

Audit Completion Report

Gateshead Council



For the year ended 31 March 2017



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

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1. Executive summary

Purpose of this report

The Audit Completion Report sets out the findings of our audit of Gateshead Council (the Council) for the year ended 31 March 2017, and forms the basis for discussion at the Accounts Committee meeting on 28 July 2017.

The scope of our work and overall summary

The detailed scope of our work as your appointed auditor for 2016/17 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 include the matters outlined in the following table.

Financial statements	<p>In our Audit Strategy Memorandum we reported that materiality for the financial statements as a whole was set at £11.503 million. We have updated our assessment as part of our continuous planning processes and have set materiality at £10.844 million. Our clearly trivial threshold for reporting matters to you has been set at £325,000.</p> <p>We communicated identified significant risks to you as part of our Audit Strategy Memorandum in March 2017. Section [2] of this report outlines the work we have undertaken, and the conclusions we have reached, for each significant risk.</p> <p>At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our draft auditor's report is provided in Appendix C.</p>
Identified misstatements	<p>Our work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is provided in Appendix A.</p>
Value for Money	<p>At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate having no matters to report in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report is provided in Appendix C.</p>
Whole of Government Accounts (WGA)	<p>We anticipate completing our work on your WGA submission, in line with the group instructions issued by the National Audit Office, by the deadline of 30 September 2017. We anticipate reporting that the WGA submission is consistent with the audited financial statements.</p>

The status of our work

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2017. At the time of preparing this report, the following significant matters remain outstanding:

Area outstanding	Work to be completed
Journals Testing	We are continuing our work in this area. This impacts on both Management Override of Controls and Revenue Recognition Significant Risks.
Property, Plant and Equipment	We are still considering the implications of ongoing issues in relation to Valuations
Pension Fund auditor assurance	Our audit work is still ongoing in this area. In addition, we need to consider the findings of the Pension Fund auditor (EY) when these are received. We expected to receive their audit report by the end of July 2017.
Closure procedures	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.

We will provide an update to you in relation to these outstanding matters in a follow up letter prior to giving our opinion.

2. Significant findings

This section sets out the significant findings from our audit and provides information on a number of matters that we are required to report to you by ISA 260 'Communication with those charged with governance'.

Significant risks

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 will mitigate these risks. No new risks have been identified since we issued our Audit Strategy Memorandum. The significant risks identified, and our conclusions against each are outlined below.

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control</p> <p>In all entities, 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 overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>Our testing strategy included:</p> <ul style="list-style-type: none"> • reviewing material accounting estimates, which may have been subject to management bias, included in the financial statements; • consideration and review of unusual or significant transactions outside the normal course of business; and • testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>WORK ONGOING AS AT 20 JULY 2017.</p>
<p>Revenue Recognition</p> <p>There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period. Due to there being a risk of fraud in revenue recognition we consider it to be a significant risk.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> • cash receipts from March to May 2017 to ensure they had been recognised in the right year; and • testing adjustment journals; and • obtaining counterparty confirmation for major grant income, 	<p>WORK ONGOING AS AT 20 JULY 2017.</p>

Significant risk	How we addressed the risk	Audit conclusion
<p>Pensions Estimates (IAS19)</p> <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>	<p>We discussed with key contacts significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we:</p> <ul style="list-style-type: none"> evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. 	<p>Our audit work is still ongoing in this area. In addition, we need to consider the findings of the Pension Fund auditor (EY) when these are received. We expected to receive their audit report by the end of July 2017.</p>
<p>Property, Plant and Equipment (PPE)</p> <p>Valuations of these assets, in particular of land and buildings, require work from an expert valuer. Valuations of buildings must reflect both the condition of the building but also the valuation basis for that class of building as required by the CIPFA 'code'.</p>	<p>We:</p> <ul style="list-style-type: none"> examined the professional qualifications of the Council's valuer; challenged and substantiated the assumptions and the appropriateness of the date of the valuation used by your valuer in completing the valuations; ensured that valuations and impairments had been completed on the correct basis for each item and that movements were in line with expectation; and assessed whether the report produced by the valuer was correctly reflected in the accounts. 	<p>Our work to date has identified two issues in this area –</p> <ul style="list-style-type: none"> The instant build approach adopted for Depreciated Replacement Cost (DRC) in local authorities should exclude finance costs but the valuations for the Council have included them. The total amount in the DRC population is £4.481m. The impact is to overstate the PPE net book value (NBV) on the balance sheet by £4.481m. The valuation of the SITA Waste Disposal site incorrectly calculated the residual useful economic life of the assets by 1 year. This resulted in an error in the overall valuation amounting to the equivalent of 1 year's depreciation. The impact is to understate PPE NBV on the balance sheet by £2.307m.

Significant risk	How we addressed the risk	Audit conclusion
<p>Introduction of new Payroll system in 2016/17 (iTrent)</p> <p>The Council introduced a new Payroll system in April 2016. This introduction brings with it the potential for a material misstatement in the 2016/17 financial statements.</p>	<p>We liaised with officers and carried out substantive testing in order to gain assurance that the transfer of information between payroll systems was carried out accurately and did not result in a material financial misstatement</p>	<p>Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.</p>

Qualitative aspects of the Council's accounting practices

We are required to communicate to you our views on the significant qualitative aspects of the Council's accounting practices, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	We have reviewed the Council's accounting policies and disclosures and found these to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code). In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2017.
Quality of the draft financial statements	We received good quality draft financial statements from management on 31 May 2017.
Quality of supporting working papers	Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. Council officers have worked closely with us to provide working papers which has enabled the audit to progress very smoothly.

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.

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 that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control 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 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 not identified any significant deficiencies as a result of our work this year. However, a small number of minor control issues have been reported to Management.

Follow up of previous internal control points.

We did not raise any internal control points in 2015/16.

4. 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>During the year there has been a change in senior positions at the Council with both a new Council Leader and Chief Executive now in place.</p> <p>The Council has a clear governance structure which is regularly reviewed and where necessary adjusted to remain fit for purpose. A formal constitution is in place setting out the scheme of delegation for decisions which was last updated in September 2016 and is available on the Council's website.</p> <p>The Council's 2016/17 Annual Governance Statement provides a summary of the governance and management 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 Plan, is in place for the period 2015 to 2020 setting out how the Council will play its part in realising the Vision 2030 which is Gateshead's Sustainable Community Strategy, produced with a wide range of partners and others with a stake in the area.</p> <p>We have no issues to report on the adequacy of the Council's arrangements to support informed decision-making.</p>	Yes

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Council formally approve the 2016/17 budget at their meeting on 25 February 2016. Included within the approved Budget was a requirement to achieve savings of £18.8 million during the year (see below for the results of our work on these savings).</p> <p>Cabinet received a report on 20 June 2017, outlining a final 2016/17 Revenue position of a £1.3 million underspend. This extends the Council's track record of delivering increasingly challenging revenue outturns within the agreed budgets.</p> <p>The Council ended 2016/17 with general reserves of £16.8 million (£16.3 million in 2015/16). There were also £33.8 million of earmarked general fund reserves (£36.7 million in 2015/16). The level of general fund balances is approved annually by Cabinet and Council as part of the MTFS review.</p> <p>A Capital Strategy is in place which reflects the Council's priorities. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in the strategy. The capital programme is included as part of the MTFS.</p> <p>The Change Programme will play a critical role in the transformation change and future performance of the Council as the reductions in central government funding continues for the foreseeable future. We comment on the Change Programme in the significant risk section below.</p>	Yes
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"> • South Tyne and Wear Waste Management Partnership: This partnership was established to procure a service for treating and disposing of residual municipal waste. In April 2011, the partnership signed a £727 million PFI contract with a consortium led by SITA UK. 2014/15 was the first year of trading. • Gateshead Regeneration Partnership: The Council formally appointed Evolution Gateshead as partner in a joint venture vehicle in 2012. This Partnership is part of the Housing Market Renewal and Growth Strategy. Construction is ongoing on the first tranche of sites and the second tranche of sites is also progressing. 	Yes

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant Value for Money risk. The work we carried out in relation to significant risks is outlined below.

Value for Money conclusion risk	Work undertaken
<p>Sustainable resource deployment:</p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p> <p>The Council continues to face financial pressures from reduced funding, increased demand and changing responsibilities. The Council is responding to the challenges by a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services. Failure to have appropriate arrangements in place to identify and deliver this programme poses a significant risk to the Council's ability to deliver its strategic priorities and maintain statutory functions.</p>	<p>We reviewed:</p> <ul style="list-style-type: none">• monitoring and action plans for a sample of savings included in the budget;• the updated Medium-Term Financial Strategy;• budget monitoring reports and other finance updates;• the progress made in identifying further savings required; and• progress on the Council's Change Programme.

We detail below our findings in relation to the VFM significant risk that we identified above.

Achievement of 2016/17 savings

As part of the 2016/17 budget setting process, the Council identified required savings of £18.8 million. These amounts, identified in savings plans, were deducted from the 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.

The Council monitored the savings plans using a risk assessment methodology and separate general ledger codes which allowed officers to keep track of delivery as part of the Council's monthly budget monitoring process. The latest position and any residual actions are escalated through the Senior Management Team meetings.

The final outturn for achieved savings was £16.6 million; a shortfall of £2.2 million, the Council therefore achieved approximately 88% of the target, which is in line with previous years. Overall, the reported £1.3 million underspend identified that the Council made compensating savings elsewhere in their budget.

We selected a sample of the 2016/17 savings plans and assessed delivery against the target level of savings. In the majority of cases the plans achieved the required saving however in one case we identified a scheme that did not deliver the saving required. This related to Adult Social Care Residential Homes and was due to a delay in negotiations with key providers. Arrangements are now in place with providers of older people residential and nursing care and ongoing savings are being made.

Arrangements for achievement of 2017/18 savings target

Council approved the 2017/18 on 25 February 2017. The base budget was £197.5 million and included a savings requirement of £13.2 million. The budget was balanced without recourse to the General Reserve thus preserving reserve levels for subsequent years.

A summary of the budgeted 2017/18 savings is outlined below, split between each of the Council themes:

Budget Saving Proposals Theme Summary	Budget Saving 2016/17 £'000
Care, Wellbeing & Learning	(8,305)
Communities & Environment	(2,655)
Office of the Chief Exec	(100)
Corporate Services & Governance	(456)
Corporate Resources	(964)
Other services	(400)
Investment and Trading Income	(310)
TOTAL	(13,190)

Each of the above theme summaries are made up of a number of detailed savings plans and we selected a sample to test in detail. We challenged management as to whether the savings were realisable in 2017/18.

The same detailed monitoring arrangements for the savings plans remain in place for 2017/18. 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, whilst acknowledging that this will be an ongoing challenge, we have no issues to report in this area.

2018/19 savings target

The process of working with Directorates to identify savings for the 2018/19 savings, currently identified in the MTFs, as £20.6 million has begun.

When a list of savings has been identified, due by Autumn 2017, 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 2017. A detailed savings plan will be produced and challenged as part of the 2018/19 budget process.

Review of the 2018-2023 Medium Term Financial Strategy (MTFS)

We reviewed the Council's latest MTFS, which was presented to Cabinet on 18 July 2017, and considered the robustness of budget estimates and significant assumptions made. The MTFS is based on a financial forecast over a rolling 5 year timeframe from 2018/19 to 2022/23 and is designed to help ensure resources are aligned to the outcomes in the Council Plan 2015-2020. The MTFS sets the financial context for the Council's resource allocation process and budget setting. Over the 5 year period the Council faces a funding gap that is currently estimated at £88 million. The size of this shortfall represents a significant challenge to the Council's effective financial planning and medium term financial sustainability.

The total savings required over a 5 year period is split as follows:

- 2018/19 - £20.6 million
- 2019/20 - £21.3 million
- 2020/21 - £30.7 million
- 2021/22 - £8.1 million, and
- 2012/23 - £7.3 million

The Council has considered the assumptions relating to government funding over this period where possible and calculated its funding gap on this basis. There is a high level of uncertainty in some of the assumptions made. In particular, the Council is aware of the need to keep under review the potential impact of business rates retention along with developing Brexit related issues.

Progress of the Council's Change Programme

In February 2016, Cabinet agreed to a major programme of Change to help ensure the Council continues to operate an ongoing balanced budget whilst also ensuring the right range of activities for its residents. Given the unprecedented scale and pace of change required, a co-ordinated programme was agreed to give the best opportunity to review the right things at the right time, while continuing to deliver sustainable services to the public.

The Change Programme (formerly Transformation Programme) is intended to deliver the fundamental changes required in the way the Council provides its services and works with partners in order to meet its aspirations with reduced funding. It is therefore of critical importance to both the Council's financial sustainability and its ability to achieve the desired outcomes set out in the Council Plan. The Council has introduced four key workstreams to deliver the Change Programme on people; place; trading and commercialisation; and ways of working. The workstreams, which are led by senior council officers, cover projects designed to look at all aspects of the Council's business. The Change Programme Board oversees delivery of the programme and comprises members of the Senior Leadership Team. In addition, Cabinet receive Quarterly Progress reports, the latest report being presented on 18 July 2017.

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
Outputs by statutory inspectorates or other regulators	<p>We have considered 2016/17 reports from both OFSTED and CQC are part of our work.</p> <p>We also reviewed the 'Value for Money Profiles' (based on data from Public Sector Audit Appointments). Based on this review, there were no indicators which would suggest weaknesses in the Council's arrangements, or any information contrary to our knowledge of the Council.</p> <p>In addition, we have considered the findings of the draft Corporate Peer Challenge Feedback Report. The Peer Challenge Team was made up of experienced elected member and officer peers and their remit was to review the areas they believed were critical to the Councils' performance and improvement. The draft report included a number of key recommendations which the Council are considering. None of these recommendations were contrary to our knowledge of the Council.</p>
Achievement of performance and other targets	<p>We reviewed the Council's Year End Assessment of Performance and Delivery 2016/17 report and identified no matters suggesting a material weakness in the Council's arrangements or any information contrary to our knowledge of the Council.</p>

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix C states that we intend to issue an unqualified Value for Money conclusion for the 2016/17 financial year.

Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £325k, are set out below.

The first table outlines the identified misstatements 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 2016/17				
	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Short Term Debtors		665	
	Cr: Short Term Investments			665
	Explanation Audit work identified that £665k of unpaid interest for Newcastle Airport had been treated as short term investment rather than short term debtor.			
	Dr: Property, Plant and Equipment			4,481
	Cr: Revaluation Reserve		4,481	
2	Explanation The instant build approach adopted for Depreciated Replacement Cost (DRC) in local authorities should exclude finance costs but the valuations for the Council have included them. The total amount in the DRC population is £4.481m. Therefore no extrapolation is required. Impact is to overstate the PPE NBV on the balance sheet by £4.481m.			

	Dr: Property, Plant and Equipment			2,307	
	Cr: Revaluation Reserve				2,307
3	<p>Explanation</p> <p>The valuation of the SITA Waste Disposal site incorrectly calculated the residual useful economic life of the assets by 1 year. This resulted in an error in the overall valuation amounting to the equivalent of 1 year's depreciation. The impact is to understate PPE NBV on the balance sheet by £2.307m.</p>				

Adjusted misstatements 2016/17 – NOTHING IDENTIFIED AS AT 20/7/17					
		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr:				
	Cr:				
	Explanation				
2	Dr:				
	Cr:				
	Explanation				

Disclosure amendments

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

- Heritage Assets (Note 18) – Narrative has been strengthened by the inclusion of disclosure on heritage Buildings as well as further details on the Public Artwork held by the Council.
- Public Finance Initiative (Note 20b) – Correction to the narrative relating to grant receivable
- A number of presentation and disclosure amendments were made to the draft statements especially in relation to the Housing Revenue Account and Cash Flow Statement, in line with best practice identified in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

Appendix B – Draft management representation letter

Gateshead Council - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the statement of accounts for Gateshead Council (“the Council”) for the year ended 31 March 2017 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 2016/17 (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 ourselves 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 we are 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 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, 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 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.

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 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 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 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.

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.

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 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 statement of accounts 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.

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.

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 2016/17 in relation to the Council's PFI schemes that you have not been made aware of.

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.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not 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 as included in the auditor's draft Audit Completion Report and listed below are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

- £665k of unpaid interest for Newcastle Airport had been treated as short term investment rather than short term debtor
- The instant build approach adopted for Depreciated Replacement Cost (DRC) in local authorities should exclude finance costs but the valuations for the Council have included them. The total amount in the DRC population is £4.481m
- The valuation of the SITA Waste Disposal site incorrectly calculated the residual useful economic life of the assets by 1 year. This resulted in an error in the overall valuation amounting to the equivalent of 1 year's depreciation. The impact is to understate PPE NBV on the balance sheet by £2.307m.

Yours sincerely

Director of Resources / s151 officer

Date.....

Appendix C – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GATESHEAD COUNCIL

Opinion on the Council's financial statements

We have audited the financial statements of Gateshead Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund, and the related notes. 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 2016/17.

This report is made solely to the members of Gateshead Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Gateshead Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Strategic Director, Corporate Resources and auditor

As explained more fully in the Statement of the Strategic Director, Corporate Resources' Responsibilities, 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 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director, Corporate Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Gateshead Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Narrative Statement for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);
- 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 the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**Respective responsibilities of the Council and the auditor**

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.

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its 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, we are satisfied that in all significant respects, Gateshead Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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 authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Cameron Waddell

Partner

For and on behalf of Mazars LLP

Salvus House,

Aykley Heads,

Durham,

DH1 5TS

Date

Appendix D – 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.