

APPENDIX 2

Audit Completion Report

Gateshead Metropolitan Borough Council
Year ended 31 March 2022

October 2022

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Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person 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. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.



Audit and Standards Committee and Accounts Committee Members
Gateshead Metropolitan Borough Council
Gateshead Council
Civic Centre
Regent Street
Gateshead
NE8 1HH

10 October 2022

Dear Committee Members

Audit Completion Report – year ended 31 March 2022

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. 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 25 April 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We noted in our Audit Strategy Memorandum that our risk assessment in respect of our VFM work was not complete; following completion of this risk assessment, we did not identify any significant risks of weaknesses in arrangements.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07813 752 053.

Yours faithfully

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01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 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, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls;
- Net defined benefit liability valuation;
- Valuation of property, plant and equipment; and
- Accounting for Private Finance Initiative (PFI) arrangements (enhanced risk).

Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022. At the time of preparing this report, matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the matters outstanding through issuance of a follow-up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements, however, this is subject to the conclusion of matters in relation to infrastructure which remain outstanding at the time of issuing this report; further detail is set out in sections 2 and 4.



Value for Money

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission for 2021/22. We are unable to commence our work in this area until such instructions have been received.



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 to consider any objection made to the accounts. No questions or objections have been received.









02

Section 02:

Status of the audit

2. Status of the audit

Our work is on-going; there are currently no matters of which we are aware that would require modification of our audit opinion, other than infrastructure, subject to completion of work in the areas detailed below.

Audit area	Status	Description of the outstanding matters
Infrastructure		We have highlighted to this Committee previously outstanding matters in relation to infrastructure; as a result of these, we have not yet issued our formal certificate for 2020/21. As of early October 2022, issues remain unresolved in relation to the material accuracy of infrastructure balances, impacting on all highways authorities, therefore, we cannot complete our work and give our opinion for 2021/22 until these are resolved. Options being considered include a limitation of scope in our auditor's report.
Net defined benefit liability (pensions)		Assurance from the Pension Fund auditor.
Property, Plant and Equipment		Completion of work.
Accounting for TGHC		Review and consideration of the accounting under 'transfer by absorption'.
Transaction testing		Various areas of transaction testing remain to be completed.
Other		Completion of various other work including one remaining outstanding direct confirmation for a Council investment. Evidence also remains outstanding for business rates appeals provisions (classified as an error in this report due to insufficient evidence).
Review procedures		Review procedures are on-going, namely: - engagement Quality Control Review: required due to the size of the Council; - review of key judgements by the Council in respect of council house valuations (changing from a ward to a postcode basis of grouping assets and in turn valuations) and also judgements in respect of ground leases where the Council is a lessor - review of the final revised accounts by our central technical team.
Closing procedures		Review of the revised financial statements and consideration of any post balance sheet events.



Likely to result in material adjustment or significant change to disclosures within the financial statements.



Potential to result in material adjustment or significant change to disclosures within the financial statements.



Not considered likely to result in material adjustment or change to disclosures within the financial statements.

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Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in April 2022. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £13.693m for the Council using a benchmark of 2% of gross operating expenditure. Our updated assessment of materiality, based on the draft financial statements is £14.211m for the Council, using the same benchmark; we will update this Committee if our final materiality differs significantly upon receipt and review of the revised final financial statements.

Use of experts

Changes to our planned approach since issuing our Audit Strategy Memorandum *are shown in italics below.*

Item of account	Management's expert	Our expert
Defined benefit net liability	AON Hewitt (Actuary)	Report commissioned by the National Audit Office from PwC in respect of actuaries nationally.
Property, Plant and Equipment (PPE)	Jones Lang La Salle Ltd (JLL)	We take into account relevant information available from third parties. <i>We have also engaged our own internal valuation expert to review specified Council assets, given their size and also the new Valuer the Council has used.</i>
Shared Waste Private Finance Initiative (PFI) facility	Hilco Appraisal Ltd	No expert assessed as being required.
Financial instrument disclosures	Link Asset Services	No expert assessed as being required.



04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other 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 17 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; and
- any significant difficulties we experienced during the audit.

Management override of controls	Description of the risk
	<p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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.</p>
	How we addressed this risk
	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> • accounting estimates impacting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Significant risk – management override of controls

Management override of controls - continued	Audit conclusion
	<p>We have challenged management in respect of accounting estimate changes relation to council dwelling valuations; see further consideration under the Property, Plant and Equipment significant risk.</p>
	<p>We identified issues in respect of accounting estimates made for provisions. Our audit work identified a number of errors in relation to provisions, which are based on management’s estimates including:</p>
	<ul style="list-style-type: none"> • insufficient evidence to support one provision balance (business rates appeals £2.472 million); • insurance provisions made for future events, therefore, do not meet accounting standard requirements (extrapolated error of £4.597 million); and • misclassification of provisions between current and non-current provisions (Term Time Only Pay provision of £2.340 million).
	<p>These issues were not, ultimately, material, however, there is scope for improvement in how provisions are identified and calculated, along with the supporting disclosures; an internal control recommendation has been raised in this respect.</p>
	<p>There are no other significant issues arising from our work that we are required to report to you.</p>



4. Significant findings – significant risk: net defined benefit liability (pensions)

Net defined benefit liability (pensions)	Description of the risk <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>
	How we addressed this risk <p>We:</p> <ul style="list-style-type: none">critically evaluated the Council’s arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; andchallenged the reasonableness of the Actuary’s assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office;critically assessed the competency, objectivity and independence of the Actuary;liaised with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively;compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office;agreed data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements; andcritically reviewed the accounting for The Gateshead Housing Company’s pensions liability which has been brought back in house from 1 April 2021.
	Audit conclusion <p>We discussed with management the material variance between estimated assets used by the Actuary and the actual assets at the year-end based on the draft Pension Fund accounts. It became apparent that due to the timing of the Actuary’s report production, that it was not based on the latest valuation data used by the Pension Fund, therefore, the Council requested a revised pensions report. This resulted in a reduction to the net pensions liability, due to increased assets, of £47.110m.</p> <p>We critically reviewed the pensions disclosures and identified inconsistencies in respect of accounting for The Gateshead Housing Company (TGHC) – the disclosure note did not fully reconcile with the primary statements; this is being addressed in the revised accounts, as part of amendment to how TGHC has been accounted for (see significant risk in this section on TGHC).</p> <p>Our work is on-going, with the following key areas outstanding:</p> <ul style="list-style-type: none">receipt and consideration of the assurance from the Pension Fund auditor; andour work on the revised Actuary’s report is not fully completed. <p>We will provide an update on outstanding matters to the Committees via our formal follow-up letter, which will include an updated summary of misstatements.</p>



4. Significant findings – significant risk: valuation of property, plant and equipment

Valuation of property, plant and equipment (PPE)	<p>Description of the risk</p> <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 property, plant and equipment (including the Council’s PFI shared waste facility). The Council employs valuation experts to provide information on valuations, however, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment (PPE) due to the significant judgements and number of variables involved.</p> <hr/> <p>How we addressed this risk</p> <p>We:</p> <ul style="list-style-type: none"> critically assessed the Council’s arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated; critically assessed the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuers, including the PFI shared waste facility; considered the competence, skills and experience of the Valuers and the instructions issued to the Valuers; critically reviewed the output from the Council’s valuation of the PFI shared waste facility; substantively tested capital expenditure additions and disposals during the year; substantively tested the Council’s property, plant and equipment to gain assurance that they exist and are owned by the Council; substantively tested revaluations, including critically reviewing the Council’s own consideration of assets not revalued in the year and why they are not materially misstated; and where necessary, performed further audit procedures on individual assets to ensure the basis of valuations is appropriate. <hr/> <p>Audit conclusion</p> <p>Key observations:</p> <ul style="list-style-type: none"> Council dwellings have increased by approximately 22% or £154 million; this is as a result of the Council (and it’s Valuer’s) judgement that a change in asset groupings would better represent the council dwellings. We have used our internal valuation expert to review the most significant valuations which are revalued each year, due to their size. <p>(continued overleaf)</p>
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4. Significant findings – significant risk: valuation of property, plant and equipment (continued)

Valuation of property, plant and equipment (PPE) - continued

Audit conclusion (continued)

Challenges to the Council and its Valuer:

- the valuation date of 1 December 2021 and whether there was any evidence of material misstatement for the period 1 December 2021 to 31 March 2022 and also for non-revalued assets;
- the approach to considering the 'modern equivalent' asset in depreciated replacement cost valuations; and
- the significant increase in the valuation of council dwellings.

Overall

We raised a high priority internal control recommendation following our 2020/21 audit, due to the large number of errors identified. Our follow-up of this recommendation is detailed in section 5. In summary, the Council appointed new external Valuers for 2021/22. Sample testing has identified some non-material errors, but significantly less than last year, noting that all assets were revalued last year, whereas only one third were revalued in 2021/22; these are set out in the misstatements section of this report.

Our work is on-going at the time of issuing this report; we will provide an update on outstanding matters to the Committees via our formal follow-up letter, which will include, if required, an updated summary of misstatements.

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4. Significant findings – significant risk: accounting for TGHC

Significant risk

Accounting for TGHC coming back in house from 1 April 2021	<p>Description</p> <p>The Council’s subsidiary, The Gateshead Housing Company (TGHC), was brought back in house from 1 April 2021.</p> <p>The Council will need to consider how to account for this and ensure appropriate disclosures are included in the financial statements.</p> <hr/> <p>How our audit addressed this area of significant risk</p> <p>We:</p> <ul style="list-style-type: none"> critically evaluated how the Council has accounted for TGHC being brought back in house from 1 April 2021, considering underlying guidance and accounting standards; reviewed the Actuary’s report to gain assurance that the pensions liabilities of TGHC are appropriately reflected in the Council’s financial statements; and reviewed the accuracy and completeness of any disclosures. <hr/> <p>Audit conclusion</p> <p>The main change from incorporating TGHC is the net pensions liability that has come back on balance sheet of £73.990m as at 31/3/2021.</p> <p>We discussed with management their judgement that merger accounting applied. We challenged this, after internal consultation, on the basis that the housing company was technically a public sector body, therefore, a different form of accounting would apply, namely ‘transfer by absorption’. TGHC was established as an Arms-length Management Organisation (ALMO) which is technically classed as a non-financial public corporation. We would highlight that this change does not change the net position as at 31/3/2022, however, impacts upon the presentation of the current and prior year.</p> <p>The draft accounts included partial merger accounting and contained errors which required amending, regardless of whether merger accounting or transfer by absorption was applied; in particular some statements and disclosures had not been updated to account for there no longer being a ‘group’ and the pensions disclosure note was not internally consistent.</p> <p>We understand the Council plans to change from merger accounting to ‘transfer by absorption’. At the time of issuing this report, we have not yet received the revised statements and disclosures.</p>
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4. Significant findings – enhanced risk: PFI arrangements

Enhanced risk

Accounting for PFI arrangements	Description
	<p>The Council has two private finance initiative (PFI) arrangements, covering:</p> <ul style="list-style-type: none">• schools; and• a shared waste facility. <p>The method of accounting for PFI assets and liabilities is complex, therefore, this increases the risk of misstatement.</p>
	<p>How our audit addressed this area of enhanced risk</p> <p>We:</p> <ul style="list-style-type: none">• reviewed the Council’s adopted approach for accounting for its PFI arrangements;• reviewed any changes from prior years to the long term financial models used;• critically reviewed the assumptions made by management; and• assessed the completeness and accuracy of disclosures.
	<p>Audit conclusion</p> <p>We obtained the assurance sought, with no significant issues arising, other than an amendment being required to the PFI disclosure note showing the valuation of schools.</p>



4. Significant findings

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2021/2022 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances, subject to some amendments.

Draft accounts were received from the Council on 29 July 2022, ahead of the revised statutory deadline of 31 July 2022. The Council should be commended for producing the accounts by the deadline given the significant pressures facing the finance team, in terms of capacity and other work pressures, plus specific additional accounting complexities as a result of The Gateshead Housing Company coming back in house from 1 April 2021. In addition, despite on-going pressures, the finance team has worked very closely with us to ensure the audit was completed.

Given the significant on-going pressures on finance teams, we have raised a constructive recommendation to review quality assurance processes and rationalise working papers, as part of reflecting the changed circumstances and pressures which now exist.

Significant matters discussed with management

- **Infrastructure:** as a reminder, we have highlighted previously to this Committee the outstanding issue in relation to infrastructure balances held by all highway authorities, including this Council. This is a national issue, impacting on most councils. The issue relates to likely overstatement of infrastructure balances, due to balances not being sufficiently depreciated, in part due to insufficient historic records of infrastructure expenditure being maintained. Due to the above, our certificate on the 2020/21 audit has not yet been issued, with the certificate formally 'closing' the audit. We have highlighted previously to this Committee the on-going CIPFA consideration of this issue, as the public sector accountancy body, with consultations earlier this year. As of early October 2022, no firm decisions have been arrived at. Consideration is being given to reporting 'limitation of scope' in relation to infrastructure, in order to avoid further delays to audit opinions. Mazars is working with the National Audit Office and liaising with other firms in this respect.
- **Pensions:** we discussed with management the material variance between estimated assets used by the Actuary and the actual assets at the year-end based on the draft Pension Fund accounts. It became apparent that due to the timing of the Actuary's report production, that it was not based on the latest valuation data used by the Pension Fund, therefore, the Council requested a revised pensions report. This resulted in a reduction to the net pensions liability, due to increased assets, of £47.110m. Further details are set out under the significant risk section 4.

- **Accounting for The Gateshead Housing Company (TGHC) coming back in house from 1/4/2021:** we discussed with management their judgement that merger accounting applied. We challenged this, after internal consultation, on the basis that the housing company was technically a public sector body, therefore, a different form of accounting would apply, namely 'transfer by absorption'. At the time of issuing this report, the revised approach has not yet been applied. This does not change the net position as at 31/3/2022, however, impacts upon the presentation of the current and prior year. Further details are set out under the significant risk section 4.
- **Property, Plant and Equipment (PPE) valuations:** we raised a high priority internal control recommendation following our 2020/21 audit, due to the large number of errors identified. Our follow-up of this recommendation is detailed in section 5. In summary, the Council appointed new external Valuers for 2021/22. Sample testing has identified some errors, but significantly less than last year, noting that all assets were revalued last year, whereas only one third were revalued in 2021/22. Further details are set out under the significant risk section 4.
- **Significant increase in Council house valuations:** council dwelling valuations showed an increase of approximately 22% or £154 million. This was in part due to a change in how council houses are grouped; previously they were grouped on a political 'ward' basis and this has now been changed to a postcode basis. Greater management scrutiny and challenge of this increase should have been evidenced along with disclosure of this significant change in the financial statements.
- **Provisions:** a number of errors were identified as a result of audit testing. This is an area where capacity and other work pressures at the Council were evident, with audit work taking much longer than it should have. We have raised a medium priority recommendation in this area.
- **Newcastle Airport shares £11.661m as at 31/3/2022:** one of the Council's in the North East acts on behalf of other Councils with Airport shares – South Tyneside MBC. We understand the latter obtained an external valuation of the Airport shares; however, this cannot yet be shared with us. The Council has based its valuation as at 31/3/2022 on updated EBIDTA estimates (earnings before interest, taxes, depreciation and amortisation). Subject to the amendment required due to a non-material error, we understand that management's estimate does not differ materially to the range estimated by the external expert.
- **Leases:** we have challenged management over their assertions for ground leases where the Council is a lessor and why they are classed as operating versus finance leases.

(continued overleaf)

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4. Significant findings - continued

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.

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 2021/2022 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. No such objections have been raised.



05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal controls 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 controls 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 in this section, along with follow-up of prior year recommendations. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the categories set out below:

Priority ranking	Description	Number of issues
1 (high)	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
2 (medium)	In our view, there is a need to strengthen internal controls or enhance business efficiency. The recommendations should be actioned in the near future.	2
3 (low)	In our view, internal controls should be strengthened in these additional areas when practicable.	1

Recommendations raised in 2021/22

- Review of arrangements in place for estimating provisions (medium priority)
- Review of working papers and quality assurance arrangements (medium)
- Amendment to returns submitted by senior officers for purposes of related party disclosures (low)

Follow-up of prior year internal control recommendations

- Property, plant and equipment valuations (high priority)
- Omitted related party transactions and disclosures (medium)
- Debtors – completeness and accuracy (medium)
- Annual Governance Statement – updating the AGS and ensuring appropriate coverage of other entities in which the Council has an interest (medium)
- Retention of evidence for business rates parameters updates (low)

5. Internal control recommendations

Other deficiencies in internal control – Level 2

Description of deficiency – quality assurance arrangements for the accounts

Working papers: over 1,500 working papers were again provided as audit evidence. This is a significant amount of working papers which exceeds those required and can result in wasted time going through working papers to find those that are needed.

A working paper protocol has been in place between the Council and Mazars for some years; whilst a year out of date, it remains relevant and only required working papers should be provided.

In addition, due to time pressures and staff capacity, a number of working papers provided were not the final version. Headers / year references on covering sheets had not been updated on quite a large number of working papers. Some 'blank' working papers and folders are being rolled forward from previous years also. Cash flow statement working papers referenced errors which were not then addressed.

Updating working papers for issues arising: it was noted also that some minor points addressed as part of the 2020/21 audit were issues again in 2021/22, presumably due to amendments being made to the revised accounts last year, but not to the underlying working papers.

Analytical review: there were insufficient analytical review procedures undertaken on all of the primary statements which should be a key part of the Council's own quality assurance procedures before the draft accounts are authorised for issue.

Potential effects

Inadequate quality assurance processes can lead to misstatements not being identified. Impacts on the efficiency of the audit.

Recommendation

Rationalise working papers and only provide those required.

Delete blank working papers.

Ensure analytical review procedures are undertaken prior to the draft accounts being authorised for issue.

Ensure that underlying working papers are updated for minor issues arising so that issues arising are not carried forward to the next year.

Management response

We will take into account the above points as part of next year's quality assurance arrangements.

Other deficiencies in internal control – Level 2

Description of deficiency - provisions

A review should be undertaken of all provision balances, in particular business rates appeals and insurance provision balances, due to various issues arising during the audit. These issues have included:

- provisions being made for future events, where no present obligation existed, which does not comply with accounting standards;
- no evidence being readily available to support some provisions (all provisions made should be on the basis of updated estimates made by management);
- insufficient and / or inconsistent narrative to explain the uncertainties and expected timing of use of provisions;
- expected credit losses for long-term debtors being misclassified within provisions again (prior year unadjusted error); and
- provisions not being appropriately split between current and non-current.

Provisions should only be made where:

1. there is a present obligation, either legal or constructive, as a result of a past event;
2. the outflow of economic benefits to satisfy the obligation is probable; and
3. it is possible to reliably estimate the economic benefits.

Potential effects

Potential for misstatement.

Recommendation

All provisions should be reviewed and only provisions which clearly meet accounting standard requirements should be included going forward, supported by appropriate narrative, in particular:

- the insurance provision; and
- the business rates appeals provision.

Management response

This will be actioned.

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Other deficiencies in internal control – Level 3

Description of deficiency - related party returns from senior officers

Audit testing identified directorships held by some senior officers that had not been explicitly considered as part of the related party returns they completed and returned to the finance team – to feed into the production of the related party transactions disclosure note.

Whilst no undisclosed related parties were identified, it would be good practice for senior officers to list directorships held in their annual return.

Potential effects

Potential for undisclosed related parties.

Recommendation

Amend the related party transactions return that senior officers complete, so that it requires disclosure of any directorships held.

Management response

This will be actioned.



5. Internal control recommendations

Follow-up of previous internal control recommendations – Level 1

Description of deficiency - Property, Plant and Equipment valuations

In 2020/21, the sample size for our valuations testing was more than double than in the previous year, due to the full portfolio valuation. A number of errors were identified, including:

- incorrect use of data after the valuation date, offset by inclusion of a contingency allowance in certain valuations which should not have been included;
- one special school where an entire floor had been omitted;
- incorrect useful economic lives applied to PFI schools;
- a school which should have been brought back on balance sheet the prior year;
- significant unexplained changes in obsolescence factors used; and
- various other errors, including a key report not correctly identifying impairment to be shown in the disclosure note and a valuation not correctly allocated across its components.

A significant amount of work was required as a result of the above errors to establish the nature of the errors and also fully quantify the errors in the relevant sub-populations.

Delays

We acknowledge the considerable efforts and cooperation from the Valuer and Council; there were, however, delays in obtaining all the required information, which may have been partly avoided if there had been greater detail in the valuation report in respect of individual valuations – or if such information had been readily available upon request.

Adequacy of the Valuation Report

Whilst valuations are judgements, there should be sufficient detail to support individual valuations, to evidence key assumptions such as:

- useful economic lives;
- whether the asset had been physically inspected or not; and
- obsolescence factors applied.

In addition, various omissions and errors were noted in the Valuation Report, including: missing beacon property data, omitted BCIS supporting data; and omitted valuation calculations for a few depreciated replacement cost assets.

The format of the council houses beacon valuations was also difficult to follow.

Description of deficiency - Property, Plant and Equipment valuations (continued)

Other

There is also scope for enhancing arrangements in place for PPE valuations, including:

- considering the date of valuation (i.e. 1st April or 31st March) and what data is used in valuing assets;
- ensuring that there is a clear judgement for where assets are valued on a depreciated replacement cost;
- ensuring that depreciated replacement cost valuations which are on an 'instant build' basis are fully compliant with underlying valuation guidance;
- ensuring that obsolescence factors are appropriately split, where presented in this way, into their sub-categories; and
- critically reviewing any change in valuation key assumptions such as obsolescence factors and / or useful economic lives.

Potential effects

Risk of material misstatement.

Recommendation

Consider the areas highlighted from the 2020/21 audit as part of reviewing valuation arrangements.

Management response

These will be considered as part of reviewing valuation arrangements for future years.

Follow-up in 2021/22

The Council appointed new external Valuers for 2021/22.

Sample testing has identified some errors, but significantly less than last year, noting that all assets were revalued last year, whereas only one third were revalued in 2021/22.

One significant change has been in respect of council house valuations, where a change in the basis of valuation has resulted in a significant increase of approximately 22% or £154 million. This was in part due to a change in how council houses are grouped; previously they were grouped on a political 'ward' basis and this has now been changed to a postcode basis. Greater management scrutiny and challenge of this increase should have been evidenced along with disclosure of this significant change in the financial statements.

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Follow-up of previous year internal control recommendations – Level 2

Description of deficiency – debtor balances

We highlighted in our Audit Completion Report a number of errors from testing, including:

- **a non-material debtors balance with a partner which was no longer a valid debtor**, therefore, should be written off; this had arisen due to a disputed debtor and is partially offset by a linked creditor, with a net impact of £1.715 million;
- **a further debtors balance with local authorities, which contained amounts owing which may similarly no longer be valid, dating back some years**: whilst this was clearly trivial, the Council should ensure it reviews this code (automatic debtors adjustment) in full for the next year; and
- **a trivial balance that the Council appeared to owe to itself**: the Council's own controls should ensure that it is not raising a debtor with itself.

Upon completion of our testing, the following additional issues were identified:

- **an outstanding debtor with a local health partner totalling £8.006 million**, including £5.983 million relating to 2019/20 and 2018/19. This had arisen due to various factors, including lack of agreement of responsibility for care packages.

We note an Internal Audit (IA) report had already identified this issue in 2019/20. IA had followed it up earlier in 2021, at which time no significant progress had been made. As of September 21, we understand that progress has been made, however, evidence of this was not yet available. As this is an area where IA has already highlighted significant weaknesses and is following them up (and which have already been communicated to the Audit and Standards Committee), we are not raising any further recommendation, however, have noted this issue here in terms of issues arising from our testing.

- **a further outstanding debtor with another local health partner for £0.351 million**, including amounts owed dating back to 2017/18 and 2018/19 relating to adult social care costs. This is a common issue for local authorities, however, it is important that there is greater oversight and focus on ensuring the debtors balance is complete and accurate in respect of debtors with health partners, notwithstanding the difficulties.
- **a sample item for a charge on an individual's property, in relation to adult social care**: dates on the underlying documentation did not match the dates for which care was being provided. The Council should consider how this has arisen and whether there is any risk of challenge to the Council in respect of incorrect underlying documentation.

Potential effects

Risk of misstatement.
Risk of non-material outstanding debtors not being followed-up and increasing, year on year.

Recommendation

Consider the areas highlighted from the 2020/21 audit and action as appropriate.

Management response

As indicated above, Internal Audit have recently followed-up their recommendations in relation to prior year care packages and the resolution of historic issues and we anticipate a positive follow-up report, once available.

In respect of the other areas, these will be considered during and at the 2021/22 closedown.

Follow-up in 2021/22

Internal Audit's follow-up report showed good progress had been made.

Based on our follow-up, progress has been made on the recommendation, bar:

- **the outstanding disputed debtor with a partner** referenced to the left was not addressed in time for 2021/22, therefore, remains a carried forward issue and is reported in our summary of unadjusted misstatements; and
- **the Council raising debtors with itself**; this remains an issue which the Council is again following up to make sure it is addressed. The Council has recognised a trivial debtors balance of £0.116m with itself as at 31/3/22 (prior year £0.022m). This arose mainly due to issues in relation to The Gateshead Housing Company coming back in house and the treatment of voids.

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Follow-up of previous year internal control recommendations – Level 2

Description of deficiency - omitted related party transactions and disclosures

Audit work identified the following omitted related party transactions and disclosures:

- loans to Keelman Homes;
- the companies which run the Baltic and Sage (which are leased to them for a peppercorn amount);
- financial support (i.e. loans) provided to Council-owned entities; and
- year-end debtor and creditor balances for related parties / Council-owned entities

Potential effects

Further undisclosed related parties. Key information omitted from the disclosure note.

Recommendation

The Council should revisit its controls in place for identifying related parties to ensure they correctly capture all relevant transactions and interests. In considering potential related parties, it is important the Council considers materiality in terms of whether transactions / relationships are material not just to the Council, but also the other party.

Management response

This will be actioned and controls reviewed.

Follow-up in 2021/22

The specific issues above have been actioned, however, we note that there are unadjusted disclosure errors in respect of related parties again in 2021/22 and a further recommendation has been raised in respect of this disclosure note.

Follow-up of previous year internal control recommendations – Level 2

Description of deficiency - Annual Governance Statement

The AGS and the governance framework in place covers the period up to and including when the statement of accounts is approved following the audit. The Council should ensure arrangements are in place for any update of the AGS, if required.

We would recommend the Council also considers further the governance arrangements in place for its interests in other entities (e.g. the Trading Company) and how its governance framework covers these.

Potential effects

Lack of clarity over adequacy of governance arrangements in place for the Council's interests in other entities (i.e. joint ventures and subsidiaries).

Recommendation

The Council should review the Annual Governance Statement and the description of the governance framework and consider if it could be enhanced to provide assurance in respect of the Council's interests in other entities (i.e. joint ventures and subsidiaries).

Management response

Arrangements are in place for review of the Council's interests in other entities, via regular internal audit reviews. In addition, the section in the AGS in respect of partnership arrangements also covers the Council's interests in other entities. We will consider the recommendation for next year.

Follow-up in 2021/22

We would recommend the Council considers further clarifying wholly owned subsidiary governance arrangements in its AGS.

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Follow-up of previous year internal control recommendations – Level 3

Description of deficiency

Evidenced check of annual update of business rates system parameters

Our walkthrough of key controls in the business rates system identified that there was no evidence retained of the input of parameters into the system and any checks done to ensure they were correct. We note there were compensating controls were in place.

Potential effects

System parameters not appropriately updated for the new year.

Recommendation

Ensure evidence is retained showing the input of parameters into the system and how these have been checked.

Management response

This will be actioned.

Follow-up in 2021/22

Recommendation has been actioned.



06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £0.426 million for the Council.

1. The first table overleaf 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.
2. The second table outlines the misstatements identified during the prior year audit which were not adjusted for and are carried forward misstatements.
3. The third table outlines the misstatements that have been adjusted by management during the course of the audit.

The table below summarises all errors.

Summary of unadjusted and adjusted misstatements

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Unadjusted misstatements identified during the 2021/22 audit	-2,835	7,069	1,055	-5,289
2	Unadjusted misstatements identified during the 2020/21 audit which remain carried forward	-2,700	1,995	-1,010	1,715
	Sub-total unadjusted misstatements: current year and prior year	-5,535	9,064	45	-3,574
3	Adjusted misstatements	-321	47,110	-2,148	-44,641

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1. Unadjusted misstatements – current year

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Dr: Non-current provisions: Insurance provision Cr: Gross expenditure		4,597		-4,597
	Being amendment to the Insurance provision; testing identified parts of the provision do not meet the definition of a provision, as they relate to future possible events. Consists of actual errors (£2.746m) and an extrapolated error (£1.851m).				
2	Dr: Current provisions - business rates appeals provision Cr: Gross expenditure		2,472		-2,472
	Being the error in respect of the business rates provision, for which insufficient evidence has been provided to support the provision balance as at 31/3/22. In addition, classified as current, when an element should be classified as non-current.				
3	Dr: Gross expenditure Cr: Property, Plant & Equipment – Assets Under Construction	-1,780			1,780
	Being extrapolated expenditure incorrectly capitalised identified from Assets Under Construction additions testing.				
4	Dr: Revaluation Reserve / Capital Adjustment Account Cr: Property, Plant & Equipment – Other Land & Buildings	-1,055		1,055	
	Being an error in the valuation of schools linked to the assessment of the 'modern equivalent asset' m2 used in the calculation.				
Total unadjusted misstatements – current year		-2,835	7,069	1,055	-5,289

6. Summary of misstatements

2. Unadjusted misstatements – prior year carried forward

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Dr: Gross income Cr: Current debtors	-3,539			3,539
	Being the write-back of a disputed debtor of £3.351m for a previous partnership arrangement, where there is no realistic prospect of settlement. Note linked error below, however, as no right of 'set-off', presented separately. Also a further £0.181m relating to a further balance with this debtor where there is similarly no realistic prospect of settlement.				
2	Dr: Current creditors Cr: Gross expenditure		1,824		-1,824
	Being the cancellation of a disputed creditor for a previous partnership arrangement, where there is no realistic prospect of settlement.				
3	Dr: Non-current provisions: Airport Expected Credit Loss Cr: Non-current debtors: Airport loan note	-171	171		
	Being the misclassification of the Airport Expected Credit Loss, which should have been creditor to non-current debtors originally instead of provisions. £0.196m as at 31/3/21 and £0.171m as at 31/3/22; trivial, however, included given the other errors identified for the overall provisions balance.				
4	Dr: Property, Plant and Equipment Cr: Revaluation Reserve / Capital Adjustment Account	1,010		-1,010	
	Being the extrapolated understatement of Property, Plant and Equipment from testing.				
Total unadjusted misstatements – prior year carried forward		-2,700	1,995	-1,010	1,715

6. Summary of misstatements

3. Adjusted misstatements

	Assets	Liabilities	Reserves	Income Statement	
	(£'000)	(£'000)	(£'000)	(£'000)	
1	Dr: Net defined benefit liability Cr: Remeasurement of the net defined benefit liability	47,110		-47,110	
	Being the amendment as a result of the revised Actuary's report obtained, due to there being a significant difference between the data used by the Actuary compared to the Pension Fund in respect of pension assets.				
2	Dr: Non-current investments – Newcastle Airport shares Cr: Unusable Reserves – Financial Instrument Revaluation Reserve	2,148	-2,148		
	Being the correction of the movement in the valuation of Newcastle Airport shares; the movement in the loan notes had been incorrectly posted to the shares balance initially.				
3	Dr: Non-current provisions – Term Time only provision Cr: Current provisions – Term Time only provision	2,340 -2,340			
	Being the reclassification from non-current to current, as the Council has clarified the provisions is expected to be used in 2022/23.				
4	Dr: Grants Receipts in Advance (Revenue) Cr: Creditors Receipts in Advance	12,669 -12,669			
	Being the incorrect classification of the non-discretionary element of the Energy Rebate Grant.				
5	Dr: Gross expenditure Cr: Property, Plant and Equipment	-2,469		-2,469	
	Being the adjustment to write out Other Land & Buildings held at historic cost which was not appropriately classified and should have been treated as 'Revenue Funded from Capital Under Statute' as it was capital expenditure on assets not owned by the Council.				
Total adjusted misstatements		-321	47,110	-2,148	-44,641

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Disclosure amendments

Audit work identified a number of amendments to disclosures. The most significant are summarised below, split into adjusted and unadjusted.

Adjusted disclosure amendments

The Gateshead Housing Company (TGHC)

- The most significant amendments will be as a result of changes to how the Council has accounted for The Gateshead Housing Company coming back in house from 1/4/2021, changing from a 'merger accounting' basis to 'transfer by absorption'. This will impact on current year and prior year primary statements and disclosures. A disclosure note will be included in the revised financial statements setting out the impact. At the time of issuing this report, the Council has not yet applied the revised approach so our conclusions are subject to this happening.

Disclosures

- **Note 2 Critical Judgements:** reinstatement of the Council's judgement in respect of group accounts and why not prepared.
- **Note 4 Accounting standards issued not yet adopted:** amendment to remove references to a leasing disclosure that is not required.
- **Note 5 Assumptions and major sources of estimation uncertainty:** additional disclosure added in respect of the change in council dwelling accounting estimate bases (i.e. asset grouping). Deletion also of a non-material disclosure in respect of provisions.
- **Note 6 Adjustments between accounting and funding basis:** amendments as a result of changes to how the Council has accounted for The Gateshead Housing Company coming back in house from 1/4/2021. Presentation of footnotes updated so that more readable, plus errors corrected. Material adjustments combined in the 'other' line also split out.
- **Note 8 Expenditure and Funding Analysis:** amendments as a result of changes to how the Council has accounted for The Gateshead Housing Company coming back in from 1/4/2021.
- **Note 9 Dedicated Schools Grant:** comparator table added and narrative updated.
- **Note 12 Members' allowances and expenses:** amendment to disclosure due to incorrect inclusion of Fire Authority allowances of £0.017m, for both the current and prior year.
- **Note 14 Officers' remuneration:** footnote added to clarify basis of allowances paid.
- **Note 14 Exit packages:** narrative amended to clarify further that the majority of exit packages in 2021/22 are for expected costs and also to clarify actual redundancies.
- **Note 15 Related Party Transactions.** A number of amendments, including:
 - amending narrative in respect of Members; and
 - update to numerical disclosures in respect of the Council's interests in other entities.

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Disclosure amendments

Adjusted disclosure amendments - continued

- **Note 17 Property, Plant and Equipment.** Amendments as a result of changes to how the Council has accounted for The Gateshead Housing Company coming back in from 1/4/2021.
Other narrative amendments plus:
 - removal of the 'buildings – finance lease' column in the main disclosure note as it did not contain all finance leases and it is not a required heading where there is separate disclosure of finance lease liabilities (relating to PFI arrangements in this instance);
 - amendments to the 'revaluations' table, including moving Assets Under Construction to the 'historic cost' line.
- **Note 20a Private Finance Initiative:** amendment to asset value disclosures due to errors identified.
- **Note 24 Provisions:** amendments to the narrative to clarify what the Trinity Square provision relates to and also the expected timing of use of the redundancies provision.
- **Note 26 Financial Instruments:** various amendments to clarify disclosures, including the disclosure showing the reconciliation of liabilities arising from financing cash flows.
Amendment to the disclosure of gains and losses which had excluded the impairment of debtors held at amortised cost.
Amendment to the Financial Instrument Revaluation Reserve disclosure note (no impact on the primary statement) due to the correct of a prior year error which was not accounted for correctly.
- **Note 40 Pensions:** amendments as a result of the revised Actuary's report, plus also amendments as a result of changes to how the Council has accounted for The Gateshead Housing Company coming back in house from 1/4/2021.
- **Joint arrangements:** the Council has material joint arrangements with the former local clinical commissioning group; the revised accounts include a disclosure setting this out.
- **Housing Revenue Account Note 2:** amendment to the number of council dwellings disclosed.

Unadjusted disclosure amendments

- Note 14 Exit Packages: omission of one non-material exit package.
- **Note 15 Related Party Transactions.** There are two brought forward unadjusted disclosure errors:
 - the Council has not disclosed year-end balances outstanding for entities in which it has an interest (e.g. the Trading Company); and
 - the Council has not disclosed details of support (e.g. loans) to entities in which it has an interest (e.g. the Energy Company).
- **Note 26 Financial Instruments:** the disclosure in respect of Expected Credit Losses should set out how forward-looking information is incorporated into the assessment.
- **Cash Flow Statement disclosures (combined with the statement):** the movement in the impairment of debtors allowance has incorrectly included part of the movement in provisions again in error; whilst trivial, this is a recurring error which should be adjusted for going forward.

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Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

We are required to consider 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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - how the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - how the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - how the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2022. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however, we continue to undertake work on the Council's arrangements.

As noted already, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

Mr Cameron Waddell
Partner
Mazars LLP

Date:

Gateshead Metropolitan Borough Council - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of Gateshead Metropolitan Borough Council (the Council) for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, 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 financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

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 financial statements 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, Resources and Digital 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.



Appendix A: Draft management representation letter

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with 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 current or 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 the Code and applicable law.

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.



Appendix A: Draft management representation letter

Fraud and error

I acknowledge my responsibility as Strategic Director, Resources and Digital 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 financial statements 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 financial statements 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 and applicable law. 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.

Charges on assets

All the Council’s assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

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 2021/22 in relation to the Council’s PFI schemes that you have not been made aware of.



Appendix A: Draft management representation letter

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, 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 cease to 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 financial statements.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. *[Please ensure an appendix is attached to the letter setting out all unadjusted errors]*

Yours faithfully

Strategic Director, Resources and Digital:

Date:



Appendix B: Draft audit report

Independent auditor’s report to the Members of Gateshead Metropolitan Borough Council

Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements, however, this is subject to the conclusion of matters in relation to infrastructure which remain outstanding at the time of issuing this report; further detail is set out in sections 2 and 4.



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.



Appendix D: Other communications

Other communication	Response
Compliance with laws and regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	There were some delays and issues with regard to obtaining external confirmations, however, nothing which has indicated any risk of material misstatement, whether due to fraud or error.
Related parties	<p>Issues were identified in respect of related parties disclosures, as set out in section 4 'significant matters discussed with management' and section 06 'adjusted disclosure amendments', along with an internal control recommendation raised in section 5.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going concern	<p>We have not identified any evidence to cause us to disagree with the Strategic Director, Resources and Digital that Gateshead Metropolitan Borough Council will be a going concern, and therefore, we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>



Appendix D: Other communications

Other communication	Response
<p>Subsequent events</p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<p>Matters related to fraud</p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit and Standards Committee, confirming that</p> <ul style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ul style="list-style-type: none"> i. management; ii. employees who have significant roles in internal control; or iii. others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.



Cameron Waddell, Partner

Mazars

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.