



# Audit Completion Report

Gateshead Council

Year ending 31 March 2018

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Accounts Committee  
Gateshead Council  
Civic Centre  
Regent Street  
Gateshead  
NE8 1HH

27 July 2018

Dear Members

**Audit Completion Report – Year ended 31 March 2018**

We are pleased to present our Audit Completion Report for the year ended 31 March 2018. 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 5 March 2018. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. However, the scope of our audit has been amended to reflect the implications of the TUPE transfer of Council staff to Gateshead Housing Company during 2017/18, which was reported to the Audit and Standards Committee on 18 June 2018.

We would like to express our thanks for the assistance of the Council's team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6343.

Yours faithfully

Signed: {{\_es\_.signer1:signature }}

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# 1. EXECUTIVE SUMMARY

## Purpose of this report and principle conclusions

The Audit Completion Report sets out the findings from our audit of Gateshead Council ('the Council') for the year ended 31 March 2018, and forms the basis for discussion at the Accounts Committee meeting on 27 July 2018.

The detailed scope of our work as your appointed auditor for 2017/18 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.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. As we outline on the following page, our work is substantially complete and, subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

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 conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B

### Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 31 August 2018. We anticipate reporting that the WGA submission is consistent with the audited financial statements

### 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 consider any objection made to the accounts.

## Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Accounts Committee in a follow-up letter.

# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2018. At the time of preparing this report the following are still ongoing -

Audit area	Description of outstanding matters
Property Plant & Equipment	Work to be completed, including existence testing.
Pensions	Assurance from the Pension Fund auditor to be received and considered.
Group Accounts	Work to be completed
Whole of Government Accounts	Work to be completed.
Audit Closure Procedures	This includes internal consistency checks, agreeing amendments and post balance sheet events.

We will provide the Accounts Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2018. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

We set materiality at the planning stage of the audit at £10.844 million for the Council using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £11.568m for the Council, using the same benchmark, and £11.949m for Group. We set our trivial threshold (the level under which individual errors are not communicated to the Accounts Committee, at £347k for the Council and £358k for the Group based on 3% of overall materiality.



## 2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding 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 8 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;
- any significant difficulties we experienced during the audit; and

### Significant risks and key areas of management judgement

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 intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

#### Significant risk

Management override of controls

#### Description of the risk

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.

#### How we addressed this risk

We addressed this risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

#### Audit conclusion

Subject to the completion of outstanding work, our work has provided the assurance sought, with no significant matters arising.



## 2. SIGNIFICANT FINDINGS (CONTINUED)

<b>Significant risk</b>	<b>Description of the risk</b>
Revenue recognition	In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal in 2017/18. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.

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### **How we addressed this risk**

We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period.

In addition, we undertook a range of substantive procedures including testing receipts in March, April and May 2018 to ensure they had been recognised in the right year, testing material year end receivables, testing adjustment journals and obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

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### **Audit conclusion**

Subject to the completion of outstanding work, our work has provided the assurance sought, with no significant matters arising.

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<b>Significant risk</b>	<b>Description of the risk</b>
Property, plant and equipment revaluation	<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 PPE.</p> <p>Although the Council employs an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>

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### **How we addressed this risk**

We considered the Council's arrangements for ensuring that PPE values are reasonable and used an external expert (Gerald Eve) to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We also assessed the competence, skills and experience of the valuer.

We also performed further audit procedures on individual assets to ensure that the basis and level of revaluation was appropriate.

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### **Audit conclusion**

Subject to the completion of outstanding work, our work has provided the assurance sought, with no significant matters arising.

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## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

Defined benefit liability valuation

### Description of the risk

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.

### How we addressed this risk

We discussed with key contacts the significant changes to the pension estimates. In addition to our standard programme of work in this area, we 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 was carried out annually by the NAO's consulting actuary (PWC).

### Audit conclusion

Subject to the completion of outstanding work, our work has provided the assurance sought, with no significant matters arising.

### Management judgement

Group Accounts Assessment

### Description of the management judgement

Following changes to the activities undertaken by the Council, for example the Gateshead Energy Company, management need to reassess their group boundary and determine the need to produce group accounts for 2017/18 in line with the CIPFA code. Management revisit this assessment annually based on current and latest up to date information to determine if the group financial accounts are required. There is a risk that management will reach the incorrect conclusion regarding the need to produce group financial statements.

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

The Council carried out an initial review of its boundary and assessed that Group Accounts were not required. Our initial assessment suggested this was not unreasonable in light of our review of the Council's group boundary assessment to ensure that it was complete and all group entities had been identified.

On receipt of the most up to date information from the Gateshead Housing Company (TGHC) in relation to pension liability figures in late May 2018, officers assessed that the production of Group Accounts was required. In light of this, the Council has consolidated Gateshead Housing Company into group accounts for 2017/18. The Council's view remains that other subsidiaries and associates remain immaterial to the group and therefore it has not consolidated those entities into its group accounts for 2017/18.

Our audit approach has been updated to take account of this. However, at this stage our work on the group accounts remains ongoing.



## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Qualitative aspects of the entity's accounting practices

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

We are reviewing the Council's approach to the consolidation of the accounts of all subsidiaries into the group accounts, however at this stage that work is still ongoing.

### Significant matters discussed with management

As part of the initial work in this area, it was assessed that the production of Group Accounts was not required however on receipt of the most up to date information from The Gateshead Housing Company (TGHC) in relation to pension liability figures, officers assessed that the production of Group Accounts was required.

We have audited Group Accounts as part of our work on the 2017/18 Statement of Accounts.

### 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. However as highlighted above, we did have to carry out additional audit procedures in relation to Group Accounts. Draft accounts were received from the Council on 31 May 2018.

### 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 2017/18 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. We have not received any questions or objections to date.

Our draft audit report, in full, is set out in Appendix B.



# 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 relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor 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 we have identified 1 medium risk issue. In addition, we identified a small number of minor control issues which have been reported to Management.

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 control or enhance business efficiency. The recommendations should be actioned in the near future.	1
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	0

# 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

## Other deficiencies in internal control – Level 2

### Description of deficiency

As part of our review of Active Directory users (the initial log in to the Council's systems) in March 2018 we identified 25 non system type generic i.e. unnamed accounts, of which 6 had been disabled so could not be used, 10 ,whilst being usable, had not been used in financial year 2017/18, leaving 9 accounts which had been used. None of those generic accounts had administrative access so limited scope as to what they could do on the system.

### Potential effects

- Inappropriate or fraudulent accesses to IT resource;
- Fraudulent or unintentional data alteration or entry; and
- Loss of the audit trail / logs of user actions.

### Recommendation

In order to avoid unauthorised access to the network, programs and data, we recommend closely monitoring the active accounts in order to ensure:

- Generic accounts are disabled when not used;
- User access is assigned on a need-to-have basis and disabled once it is not needed.

### Management response

- Existing processes to monitor inactive accounts to avoid unauthorised access to the network will be reviewed and strengthened;
- Communication with the business systems owner of the accounts in question will be prioritised to determine why an account has not been used; and
- Monitoring arrangements will be enhance and existing controls strengthened in order to ensure:
  - Generic accounts are disabled when not used;
  - User access is assigned on a need-to-have basis and disabled once it is not needed.

### Follow up of previous internal control points

We did not raise any internal control points in 2016/17.



## 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £347k.

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 2017/18 – as at 17 July 2018

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Revaluation Reserve Cr: PPE			4,949	4,949
Being correction required to remove finance costs from DRC valued assets. As last year when using the instant build approach adopted for DRC valued assets the valuer has incorrectly included finance costs.				

### Unadjusted Disclosure amendments – as at 17 July 2018

Our audit identified a number of presentational and disclosure errors, some of which have not been amended. These are listed below:

- Note 5 to HRA: When preparing this note showing capital expenditure, an error was made when determining the classification of HRA between categories. The disclosure should have been
  - Council dwellings £25,335k; and
  - Other land and buildings £410k.

The difference between the disclosed amounts and the correct amounts was £349k in total

- Note 6 to HRA: When preparing this note showing split of revaluations an error was made when determining the classification of HRA between categories. The disclosure should have been
  - Council dwellings £3,718k; and
  - Other land and buildings £99k;

The difference between the disclosed amounts and the correct amounts was £349k in total

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Adjusted misstatements 2017/18 as at 17 July 2018

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Communities and Environment Income	2,386		
	Dr: Corporate Resources Income	934		
	Dr: CSG & Office of the Chief Executive Income	276		
	Dr: Other Corporate I&E Income	139		
	Cr: Care, Wellbeing & Learning Income			3,711
	Cr: Schools Income			24
Being amendments made to income lines in the I&E due to error in formula on client WP relating to internal recharges.				
2	Dr: Communities and Environment Expenditure	2,386		
	Dr: Corporate Resources Expenditure	934		
	Dr: CSG & Office of the Chief Executive Expenditure	276		
	Dr: Other Corporate I&E Expenditure	139		
	Cr: Care, Wellbeing & Learning Expenditure			3,711
	Cr: Schools Expenditure			24
Being amendments made to expenditure lines in the I&E due to error in formula on client WP relating to internal recharges.				
3	Dr: 2016/17 Pension Liability			15,940
	Cr: 2016/17 Pensions Reserve			
			15,940	
Being amendments made to the 2016/17 Reserves lines in Note 6a to the MIRS				
4	Dr: 2017/18 Pension Liability			22,150
	Cr: 2017/18 Re-measurements of the net defined benefit liability			
			22,150	
The group pension liability was originally included in the single entity accounts however has now been reduced by £38,090 (see also line above) to reflect the single entity position				

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Disclosure amendments – as at 17 July 2018

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

- Note 6a: Line in MIRS 6a 'Other transfers to/from reserves required by legislation' for Major Repairs Reserves was incorrectly disclosed as 13,989 as includes (2,335) which should be shown separately in line above 'Capital expenditure charged to the General Fund / HRA' per working papers. This has now been corrected.
- Note 6b – Reserves: Major Repairs Reserves: The movement on the major repairs reserve is shown as £16,324k IN and £16,324k OUT which does not agree with HRA Note 7. This has now been corrected in Note 6b to show the correct figure of £13,989k IN and £13,989k OUT.
- Note 8 EFA: There is no segmental income table in the note per code para. 3.4.2.99 p85. It has now been agreed that this will be included within the EFA note.
- Note 17: The Revaluation table did not follow Code Guidance notes. The inclusion of this table was to show the effective date of revaluations i.e. it split out how much was revalued and when so would expect the total of revaluations amounts to reconcile to the PPE gross cost line.



## 5. 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>The Council have clear decision making processes in place along with clear governance structures which are reviewed regularly and updated when necessary to remain fit for purpose.</p> <p>A formal constitution is in place setting out the scheme of delegation for decisions which was last updated in March 2018 and is available on the Council's website.</p> <p>The 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>We have no issues to report on the adequacy of the Council's arrangements to support informed decision-making</p>	Yes
Sustainable resource deployment	<p>The 2017/18 budget was formally approved at the Council meeting on 23 February 2017.</p> <p>The approved budget included a requirement to achieve savings of £13.190 million during the year (see below for the results of our work on these savings).</p> <p>The 2017/18 outturn report was received by Cabinet on 19 June 2018. This outlined an under spend of £1.268m after proposed movement of reserves. This position extends the Council's track record of delivering increasingly challenging revenue outturns within budget.</p>	Yes

## 5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment (continued)	<p>The level of general fund balances is approved annually by Cabinet and Council as part of the MTFS review. The Council ended 2017/18 with general reserves of £13.7 million. A further £36.2 million was also held in earmarked general fund reserves.</p> <p>The Council's Capital Strategy reflects the Council's priorities. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in this strategy. The implications of the capital programme are appropriately reflected in the MTFS.</p> <p>In our Audit Strategy Memorandum we identified a significant risk in relation to this criteria. In order to assess the robustness of the Council's plans, we have:</p> <ul style="list-style-type: none"> <li>• completed testing of the achievement of the Council's monitoring and action plans for a sample of savings included in the budget;</li> <li>• reviewed the updated Medium-Term Financial Strategy;</li> <li>• reviewed budget monitoring reports and other finance updates; and</li> <li>• reviewed progress in identifying further savings.</li> </ul> <p>Our findings from this work are outlined below.</p> <p><b>Achievement of 2017/18 savings programme</b></p> <p>The Councils 2017/18 savings target was £13.190 million. This target was made up of individual projects, each with a savings target. These amounts were deducted from 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.</p> <p>The Council's arrangements allows officers to keep track of delivery positions via the monthly budget monitoring process by monitoring savings using a risk assessment methodology and separate general ledger codes. The latest position and any residual actions are considered at Senior Management Team meetings.</p> <p>The final outturn for achieved savings was £9.344 million i.e. 71% of the target. However, the reported £1.268 million underspend suggests the Council has been effective in delivering compensating savings elsewhere in budgets.</p> <p>We selected a sample of the 2017/18 savings plans and assessed delivery against the target level of savings. In the majority of cases the plans achieved the required saving however in two cases we identified schemes that did not deliver the saving required. These both related to Care, Wellbeing and Learning and were 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.</p>	

## 5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment (continued)	<p><b>Arrangements for achievement of 2018/19 savings programme</b></p> <p>Included in the Council's 2018/19 budget, approved by Council on 20 February 2018, is a savings target of £13.650 million. Officers have carried out detailed work in this area and have identified savings plans for a number of individual projects to achieve this target.</p> <p>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 we have no issues to report however officers do acknowledge that achieving the required savings remains challenging.</p> <p><b>Review of 2019/20 savings target</b></p> <p>The Council's medium term financial strategy has identified a 2019/20 funding gap of £29.223 million. The process of working with Directorates to identify savings has already begun, with £10.2 million of potential savings identified to date.</p> <p><b>Review of the 2019-2024 Medium Term Financial Strategy (MTFS)</b></p> <p>The Council's updated MTFS was considered and approved by Cabinet on 17 July 2018.</p> <p>We have 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 2019/20 to 2023/24 and is designed to help ensure resources are aligned to the Council's "Making Gateshead a place where everyone thrives" Plan.</p> <p>The MTFS is based on a 5-year planning horizon taking projections to 2023/24. The refresh of the MTFS including all assumptions, gives an estimated revised funding gap over the 5 year period of £76.7 million with £55 million being over the three-year budget planning period to 2022.</p> <p>This reported shortfall identifies significant challenges to the Council's effective financial planning and medium term financial sustainability.</p> <p>The Council has considered the relevant assumptions in relation to Government but whilst the Council are in receipt of some guideline Government funding figures up to 2019/20 there remains a great deal of uncertainty with which to plan over the next five years due to the potential uncertainty in how local government will be funded.</p>	

## 5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
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"> <li>• South Tyne and Wear Waste Management Partnership.</li> <li>• Gateshead Regeneration Partnership.</li> </ul>	Yes

### 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
<b>Outputs by statutory inspectorates or other regulators</b>	We have considered 2017/18 reports from both OFSTED and CQC are part of our work. Inspections carried out by the above bodies did not identify issues that would make us reconsider our conclusion.
<b>Achievement of performance and other targets</b>	We reviewed the 'Value for Money Profiles' (based on data from Public Sector Audit Appointments). We did not identify any indicators which would suggest weaknesses in the Council's arrangements, or any information contrary to our knowledge of the Council. The Council is working to achieve the 5 pledges identified in their "Making Gateshead a place where everyone thrives" Plan.
<b>Performance against budgets and other financial targets</b>	We reviewed the Council's Year End Assessment of Performance and Delivery 2017/18 reported in June 2018. This did not identify any matters suggesting a material weakness in the Council's arrangements or any information contrary to our knowledge of the Council.

### Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2017/18 financial year.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### Gateshead Council - audit for year ended 31 March 2018

This representation letter is provided in connection with your audit of the statement of accounts for Gateshead Council (the Council) and Group for the year ended 31 March 2018 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 2017/18 (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 and Group 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 relevant 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 and Group'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 and Group in making accounting estimates, including those measured at fair value, are reasonable.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### 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 and Group 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 and Group 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 and Group 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 and Group'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 and Group'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.



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## DRAFT MANAGEMENT REPRESENTATION LETTER

### 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.

### 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.

### Group Disclosure

I confirm that I have assessed the other companies in which the Council have an interest and confirm that they do not perform key services on behalf of the Council and are financially immaterial.

### Going concern

To the best of my knowledge there is nothing to indicate that the Council and Group 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.

Yours sincerely

Darren Collins  
Strategic Director Corporate Resources  
Date

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# APPENDIX B

## DRAFT AUDITOR'S REPORT

### INDEPENDENT AUDITOR'S REPORT TO GATESHEAD COUNCIL AND GROUP

#### Opinion on the financial statements

We have audited the financial statements of Gateshead Council (the Council) and Group for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, the Housing Revenue Account, the Collection Fund, and notes to the financial statements, including the 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council and Group as at 31 March 2018 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 2017/18.

#### 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 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.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director, Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director, Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Strategic Director, Corporate Resources 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.

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## DRAFT AUDITOR'S REPORT (CONTINUED)

### **Responsibilities of the Strategic Director, Corporate Resources for the financial statements**

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 2017/18, and for being satisfied that they give a true and fair view. The Strategic Director, Corporate Resources is also responsible for such internal control as the Strategic Director, Corporate Resources 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, Corporate Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Strategic Director, Corporate Resources is responsible for assessing each year whether or not it is appropriate for the Council 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.

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.

### **Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the 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 in November 2017, we are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### **Basis for conclusion**

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### 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 in relation to 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. The Code of Audit Practice issued by the Comptroller and Auditor General requires us to report to you our conclusion relating to proper arrangements. 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.

### 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.

### Use of the audit report

This report is made solely to the members of the Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 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 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.

### Certificate

We certify that we have completed the audit of the financial statements of the Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Cameron Waddell, Partner  
For and on behalf of Mazars LLP  
Salvus House  
Aykley Heads  
Durham, DH1 5TS

Date

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# 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.

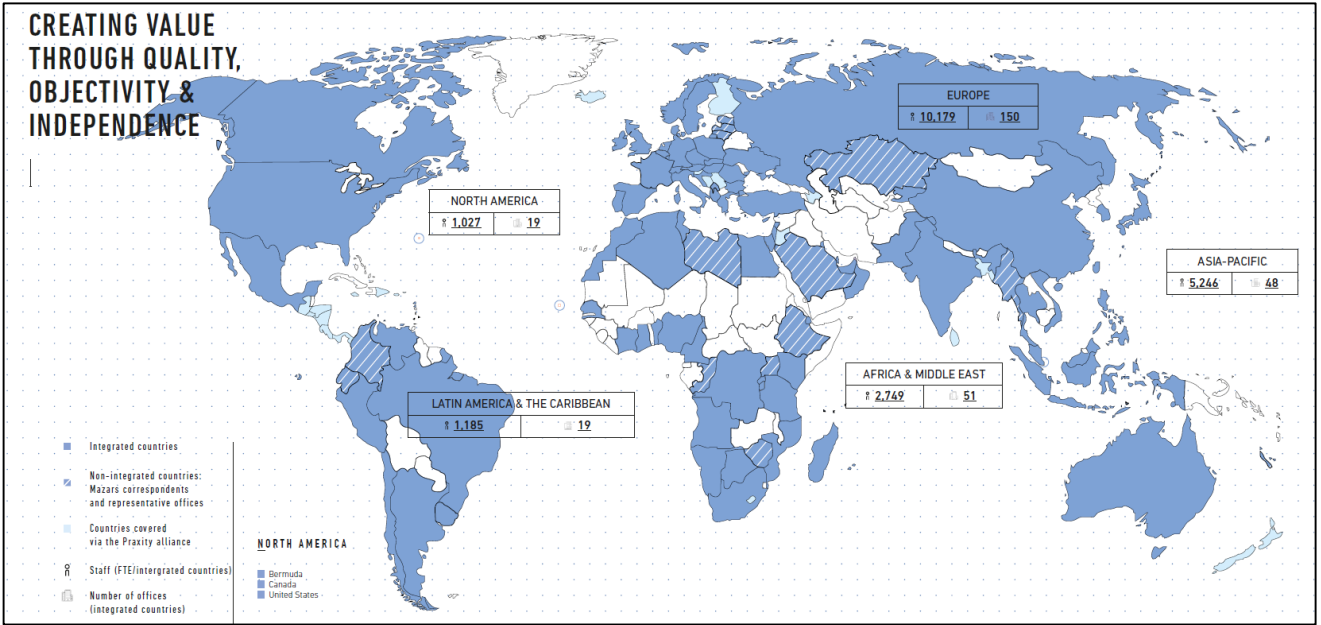


# MAZARS AT A GLANCE

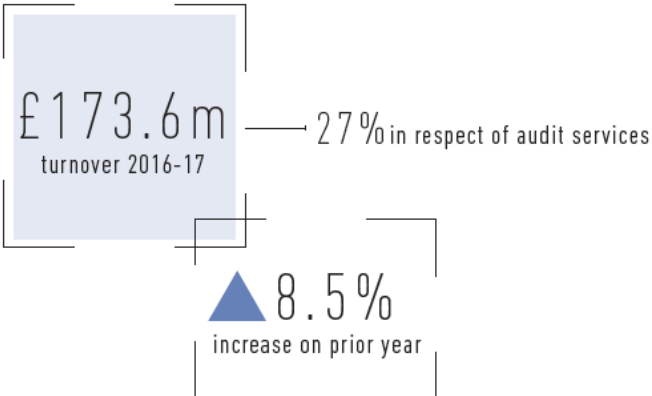
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As at 31 August 2017



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