than doubling, due to the full revaluation of the Council's portfolio of PPE in 2020/21. Further details are set out under the significant risk section 04.
- **Material uncertainty statement in respect of land and buildings and investment property valuations:** we challenged the Council on their inclusion of a material uncertainty statement again, due to Covid-19, given the latest guidance from the regulatory body (RICS) for valuers indicated such a statement would, generally, no longer be required, other than for trading assets.
- **The valuation of the shared PFI waste facility,** for which the Council engaged its own expert, via the Lead Local Authority of the Partnership, due to the specialist nature of the asset and for which, therefore, we similarly engaged an expert.
- **Pensions:** we discussed with management the material variance between estimated assets used by the Actuary and the actual assets at the year-end. Further details are set out under the significant risk section 04.
- **Related party disclosures:** audit work identified omitted related party disclosures for Keelman Homes and also the Council's relationship with the charitable companies to which the Baltic and the Sage are leased at a peppercorn rent. We challenged management in respect of the processes in place for identifying related party disclosures as part of gaining assurance. Further amendments were also required to disclosures, to include details of financial support (e.g. loans) provided to unconsolidated entities, such as Gateshead Trading Company.
- **Covid-19 grant recognition:** the impact of the pandemic and how grants from central government have been treated in the financial statements.

- **The adequacy of the allowance made for Council Tax and Business Rates arrears:** we have challenged management on the adequacy of the allowance made in light of the level of arrears. We note the Council increased the allowance made last year, due to the pandemic.
- **Water resale liability:** we have discussed with the Council the water resale liability it has disclosed within contingent liabilities. The Council's assertion is that given the likelihood of outflows is not probable, the liability has been disclosed as a contingent liability. The disclosed liability was not quantified; the Council has updated this in its revised accounts.
- **Prior period adjustments:** we discussed with the Council their restatement of the current and non-current debtor balances and how this non-material restatement (with no net impact) did not meet the criteria for a prior period adjustment under accounting standards. The Council should ensure that comparator totals and balances are only restated where they meet the definition of a material prior period adjustment and are accompanied by an appropriate disclosure note setting out the nature of the adjustment.

## 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.

## 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 2020/21 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. No such objections have been raised.

# 05

Section 05:

**Internal control recommendations**

# 5. Internal control recommendations

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal controls or 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 controls 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
<b>1 (high)</b>	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
<b>2 (medium)</b>	In our view, there is a need to strengthen internal controls or enhance business efficiency. The recommendations should be actioned in the near future.	1
<b>3 (low)</b>	In our view, internal controls should be strengthened in these additional areas when practicable.	1



# 5. Internal control recommendations

## Other deficiencies in internal control – Level 2

### Description of deficiency

#### Omitted related party transactions and disclosures

Audit work identified the following omitted related party transactions and disclosures:

- loans to Keelman Homes;
- the companies which run the Baltic and Sage (which are leased to them for a peppercorn amount);
- financial support (i.e. loans) provided to Council-owned entities; and
- year-end debtor and creditor balances for related parties / Council-owned entities

### Potential effects

Further undisclosed related parties.  
Key information omitted from the disclosure note.

### Recommendation

The Council should revisit its controls in place for identifying related parties to ensure they correctly capture all relevant transactions and interests.

In considering potential related parties, it is important the Council considers materiality in terms of whether transactions / relationships are material not just to the Council, but also the other party.

### Management response

This will be actioned and controls reviewed.

## Other deficiencies in internal control – Level 3

### Description of deficiency

#### Evidenced check of annual update of business rates system parameters

Our walkthrough of key controls in the business rates system identified that there was no evidence retained of the input of parameters into the system and any checks done to ensure they were correct. We note there were compensating controls were in place.

### Potential effects

System parameters not appropriately updated for the new year.

### Recommendation

Ensure evidence is retained showing the input of parameters into the system and how these have been checked.

### Management response

This will be actioned.



# 5. Internal control recommendations

## Follow-up on previous internal control points - Level 3

### Description of deficiency

#### Note 10 government and non-government grants

The preparation of this disclosure note involves manual amendments to data. Given the quantity of data (in 2019/20 it amounted to over 8,000 lines) manual review is very time consuming and is prone to errors.

### Potential effects

When large amounts of data are involved, manual preparation can lead to errors. Our audit identified a number of small errors in terms of value.

### Recommendation

Data from Agresso should require as little manipulation as possible when preparing the financial statements.

### 2020/21 update

A non-material error of £0.214 million was identified when reconciling disclosure Note 10 to supporting working papers (with no impact on the financial statements). No other errors were identified in this respect.

## Follow-up on previous internal control points - Level 3

### Description of deficiency

#### Council dwelling beacon property records

Testing identified the same property was aligned to two Beacons (Springwell Tarslag and Springwell Dorran) which would indicate there is little difference in these Beacons.

### Potential effects

Errors in the valuation of council dwellings.

### Recommendation

Review beacon properties to ensure they are appropriate. Ensure individual addresses aligned to the beacon property are appropriate.

### 2020/21 update

No similar issues identified from work to date.



# 5. Internal control recommendations

## Follow-up on previous internal control points - Level 3

### Description of deficiency

#### Errors in the calculation of the impairment of debtors allowance

Errors were identified in relation to the calculation of the impairment of debtors allowance for council tax debt, business rates debt and housing benefit overpayments debt. The error in calculating the impairment of debtors allowance for housing benefit overpayments debt had been on-going for a number of years.

#### Potential effects

Misstatement of the impairment of debtors allowance.

#### Recommendation

All impairment of debtors allowance calculations should be reviewed to ensure they have been correctly calculated.

#### 2020/21 update

No similar issue was identified from our work in 2020/21.

## Follow-up on previous internal control points - Level 3

### Description of deficiency

#### Evidenced sign-off of annual rent setting

Our walkthrough of the key controls in the housing rents system identified that the formal document showing sign-off of the rent calculations had not been signed by an accountant and business partner.

#### Potential effects

Incorrect rent charges are raised.

#### Recommendation

Sign-off of the rent calculations should be made by an accountant and business partner.

#### 2020/21 update

This has been done formally for the 2021/22 rent setting. The 2020/21 rent setting did involve a level of scrutiny and checking but the declaration was not formally signed.



# 06

Section 06:

**Summary of misstatements**



## 6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £0.412 million for the Group (£0.411 million for the Council). 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

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Gross income, net cost of services: Economy, Innovation & Growth portfolio Cr: Current Debtors Being the write-back of the disputed debtor of £3.351 million for a previous partnership arrangement, for which there is no realistic prospect of settlement. Also a similar debtor of £0.188 million which is no longer recoverable. Note linked creditor below, however, as no legal right to set-off, presented separately, as required.	3,539		-3,539	
2	Dr: Current Creditors Cr: Gross expenditure, net cost of services, Economy, Innovation & Growth  Being the cancellation of the disputed creditor for a previous partnership arrangement, for which there is no realistic prospect of settlement. Note linked debtor above, however, as no legal right to set-off, presented separately, as required.		-1,824	1,824	
<b>Total unadjusted misstatements</b>		<b>3,539</b>	<b>-1,824</b>	<b>-1,715</b>	

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# 6. Summary of misstatements

## Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Current Creditors Cr: Revenue Grants Receipts in Advance Cr: Capital Revenue Grants Receipts in Advance			TBC	TBC TBC
Being the amendment to strip 'grants receipts in advance', both capital and revenue, from Creditors, to be disclosed separately on the face of the balance sheet.					
<b>Total unadjusted misstatements</b>				<b>TBC</b>	<b>TBC</b>

Values to be confirmed in our follow-up letter.



# 6. Summary of misstatements

## Disclosure amendments

Audit work identified a number of amendments to disclosures. The most significant are summarised below, split into adjusted and unadjusted.

### Adjusted disclosure amendments

- Note 3 Events after the Balance Sheet date: amendment to remove the sentence referencing the September Committee consideration of the impact of the pandemic and going concern report, as this is not a post balance sheet event.
- Note 6a adjustments between accounting and funding basis: amendment to disclose separately material totals included in the 'other' line, plus correction of footnotes.
- Note 13 External Audit fees: amendment to include the additional audit fee in respect of 2019/20 and also correction of the main audit fee for 2020/21.
- Note 14 Senior Officers' Remuneration table: amendment to the salaries disclosed, which were shown net of salary sacrificed e.g. for holiday bought. Similar amendment to the table disclosing, in bandings, officers paid more than £50,000.
- Note 15 Related Party disclosures: several amendments, including:
  - disclosure of outstanding balances at the year-end between related parties;
  - disclosure of financial support provided to unconsolidated entities (e.g. Gateshead Trading Company); and
  - update of disclosures in respect of Gateshead Trading Company and the Public Sector Partnership.
- Note 17 Property, Plant and Equipment: various amendments, including:
  - update of the table for omitted impairment of £0.700 million (no net impact, disclosure amendment only);
  - amendment to classification of £2.357m of assets from 'other land and buildings' to 'council dwellings' – along with linked amendment to HRA notes 2 and 3, including the number of dwellings.
- Note 18 Heritage assets: amendment to disclosure table and classification (no net impact).
- Note 20b PFI: omitted grant amount of £1.805 million.
- Note 21 Cash and Cash Equivalents: narrative added to clarify that the bank overdraft of £20.888 million includes an adjustment for the notional cash balance of £11.408 million that the Council holds in respect of other entities which use the Council's general ledger system.
- Note 22 Debtors from local taxation table: omitted balance of £3.089 million.
- Note 24, Provisions, Contingent Assets and Contingent Liabilities. Several amendments, including:
  - amendment to some of the provisions narrative for clarity; and
  - quantification of the water resale contingent liability.

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## Disclosure amendments

### Adjusted disclosure amendments - continued

- Note 26 financial instruments. Various amendments, including:
  - update of out-of-date terminology;
  - correction of a transposition error in the sensitivity table;
  - update of the gains and losses table to include the new format following the transition to IFRS 9;
  - update of the SCAPE investment value shown; and
  - a number of other presentational amendments including presentation of totals in the tables, so that they correctly cast.

### Other

- Amendment to the Movement in Reserves Statement to include a total Council reserves column (no net impact on totals).
- Amendments to the Cash Flow Statement to:
  - split the Cash and Cash Equivalents balance into current cash and cash equivalents and the bank overdraft;
  - correction of the calculation of the movement in the impairment of debtors allowance; and
  - inclusion of a required table setting out the “reconciliation of liabilities from financing activities”.
- Housing Revenue Account: minor amendments to note 6 revaluations.
- Collection Fund: amendment for transposition of totals for Fire and the Police and Crime Commissioner precepts, similar to the previous year.

### Unadjusted disclosure amendments

- Note 19 Capital Financing: the Council restated the opening balance of the comparator year in this disclosure note (no impact on the primary statements) for a non-material amendment of £2.086 million. This did not meet the criteria for restatement of prior years, therefore, should have been adjusted for as an in-year disclosure amendment.
- Note 22 Debtors: the Council restated the prior year current and non-current debtors, reclassifying a non-material £0.926 million balance from current to non-current debtors. This restatement does not meet the criteria for a ‘prior period adjustment’ under accounting standards as it is not material. Appropriate prior period adjustments should also be accompanied by a disclosure note setting out the reason for the restatement and the impact on the primary statements; this was not done. The restatement also impacted on a number of comparators in other disclosures, including the financial instruments notes.
- Note 24, Provisions, Contingent Assets and Contingent Liabilities: incorrect inclusion of the expected credit loss for the Airport loan notes as a provision, when it should have been netted off against non-current debtors (£0.197m). In addition, the business rates appeal provision should be split between current and non-current provisions.

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# 07

Section 07:

**Value for Money**

# 7. Value for Money

## Approach to Value for Money

We are required to consider 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 and sets out the reporting criteria that we are required to consider. The 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

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.

## Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however, we continue to undertake work on the Council's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.



# 7. Value for Money

## Risks of significant weaknesses in arrangements

In our Audit Strategy Memorandum we reported the risk of significant weaknesses in arrangements that we had identified as part of our planning procedures. Our provisional response to the identified risk is outlined in the table below.

Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Work undertaken and conclusions reached
<p>1 <b>Sustainable resource deployment – financial pressures</b></p> <p>The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements, including alternative models of service delivery. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.</p>	●	●	●	<p><b>Work undertaken</b></p> <p>We:</p> <ul style="list-style-type: none"> <li>• reviewed budget monitoring and reporting;</li> <li>• considered the adequacy of plans developed to deliver savings and improvements; and</li> <li>• considered the latest update of the Council's medium-term financial strategy.</li> </ul> <p><b>Conclusions</b></p> <p>The Council reported a surplus of £7.908m for 2020/21 (prior year £4.130 surplus). As highlighted in the Council's own provisional outturn report, this surplus was due to the timing of government funding received and that underlying significant financial pressures remain. Its medium-term financial strategy, which is updated annually, includes £8.117m of savings for 2021/22, which includes £0.400m of savings not achieved in 2020/21.</p> <p>The Council's general fund balance as at 31 March 2021 is £13.967m (prior year £11.058m). Earmarked revenue reserves as at 31 March 2021 totalled £87.829m, compared to £43.391m the prior year; this increase arises from government funding to be used to support the budget in 2021/22 and beyond.</p> <p>We have not identified any significant weaknesses in arrangements from our work to date; we will report in more detail in our Auditor's Annual Report for 2020/21.</p>



# Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications



# Appendix A: Draft management representation letter

Mr Cameron Waddell  
Partner  
Mazars LLP

Date:

## Gateshead Metropolitan Borough Council and Group - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of Gateshead Metropolitan Borough Council (the Council) for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, 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 ourselves that I can properly make each of the following representations to you.

### My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

### My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Strategic Director, Resources and Digital 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 that have a material effect on the financial statements 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.



# Appendix A: Draft management representation letter

## Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council’s financial position, financial performance and cash flows.

## Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or 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.

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 the Council 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 the Code and applicable law.

## 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.

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



# Appendix A: Draft management representation letter

## Fraud and error

I acknowledge my responsibility as Strategic Director, Resources and Digital 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 financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council 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 the Council'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, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law. I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

## Charges on assets

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

## 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.

## Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

## Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2020/21 in relation to the Council's PFI schemes that you have not been made aware of.



# Appendix A: Draft management representation letter

### Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, 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.

### Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council and Group, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that the 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 financial statements.

### 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. *Please make sure the appendix is attached to the letter and not cross-referenced to the appendix in the ACR.*

Yours faithfully

Strategic Director, Resources and Digital: .....

Date: .....



# Appendix B: Draft audit report

## Independent auditor's report to the Members of Gateshead Metropolitan Borough Council

### Report on the audit of the financial statements

#### Opinion on the financial statements

We have audited the financial statements of Gateshead Metropolitan Borough Council ('the Council') and its subsidiary ('the Group') for the year ended 31 March 2021, which comprise the Council and Group Movement in Reserves Statement, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheet, the Council and Group Cash Flow Statement, the Movement on the Housing Revenue Account Statement, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31<sup>st</sup> March 2021 and of the Council's and the Group's 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 2020/21.

#### 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 the 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, 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.

#### Emphasis of Matter - material uncertainty relating to valuations of land and property and investment property

We draw attention to notes 5 and 17 of the financial statements, which describe the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings and investment property. As disclosed in notes 5 and 17 of the financial statements, the Council's Valuers included a 'material valuation uncertainty' declaration within their reports as a result of the Covid-19 pandemic impacting on the relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the the Strategic Director, Resources and Digital use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the the Strategic Director, Resources and Digital with respect to going concern are described in the relevant sections of this report.

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## Other information

The Strategic Director, Resources and Digital 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.

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, Resources and Digital for the financial statements

As explained more fully in the Statement of Responsibilities of the Strategic Director, Resources and Digital, the Strategic Director, Resources and Digital 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 2020/21, and for being satisfied that they give a true and fair view. The Strategic Director, Resources and Digital is also responsible for such internal control as the Strategic Director, Resources and Digital 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, Resources and Digital is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Strategic Director, Resources and Digital is responsible for assessing each year whether or not it is appropriate for the 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council and the Group, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended) and the Local Audit and Accountability Act 2014 (and associated regulations made under section 32), and we considered the extent to which non-compliance might have a material effect on the financial statements.



# Appendix B: Draft audit report

We evaluated the Strategic Director, Resources and Digital’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit and Standards Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council and the Group which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit and Standards Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit and Standards Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Strategic Director, Resources and Digital use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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



# Appendix B: Draft audit report

## Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Matter on which we are required to report by exception

We are required to report to you if, in our view, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

### Responsibilities of the Council

The Council 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 the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

### 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.

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# Appendix B: Draft audit report

## Use of the audit report

This report is made solely to the Members of Gateshead Metropolitan Borough Council, 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 the Council 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 the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

## 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 Council's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Cameron Waddell  
Key Audit Partner  
For and on behalf of Mazars LLP

The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

Date:



# 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.



# Appendix D: Other communications

Other communication	Response
<b>Compliance with laws and regulations</b>	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
<b>External confirmations</b>	We did not experience any significant issues with respect to obtaining external confirmations.
<b>Related parties</b>	<p>Issues were identified in respect of related parties disclosures, as set out in section 04 'significant matters discussed with management' and section 06 'adjusted disclosure amendments', along with an internal control recommendation raised in section 05.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> <li>a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li> <li>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li> </ul>
<b>Going concern</b>	<p>We have not identified any evidence to cause us to disagree with the Strategic Director, Resources and Digital that Gateshead Metropolitan Borough Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>



# Appendix D: Other communications

Other communication	Response
<p><b>Subsequent events</b></p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<p><b>Matters related to fraud</b></p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit and Governance Committee, confirming that</p> <ul style="list-style-type: none"> <li>a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li> <li>b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li> <li>c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:               <ul style="list-style-type: none"> <li>i. management;</li> <li>ii. employees who have significant roles in internal control; or</li> <li>iii. others where the fraud could have a material effect on the financial statements; and</li> </ul> </li> <li>d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.</li> </ul>



## Mazars

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