

**Title of Report: Audit Completion Report Year Ended 31 March 2017 and
Gateshead Council Statement of Accounts 2016/17**

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report updates the Audit and Standards Committee on the outcome and findings of the audit of Gateshead's Statement of Accounts 2016/17 by the Council's external auditor Mazars.

Background

- 2 The Accounts and Audit Regulations 2015 require that the Council's Statement of Accounts should be approved by a committee. In Gateshead's governance framework, this is the Accounts Committee. However, best practice guidance outlines that the Audit and Standards Committee should also review the financial statements and external auditor's opinion. Review by this Committee is an additional step in the process to comply with best practice.
- 3 The annual audit of the Council's Statement of Accounts and use of resources has now been completed for 2016/17 and the Council's external auditor, Mazars has issued its report.
- 4 The Audit Completion Report covers:
 - The Council's Statement of Accounts including significant findings, internal control recommendations and a summary of misstatements;
 - The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources including a value for money conclusion.
- 5 The external auditor's report is attached at Appendix 1 and the Council's Statement of Accounts is attached at Appendix 2.
- 6 Although Mazars anticipate completing their work in July, it should be noted that they also place reliance on the work of other auditors, including Ernst and Young (EY) work to give assurance on the Tyne and Wear Pension Fund (TWPF) disclosures in the Council's Statement of Accounts. Despite assurances that the work by EY on the TWPF would be completed during July, the TWPF Audit Opinion has not yet been issued. It is anticipated that the Council's auditors will have received sufficient assurance from EY by the Accounts Committee date to allow the Council's accounts to be fully signed off. An update report will be presented to the Committee by Mazars.

Audit Completion Report

- 7 Mazars' Audit Completion Report is included as Appendix 1 to this report. The key messages are as follows:
- Audit Opinion – At the time of issuing the report, and subject to satisfactory conclusion of the remaining audit work, Mazars anticipate issuing an unqualified opinion, without modification, on the financial statements.
 - Identified misstatements – the auditors' work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is set out below.
 - Use of resources – at the time of issuing the report and subject to the satisfactory conclusion of the remaining audit work, Mazars anticipate having no matters to report in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 8 The 2016/17 Statement of Accounts, amended for any adjustments identified during the audit, is shown at Appendix 2. The Statement of Accounts is materially consistent with the 2016/17 revenue and capital outturn reports considered by Cabinet on 20 June 2017. Along with minor adjustments and presentational changes, the following misstatements to the Statement submitted for audit on 31 May 2017 have been identified through the audit process:
- **Short-term investments / short term debtors:** £0.665m interest relating to a Newcastle Airport loan was incorrectly treated as a short term investment rather than a short term debtor.
 - **Property, Plant and Equipment (PPE) / Revaluation Reserve:** £4.481m relating to finance costs were incorrectly included in the valuations for Depreciated Replacement Cost (DRC), so overstating PPE Net Book Value (NBV) by this amount on the Balance Sheet.
 - **Property, Plant and Equipment (PPE) / Revaluation Reserve:** £2.307m relating to the valuation of the SITA Waste Disposal Site incorrectly calculating the residual economic useful life of the assets by one year, resulting in an error in the overall valuation amounting to the equivalent of one year's depreciation. The impact is to understate the PPE NBV on the balance sheet by this amount.
- 9 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 misstatements as not being material, either individually or in aggregate to the financial statements, and does not plan to adjust.

Recommendation

- 10 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 2016/17, prior to submission to the Accounts Committee.