

**Title of Report:      Audit Completion Report Year Ended 31 March 2018 and  
Gateshead Council Statement of Accounts 2017/18**

**Report of:             Darren Collins, Strategic Director, Corporate Resources**

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### **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 2017/18 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 substantially completed for 2017/18 and the Council's external auditor, Mazars has issued its report, subject to the completion of outstanding work.
- 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. They also need to review the work of KPMG in respect of external Audit of The Gateshead Housing Company (TGHC) Statement of Accounts in order to be able to place reliance on the TGHC figures incorporated into the Group Accounts.
  - EY assurance has now been received which is being considered by Mazars.

- In relation to TGHC, KPMG are to provide Mazars with access to their files to allow the necessary Group Accounts work to be completed. It is anticipated that Mazars will receive sufficient assurance from KPMG's files by the Accounts Committee date to allow the Council's accounts to be full signed off.
7. An update position will be presented to the Committee by Mazars.

### **Audit Completion Report**

8. Mazars' Audit Completion Report is included as Appendix 1 to this report. The key messages are as follows:
- **Audit Opinion** – At the time of issuing the report, and subject to satisfactory conclusion of the remaining audit work, Mazars anticipate issuing an unqualified opinion, 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.
  - **Value for Money** – at the time of issuing the report and subject to the satisfactory conclusion of the remaining audit work, Mazars anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
  - **Whole of Government Accounts (WGA)** – the auditors anticipate completing their work on the WGA submission by the deadline of 31 August 2018 and reporting that the submission is consistent with the audited financial statements.
  - **An internal control recommendation** in relation to the monitoring of active accounts to avoid unauthorised access to the network, programs and data.
9. To provide a full picture of the economic and financial activities of the Council and its exposure to risk, the accounting statements of material subsidiaries and associate companies were consolidated with those of the Council. In 2017/18 the only material subsidiary was TGHC due to the pension liability. The amended 2017/18 Statement of Accounts which includes Group Accounts are shown at Appendix 2.
10. The Statement of Accounts is materially consistent with the 2017/18 revenue and capital outturn reports considered by Cabinet on 19 June 2018. Along with minor adjustments and presentational changes, the following misstatements to the Statement submitted for audit on 31 May 2018 have been identified through the audit process:

#### **Corrected misstatements**

- **Pensions liability / Pension Reserve:** originally included group pension liability in the single entity accounts, this has now been reduced by £38.090m.
- **Re-measurement of the net defined liability:** £22.150m adjustment made to the reserves line in the MIRs to reflect the single entity position.
- **Comprehensive Income & Expenditure Statement (CIES):** amendments were made to the income and expenditure lines of the CIES due to

recalculation of internal recharges. This did not affect the overall cost of services in the CIES.

### **Uncorrected misstatements**

- **Property, Plant and Equipment (PPE) / Revaluation Reserve:** £4.949m 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
11. 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 uncorrected misstatement as not being material, either individually or in aggregate to the financial statements, and does not plan to adjust.

### **Recommendation**

12. 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 2017/18, prior to submission to the Accounts Committee.

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