

Audit Completion Report

Gateshead Metropolitan Borough Council
– year ended 31 March 2023

October 2023



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23 October 2023

Mazars LLP
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Dear Committee Members

Audit Completion Report – year ended 31 March 2023

We are pleased to present our Audit Completion Report for the year ended 31 March 2023. 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 20 July 2023. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

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 07881 283 527.

Yours faithfully

Signed: 
James Collins (04123_20231005 GMT+1)

James Collins
Director
Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2022/23 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;
- valuation of the net defined pension benefit liability;
- valuation of property, plant and equipment; and
- accounting for PFI arrangements (enhanced risk).

Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements would result in an increase of £2.3m to gross expenditure. 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 2023. At the time of preparing this report, the matters remaining outstanding are outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow-up letter.



Audit opinion

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

Whilst we are yet to complete our work in this area, we anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that 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. 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.

02

Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Pensions	R	We have not yet received and considered the assurance from the Pension Fund auditor.
2021/22 audit and 2022/23 opening balances	G	We need to carry out work in respect of 2022/23 opening balances when they have been rolled forward in the Council's ledger. The Council cannot do this until the 2021/22 audit has been completed; we anticipate completion of the 2021/22 audit in late October 2023.
Financial Statements – closing procedures	G	Review and closure processes, including checking the amended version of the financial statements, obtaining a final journals report from the Council and consideration of any post balance sheet events. Review procedures also remain on-going, namely: <ul style="list-style-type: none"> – Engagement Quality Review: required due to the size of the Council; and – review of the final revised accounts by our central technical team.

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

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

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

03

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 July 2023. 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, based on the draft year end financial statements, was set at £14.472m using a benchmark of 2% of gross operating expenditure. No changes to the materiality level set at the planning stage have been made.

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.
Shared Waste Private Finance Initiative (PFI) facility	Hilco Appraisal Ltd	<i>We have engaged our own internal valuation expert to review the assumption that the movement in the value of the shared waste facility is not material between years.</i>
<i>District Energy Centre (DEC)</i>	<i>Hilco Appraisal Ltd</i>	<i>No expert assessed as being required.</i>
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 15 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; and
- any further significant matters discussed with management.

Significant risks

Management override of controls	Description of the risk <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk 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.
	Audit conclusion <p>Subject to satisfactory completion of outstanding work, our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.</p>

4. Significant findings

Net defined benefit liability valuation	Description of the risk The financial statements contain material pension entries in respect of the retirement benefits. The calculation of the net pensions liability of £8.8m, made up of the gross pension assets (£1,517.3m) and gross pension liabilities (£1,526.1m) 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.
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How we addressed this risk

We:

- critically evaluated the Council's arrangements for making estimates in relation to pension entries within the financial statements;
 - challenged 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 procedures in place at the Pension Fund are operating effectively;
 - reviewed summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets and evaluating whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets;
 - reviewed the actuarial allocation of Pension Fund assets to the Council by the Actuary, including comparing the Council's share of the assets to other corroborative information; and
 - agreed data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements.
-

Audit conclusion

The opening net pensions liability as of 1 April 2022 was amended in the 2021/22 accounts because of the revised pensions report the Council obtained earlier this year, due to the triennial revaluation exercise. This resulted in a decrease of £38.7m to the Council's net pensions liability from £535.5m to £496.8m.

As of 31 March 2023, the Council's net pensions liability has further decreased from £496.8m to £8.8m; a similar significant decrease has been noted for the other Local Authority 7 (LA7) in the North East, with two Councils reporting a small net pensions asset. This significant decrease arises from gross pension assets and liabilities almost being the same due to movements in markets for assets and changes in actuarial assumptions impacting on liabilities.

As of the time of issuing this report, we have not yet received and considered the Pension Fund auditor's assurance. The letter is expected at the end of October, and we will provide an update on outstanding matters to the Committees via our formal follow-up letter.

4. Significant findings

Valuation of property, plant and equipment (PPE)	Description of the risk
	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 valuations of property, plant and equipment due to the significant judgements and number of variables involved. The net book value of PPE as at 31 March is £1.6 billion (prior year £1.6 billion).

How we addressed this risk

We have:

- 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;
 - substantively tested a sample of revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated; and
 - liaised with the Council's external valuation expert, Jones Lang La Salle, to understand their approach.
-

Audit conclusion

Valuation of the PFI shared energy from waste facility

The Council is the lead Authority for a PFI shared energy from waste facility, between three local Councils including Sunderland City Council and South Tyneside Council.

For 2022/23, we noted the Council had not revalued the asset in year. Per discussions with Council officers, they liaised with their Valuer for this asset, Hilco, whose assessment was that there has been no significant movements in asset values between the previous valuation date of 31 March 2022 and the year-end date of 31 March 2023 and, therefore, no revaluation took place for this year's financial statements. To assess the accuracy and reasonableness of the assumption made by the Council's valuer, we engaged our own internal valuation expert to consider this assessment. No issues were identified from our internal valuer's review, and as such we concluded that the judgement not to revalue the asset was reasonable.

Other valuations

No significant issues have been identified from our testing. We challenged the Valuer in respect of some of the blended indices used in depreciated replacement valuations; two minor errors were identified; however, the impact was clearly trivial. We would recommend the Valuer retains evidence for blended indices used in valuations for next year.

Overall

Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.

4. Significant findings

Key areas of management judgement

Enhanced risk: accounting for PFI arrangements

Description of the management judgement

The Council has two PFI arrangements, covering:

- schools; and
- a shared waste facility.

The method of accounting for PFI assets/liabilities is complex, therefore, this increases the risk of misstatement

How our audit addressed this area of management judgement

We:

- 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.
-

Audit conclusion

Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.

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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 31 May 2023 and were of a good quality.

Significant matters discussed with management

During our audit we discussed the the following significant matters with management.

Pensions

We discussed with management the revision to the 2021/22 accounts made in May of this year, as a result of the triennial valuation of the Pension Fund. We critically reviewed the 2022/23 net pensions liability disclosed by the Council as at 31/3/23, which has significantly decreased compared to the prior year; see further commentary under the significant risks section.

Valuation of the PFI shared energy from waste facility

The Council is the lead Authority for a PFI shared energy from waste facility, between three local Councils including Sunderland City Council and South Tyneside Council.

For 2022/23, we noted the Council had not revalued the asset in year on the basis of there being no material movement since the last valuation, with the Council's assessment being informed from discussions with a specialist Valuer, Hilco. To assess the accuracy and reasonableness of this judgement, we engaged our own internal valuation expert to consider this assessment and we did not identify any issues with the Council's judgement.

Valuation of Newcastle Airport shares

We noted from our 2022/23 audit work there has been no movement in the £11.7m valuation of the Airport shares accounted for in the Council's financial statements at 31 March 2023.

Officers critically considered the movement in share prices for other similar airports which had not indicated a material movement since the previous valuation, therefore, the Council's judgement was that the valuation remained appropriate. Our review of the valuation and evidence provided by Council officers supported the assumption that there has not been a material movement.

Minimum Revenue Provision (MRP)

The Council is required to make a 'minimum revenue provision' for repayment of capital expenditure, based on overarching guidance requiring a prudent amount to be set-aside. We noted the Council's MRP in 2022/23 was £16.3m, compared to £22.3m the prior year; this reduction being due to an additional provision of £3m being

made in 2021/22, which is being used to reduce the MRP charged in 2022/23 and 2023/24. We confirmed the Council has appropriately reported this in its annual MRP policy statement from 2022/23.

Recoverability of debtors

We have critically reviewed the Council's allowance for impaired debtors. We have reported a brought forward unadjusted error in respect of a debtor which the Council anticipates writing off in 2023/24 as well as other non-material legacy balances in respect of Public Sector Partnership and The Gateshead Housing Company.

Reinforced Autoclaved Aerated Concrete (RAAC)

We made enquiries of officers in respect of RAAC being present in any Council-owned buildings and obtained assurance that government department procedures were being followed and there was no indication of any material issues impacting on the Council's assets.

Agresso password length

In line with industry best practice, we recommended the Council change its policy for Agresso passwords from 7 digits to a minimum of 8 digits; the Council has already actioned this, therefore, we have not raised it as a formal recommendation. We note mitigating controls in place already at the Council, in particular multi-factor authentication.

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 2022/23 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

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to the Council any significant deficiencies identified during the course of our work.

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 control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have 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 in the adjacent table.

We have not identified any internal control recommendations in respect of 2022/23. We have set out our follow-up of prior year internal control recommendations on the following pages, with a summary below:

Open

- **Review of working papers and quality assurance arrangements** (medium priority): remains open in respect of ensuring an analytical review is evidenced.
- **Review of arrangements in place for estimating provisions** (medium); remains open in respect of the business rates appeals provision not being split between current and non-current provisions.
- **Debtor balances** (medium); remains open in respect of carried forward issue in respect of debtor balances which require writing off.

Closed

- **Property, plant and equipment valuations** (high – closed)
- **Infrastructure** (medium – closed)
- **Annual Governance Statement** (medium – closed)
- **Amendment to returns submitted by senior officers for purposes of related party disclosures** (low – closed)

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.	0
3 (low)	In our view, internal controls should be strengthened in these additional areas when practicable.	0

5. Internal control recommendations

Follow up on previous internal control points

Description of deficiency – quality assurance arrangements for the accounts (medium priority)

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.

2022/23 update

We noted as part of our 2022/23 year end audit that Council officers provided the core audit working papers upfront and then any additional working papers required by the audit team over and above the core information was shared when requested. As such, the number of working papers shared was a lot more manageable and information could easily be identified in the working papers provided. No issues with blank working papers were identified, nor were there any issues identified with working papers not being updated to reflect findings from prior years.

With regard to analytical review procedures, we have not seen evidence that this was carried out by the Council as part of their own quality assurance procedures and as such this part of the recommendation remains open.

5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency – **debtor balances from the 2020/21 audit (medium priority)**

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.
- **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.

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 above 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.

2022/23 update

The outstanding disputed debtor with a partner referenced above remains outstanding as at 31 March 2023, therefore, remains a carried forward issue and is reported in our summary of unadjusted misstatements. From discussions with officers, progress to resolve the issue has remained on-going during the year and the issue is expected to be resolved during the 2023/24 financial year.

5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency – provisions (medium priority)

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.

2022/23 update

The insurance provision has been updated and we identified no issues arising from our 2022/23 audit work.

The business rates appeals provision has not been split between current and non-current, which remains a carried forward issue arising.

5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency - **Property, Plant and Equipment valuations – from the 2020/21 audit (high priority)**

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.

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.

5. Internal control recommendations

Follow up on previous internal control points (continued)

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

Potential effects

Risk of material misstatement.

Recommendation

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

Follow-up in 2021/22

The Council appointed new external Valuers for 2021/22.

Sample testing 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.

2022/23 update

Subject to the conclusion of outstanding testing, there were no significant issues arising from audit work carried out. We challenged the Valuer in respect of some of the blended indices used in depreciated replacement valuations; two minor errors were identified, however, the impact was clearly trivial. We would recommend the Valuer retains evidence for blended indices used in valuations for next year.

Overall, this internal control recommendation is assessed as completed and no further follow-up is required.

5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency – Infrastructure (medium)

Issue arising from infrastructure 2021/22 balances work carried out in March 2023, relating to the temporary solution put in place by CIPFA.

The Council did not amend its categories of infrastructure for 2021/22, on grounds of materiality. It plans to do this in 2022/23. We noted the Council plans to revise its fixed asset register for 2022/23, based on the infrastructure useful economic lives calculated as part of this exercise. Our critical review of the categories of infrastructure and useful economic lives identified some non-material discrepancies which the Council should review as part of the 2022/23 exercise.

Potential effects

Misstatement of infrastructure balances.

Recommendation

Action the work the Council has set out it needs to do for 2022/23.

2022/23 update

There is an appropriate split of infrastructure useful economic lives in the 2022/23 Property, Plant and Equipment accounting policy. In terms of the discrepancies identified as part of work done in March 23, these have been addressed as part of the 2022/23 a/cs.

Recommendation actioned, therefore, considered 'closed'

5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency - Annual Governance Statement (medium)

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).

Follow-up in 2021/22

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

2022/23 update

The Council has included a section regarding the governance of the Council's companies per paragraph 24 of the Annual Governance Statement. Satisfied that the recommendation has been implemented for 2022/23. **No further follow-up is required.**

5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency - related party returns from senior officers (low priority)

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.

2022/23 update

Our year-end testing confirmed that related party transaction returns have been amended by the council, so that they now require the recipient to disclose both any related party transactions with the Council during the period and any directorships held. **Therefore, this internal control recommendation is assessed as completed and no further follow-up is required.**

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 £0.442 million for the Council.

- 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.
- The second table outlines the misstatements identified during the prior year audit which were not adjusted for and are carried forward misstatements.

There are no misstatements impacting on the primary statements that have been adjusted by management during the course of the audit. The final page of this section sets out disclosures which have been amended.

The table below summarises all errors.

Summary of unadjusted and adjusted misstatements

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
A	Unadjusted misstatements identified during the 2022/23 audit	-615	-3	0	618
B	Unadjusted misstatements identified during the 2021/22 audit which remain carried forward	-3,539	1,824	0	1,715
	Sub-total unadjusted misstatements: current year and prior year	-4,154	1,821	0	2,333
C	Adjusted misstatements	0	0	0	0

6. Summary of misstatements

(A) Unadjusted misstatements – current year

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Dr Gross Expenditure Cr Creditors		-2,193		2,193
	Being the extrapolated error arising from our expenditure cut-off testing; an item was selected for testing from April 2023 which related to March 2023. Testing confirmed that the expenditure had been incorrectly included in 2023/24 when it should have been included in 2022/23 (creditor accrual). Actual error £0.051m, extrapolated error £2.193m.				
2	Dr: Creditors Cr: Gross Expenditure		2,469		-2,469
	Being the extrapolated error arising from our expenditure and creditors testing; error in relation to two sampled items mainly due to the invoice amount being lower than the accrued amount. Actual error £0.118m, extrapolated error £2.469m.				
3	Dr: Debtors (NHS bodies) Cr: Creditors (NHS bodies)	279	-279		
	Being the extrapolated error arising from testing of debtor balances; error identified in respect of one balance which had been misclassified as a debtor instead of a creditor. Actual error £0.012m, extrapolated error £0.279m.				
4	Dr: Gross Income Cr: Current Debtors Cr: Non-current Debtors	-36 -858			894
	Being legacy PSP and TGHC debtor balances that need writing out. PSP = Public Sector Partnership; the Council's joint venture that was terminated in 2021/22 (balance of £0.797m) TGHC = The Gateshead Housing Company – housing company which came back in-house from 1 April 2022 (balance of £0.097m – current and non-current).				
	Total unadjusted misstatements – current year	-615	-3	0	618

6. Summary of misstatements

(B) 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: Gross Income Cr: Gross Expenditure				5,370 -5,370
	Being the misclassification of Highways gross income and expenditure in 2021/22 (net nil impact on Highways per Note 16 trading accounts). Not a b/f error, but relates to 2021/22 only, therefore, included in this section.				
	Total unadjusted misstatements – prior year carried forward	-3,539	1,824	0	1,715

6. Summary of misstatements

Audit work identified a number of adjustments to disclosures including adjustments for minor presentational, spelling, grammatical and consistency errors. The most significant are summarised below, split into adjusted and unadjusted.

Adjusted disclosures

- **Narrative report:** amendment to several financial disclosures to ensure consistency with the accounts.
- **Restatement of CIES:** the Council restated, as required, the Comprehensive Income and Expenditure Statement (CIES) for the split of one portfolio into two from 1 April 2022. The Council was required to include a disclosure note setting out the impact of this restatement, which has now been done in the revised accounts (Note 31), as well as adding 'restated' to the Expenditure and Funding Analysis disclosure.
- **Restatement of Balance Sheet / Movement in Reserves Statement:** the Council has removed the 'restated' references on these statements, as they were not required.
- **Note 2 Critical judgements:** amendments to clarify judgements.
- **Note 5 Assumptions:** minor amendments to disclosures.
- **Note 10 Grant Income:** amendment of £0.687m between two line headings in the disclosure.
- **Note 13 External Audit fees:** narrative was updated to clarify external audit costs.
- **Note 14 Termination Benefits /Exit Packages:** one exit package was shown in its own banding; per the Code 3.4.4.1 (6), bands should be combined where necessary to ensure that individual exit packages cannot be identified, therefore, the note was amended.
- **Note 15 Related Party Transactions:** amendment of £0.480m to the debtors table disclosed at the end of this disclosure. Addition of narrative in respect of the Trinity Square joint arrangement. Minor amendments to quantification of the Council's subsidiaries based on their latest draft accounts.
- **Note 25 Pensions:** update of narrative to reflect the significantly reduced net pensions liability as at 31 March 2023.
- **Note 26 Financial Instruments.** Amendments to the narrative to clarify that some financial instrument balances are not set out in this note, where already disclosed elsewhere in the accounts. Amendment to the narrative in respect of the fair value of financial instruments to reflect the fact fair values were lower as at 31 March 2023 than carrying values. Amendment also to the disclosure table showing gains and losses.
- **Collection Fund Statement and notes:** amendment made to the "amount attributable" section (very bottom section of the note) as it was different to the "(surplus)/deficit carried forward" balance (further above in the statement) by £0.476m.
- **Collection Fund Note 2:** amendment to the 'multiplier' shown as it was not the correct standard multiplier.

6. Summary of misstatements

Unadjusted disclosures

- **Note 24 provisions:** the business rates appeals provision of £3.990m as at 31 March 2023 (prior year £2.472m) has not been split between current and non-current provisions as required; this would impact on the face of the balance sheet.

07

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 2023.

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.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted earlier, 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

[To be provided on letter headed paper please]

Mr James Collins
Director
Mazars LLP
Date:

Gateshead Metropolitan Borough Council - audit for year ended 31 March 2023

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 2023 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 2022/23 (the Code) as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (“the Code Update”), published in November 2022 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.

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.

Appendix A: Draft management representation letter

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.

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.

Appendix A: Draft management representation letter

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 2022/23 in relation to the Council's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code 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. I confirm I have disclosed to you the extent of RAAC (Reinforced Autoclaved Aerated Concrete) in Council-owned buildings and to date, there is no indication of any significant issues. I confirm also I have assessed the impact on the Council of the global banking challenges, in particular on whether this impacts on the Council's ability to continue as a going concern and on post balance sheet disclosures.

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

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Gateshead Metropolitan Borough Council ("the Council") for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement and notes to the financial statements, including a 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 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2023 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update.

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

In auditing the financial statements, we have concluded that the Strategic Director, Resources and Digital use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Strategic Director, Resources and Digital with respect to going concern are described in the relevant sections of this report.

Other information

The Strategic Director, Resources and Digital is responsible for the other information. 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.

Appendix B: Draft audit report

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.

Responsibilities of the Strategic Director, Resources and Digital for the financial statements

As explained more fully in the Statement of the Strategic Director, Resources and Digital Responsibilities, the Strategic Director, Resources and Digital 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 2022/23 as amended by the Code Update, and for being satisfied that they give a true and fair view. The Strategic Director, Resources and Digital is also responsible for such internal control as the Strategic Director, Resources and Digital 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, Resources and Digital is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Code Update and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Strategic Director, Resources and Digital 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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, the Accounts and Audit Regulations 2015, and the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- inquiring with management and the Audit and Standards Committee, as to whether the Council is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Appendix B: Draft audit report

We evaluated the Strategic Director, Resources and Digital's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to :

- making enquiries of management and the Audit and Standards Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit and Standards Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

We are also required to conclude on whether the Strategic Director, Resources and Digital use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in February 2023.

Report on the Council's arrangements for securing economy, efficiency, and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in January 2023, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2023 .

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

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.

Appendix B: Draft audit report

Auditor's responsibilities for the 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. 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.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023.

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 Gateshead Metropolitan Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 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 members of 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.

(continued overleaf)

Appendix B: Draft audit report

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources.

James Collins
Key Audit Partner
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF





Date:

Appendix C: Independence



As part of our on-going 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
 <p>Compliance with Laws and Regulations</p>	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>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.</p>
 <p>External confirmations</p>	<p>We did experience delays in obtaining two external confirmations; however, we have had the full cooperation of management.</p>
 <p>Related parties</p>	<p>We did not identify any significant matters relating to the audit of related parties.</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.
 <p>Going concern</p>	<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
	Subsequent events	<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>
	Matters related to fraud	<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 Council, confirming that</p> <ol 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: <ol 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.

James Collins, Director

Mazars

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

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.

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