

TITLE OF REPORT: **Audit Completion Report Year ended 31 March 2018
and Statement of Accounts 2017/18**

REPORT OF: **Darren Collins, Strategic Director, Corporate
Resources**

Purpose of the Report

1. This report requests that the Accounts Committee:
 - note Mazars 2017/18 Audit Completion Report (Appendix 2) and update, including the Council's arrangements for securing economy, efficiency and effectiveness;
 - approve the issue of a Letter of Representation (Appendix 3);
 - approve the publication of the Council's 2017/18 Statement of Accounts (Appendix 4); and
 - Delegate authority to the Strategic Director, Corporate Resources, following consultation with the Leader, to authorise the Statement of Accounts for issue subject to the satisfactory outcome of the outstanding issues and receipt of the audit opinion from Mazars.

Background

2. The annual audit of the Council's Statement of Accounts and use of resources has now been substantially completed for 2017/18 and Mazars has issued its report.
3. The Council successfully met the statutory requirement to prepare its draft accounts by 31 May and to prepare its audited accounts by 31 July.
4. The Audit Completion Report covers:
 - the Council's Statement of Accounts; and
 - the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
5. 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). They also need to review the work of KPMG in respect of the external audit of The Gateshead Housing Company (TGHC) Statement of Accounts in order to be able to place reliance on TGHC figures incorporated into the Group Accounts.
6. Mazars have now completed their assurance work in relation to valuations of Property Plant and Equipment.

7. Mazars will provide a verbal update to the committee and issue an update letter on the outstanding issues by the end of July to enable them to provide an opinion.
8. In line with best practice, the Audit and Standards Committee has considered the Audit Completion Report prior to submission to this Committee and had no issues to raise. The Audit and Standards Committee noted the above outstanding issues.

Proposal

9. The proposal is for the Accounts Committee to note the contents of Mazars Audit Completion Report (and any additional updates provided to the Committee) including arrangements for securing economy, efficiency and effectiveness, approve the issue of the Letter of Representation by the Strategic Director, Corporate Resources on behalf of the Council, approve the Council's 2017/18 Statement of Accounts for publication, and delegate authority to the Strategic Director, Corporate Resources, following consultation with the Leader, to authorise the Statement of Accounts for issue subject to the satisfactory outcome of the outstanding issues and receipt of the audit opinion from Mazars.

Recommendations

10. The Accounts Committee is requested to:
 - note the contents of Mazars Audit Completion Report and any update reports, and the covering report;
 - approve the issue of the Letter of Representation by the Strategic Director, Corporate Resources on behalf of the Council;
 - approve the Council's 2017/18 Statement of Accounts for publication; and
 - Delegate authority to the Strategic Director, Corporate Resources, following consultation with the Leader, to authorise the Statement of Accounts for issue subject to the satisfactory outcome of the outstanding issues and receipt of the audit opinion from Mazars.

for the following reason(s)

- (i) to comply with legal requirements and the Council's Constitution.

Appendix 1

Policy Context

1. The proposals in this report will contribute to achieving the objectives of the Council's Thrive agenda.

Background

2. The annual audit of the Council's 2017/18 Statement of Accounts has now been substantially completed. Mazars is required to:
 - Issue a report to those charged with governance summarising its conclusions from their audit work following the Accounts Committee;
 - Report to those charged with governance certain matters before giving its opinion on the financial statements; and
 - Issue a conclusion relating to proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
3. The report covers:
 - The Council's financial statements; and
 - The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Audit Completion Report

4. Mazars Audit Completion Report is included as Appendix 2 to this report. Subject to the outstanding issues, the key messages are as follows:
 - Audit Opinion: Mazars anticipate issuing an unqualified opinion on the Statement of Accounts, meaning that it is free from material error and has been prepared in accordance with proper practice; and
 - Use of resources: the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
5. The report also includes a Letter of Representation to Mazars (attached as Appendix 3), to be approved by the Committee prior to being signed by the Strategic Director, Corporate Resources following the issue of the audit opinion.
6. 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.
7. The 2017/18 Statement of Accounts is shown at Appendix 4. The Statement of Accounts is materially consistent with the 2017/18 revenue and capital outturn reports considered by Cabinet on 19 June 2018. Some minor adjustments and presentational changes have been made to the Statement submitted for audit on 31 May 2018 and the following misstatements were amended:

- **Pensions liability / Pension Reserve:** originally included group pension liability in the single entity accounts, this has now been reduced by £38.090m.
- **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.
- **Comprehensive Income & Expenditure Statement (CIES):** amendments were made to the expenditure line of the CIES in relation to pensions. As a result of the staff transfer from the Council to The Gateshead Housing Company on 1 April 2017, the net pension liability of the Council has decreased. This net reduction was included in the re-measurement of the net defined benefit liability in the CIES in the draft accounts. This has been transferred to the net cost of services in the final accounts to reflect the requirements of The Code with regard to such transfers. The decrease has been reflected as an exceptional item in the Net Cost of Services as the reduction is material and is the result of an infrequent event.

8. In addition, the following immaterial, non-trivial misstatements have been identified by Mazars (materiality was set at £11.568m for the Council and £11.949m for the Group and triviality at £0.347m for the Council and 0.358m for the Group), but have not been amended due to their immaterial nature:

- **Property valuations:** two errors were identified:
 - Finance costs were included in error for asset revaluations using the Depreciated Replacement Value (DRC) carried out by the Council's external valuer, resulting in an overstatement of asset values of £4.949m.
 - The Council dwellings revaluation figure was overstated by £1.2m as a number of dwellings were included within the valuation which are no longer owned by the Council (62 transferred to Keelman Homes).

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 not amended the misstatements in the Statement of Accounts to reflect the adjustments.

Consultation

10. There has been no external consultation on this report.

Alternative Options

11. There are no alternative options proposed; the Council is obliged by statute to publish its annual Statement of Accounts.

Implications of Recommended Option

12. **Resources:**

- a. **Financial implications:** the Strategic Director, Corporate Resources confirms that the financial implications are as set out in this report and in the 2017/18

Statement of Accounts. There are no additional financial implications associated with the report.

b. Human resources implication: there are no human resources implications arising from this report.

c. Property implications: there are no property implications arising from this report.

13. **Risk management implications:** no additional risks have been identified in this report or in the completion of the 2017/18 Statement of Accounts.

14. **Equality and diversity implications:** there are no equality and diversity implications arising from this report.

15. **Crime and disorder implications:** there are no crime and disorder implications arising from this report.

16. **Sustainability implications:** there are no sustainability implications arising from this report.

17. **Health implications:** there are no health implications arising from this report.

18. **Human rights implications:** there are no human rights implications arising from this report.

19. **Area and ward implications:** there are no area and ward implications arising from this report.