

Annual Audit Letter

Gateshead Council

Year ending 31 March 2019





CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for Money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers 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.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Gateshead Council for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none">• The other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 6 September 2019 we reported to the group auditor in line with the requirements applicable to the Council's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to both the Accounts Committee and the Audit & Standards Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019.

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure.	Council - £14.143 million Group - £14.274 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	Council - 425k Group - £428k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Members allowances - Senior Officer Remuneration - Exit Packages	£117k £1k £431k

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Standards Committee within the audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls (relevant to Council and Group accounts)</p> <p>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>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> Accounting estimates impacting on 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. 	<p>Our work provided the assurance we sought and did not highlighted any material issues to bring to your attention.</p>
<p>Risk of fraud in revenue recognition in relation to fees, charges and other income (relevant to Council accounts only)</p> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and grant income.</p> <p>However, we do not feel that sufficient scope exists to rebut this risk in respect of the recognition of fees, charges and other income given the demand led nature of these revenue streams. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>We:</p> <ul style="list-style-type: none"> substantively tested fees, charges and other income to ensure it had been correctly classified and recognised; tested journals; and obtained direct confirmation of year-end bank balances and tested the reconciliations to the ledger. 	<p>Our work provided the assurance we sought and did not highlighted any material issues to bring to your attention.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

Identified significant risk	Our response	Our findings and conclusions
<p>Property, plant and equipment revaluation (relevant to Council accounts only)</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 PPE.</p> <p>Although the Council employs an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>	<p>We considered the Council's arrangements for ensuring that PPE values were reasonable and used an external expert (Gerald Eve) to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We also assessed the competence, skills and experience of the valuer.</p> <p>Where necessary we also performed further audit procedures on individual assets to ensure that the basis and level of revaluation were appropriate.</p>	<p>Our work provided the assurance we sought and did not highlighted any material issues to bring to your attention.</p>
<p>Defined benefit liability valuation (relevant to Council and Group accounts)</p> <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>	<p>We discussed with key contacts the significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is carried out annually by the NAO's consulting actuary (PWC).</p>	<p>Our work provided the assurance we sought and did not highlighted any material issues to bring to your attention.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to areas of management judgement

Identified management judgement	Our response	Our findings and conclusions
<p>Valuation of the Council's investment in Newcastle airport (relevant to Council accounts only)</p> <p>The valuation of the Airport shares held by Gateshead Council (along with other North East Councils) had remained unchanged for some years.</p> <p>In 2018/19, the Council has obtained an external valuation, from Grant Thornton via the lead Authority, South Tyneside MBC.</p>	<p>We carried out a critical review of the basis of valuation of the Council's investment in Newcastle Airport, including the use of our own internal expert.</p>	<p>Our work provided the assurance we sought and did not highlighted any material issues to bring to your attention.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency

There is no up to date service level agreement (SLA) in place between the Council and The Gateshead Housing Company (TGHC).

Potential effects

This may lead to arrangements between the two parties being out of date.

Recommendation

Given the services provided by TGHC to the Council, the current SLA needs to be up to date.

Management response

It is proposed that the current Management Agreement is varied by way of an exchange of letters between the Council and TGHC setting out new performance metrics, reporting a monitoring processes in order to bring the monitoring of performance quickly in line with current requirements and best practice. The Council will continue to engage with the Regulator for Social Housing to determine whether their approval of the variations is required.

It is also proposed that a review of the current model for delivery of the management of the Council's housing stock be carried out. On completion, a further report will be presented to Cabinet on options for the future governance and delivery arrangements for the management of council housing prior to wider consultation.

In the meantime, Cabinet agreed on 16 July 2019 to the renewal of the Management Agreement for a period of up to two years to allow time for the review to be concluded and any revised arrangements implemented.

Description of deficiency

Our work identified that the rules relating to privilege accounts were not outlined in the IT Security policy nor in the other standard, procedures and policies.

Potential effects

Although high privilege access to IT systems is only granted to authorised staff, without clear guidance on who they should be issued to and how they should be used, there could be inappropriate or fraudulent accesses to IT resources and/or fraudulent or unintentional data alteration or entry.

Recommendation

Create policies for privilege accounts.

Management response

The Domain Policy was updated in April 2019 and now covers privilege accounts.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

Description of deficiency

We undertook 100% testing of leavers during 2018/19 to determine if access from the following IT systems - Active Directory, Agresso, Capita, iTrent or CareFirst - had been removed within one week of leaving dates as recorded by Human Resources (HR). We identified that

- 2 leavers did not have access to Active Directory removed within one week of leaving;
- For Agresso system 7 leavers identified who had not been removed from the system as at the date of testing. Mitigating controls were in place, in that all of these leavers had been removed from the Active Directory;
- Within Capita system 2 leavers were identified who had not been deactivated on Capita however in both cases access to Active Directory had been removed;
- Within CareFirst system one leaver still had access to this system however Active Directory access had been promptly removed.

Potential effects

If leavers continue to have access to IT systems when they are no longer employees there is a risk of

- Inappropriate or fraudulent accesses to IT resources
- Fraudulent or unintentional data alteration or entry.

Recommendation

Ensure that existing policies and procedures are always implemented to ensure that Assyst tickets are raised for leavers and/or that HR reports are complete.

Management response

Active Directory -

Existing IT policies and procedures were followed and Assyst tickets were raised for all leavers which appeared on the leavers report. The two cases mentioned were very specific in that the leaver information was input into the HR/Payroll system very late – the leaving date was already past the one week deadline of them leaving. This caused them not to appear on the report as their leaving date was outside the report parameters for the run period.

Agresso System –

- Agresso users cannot be terminated within in one week window as the key source document is from Payroll received one month in arrears e.g. iTrent June leavers list emailed by Agresso Helpdesk 16.07.2019
- The Agresso System Administration team / Helpdesk run annual and ad-hoc reports to identify and park users that have not logged in within the last 6 months
- The Agresso Helpdesk receives emails from [Assyst.net](#) informing where possible Agresso users have left the Council
- Risk is minimised in instances where Agresso users have left and their user accounts are still active, the associated mitigation being supported by menu access roles e.g. enquiry user roles represent very low risk as no transactional access, where transaction entry roles exist and linked to users that have left are subject to online approval e.g. requisition entry is subject to on system workflow approval by e.g. budget holders

Capita System -

Monthly report automatically revokes access if user hasn't logged on for six months.

Carefirst System -

This user had not been ended at the time but was done immediately after being discovered. We have recently been working with IT services in implementing a process to receive notifications when they are notified of leavers who access CareFirst (and vice versa), further mitigating the risk of missing anyone who has left the service / council.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

Description of deficiency

The iTrent and Capita system users are not regularly reviewed to identify any out of date user accesses.

Potential effects

Staff who no longer require access to systems should be promptly removed to prevent inappropriate or fraudulent accesses to IT resources or fraudulent or unintentional data alteration or entry.

Recommendation

Officers should ensure that the access rights of out of date users are removed.

Management response

Reports will be issued to relevant managers to as part of year end procedures to ascertain if any roles assigned need removed. If a core user left employment, they wouldn't be able to log into iTrent from anything other than a networked PC.

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

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

Potential effects

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

Recommendation

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

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

2018/19 update

Our work has identified that there is minimal risk of Active Directory generic accounts leading to problems as a separate log-in is required for these accounts. We therefore haven't repeated recommendation this year .

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our 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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor's report, issued to the Council on 31 July 2019, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>A formal Council Constitution is in place that sets out the scheme of delegation for decisions. This was updated in May 2019 and is available on the Council's website.</p> <p>The Council have clear decision-making processes in place along with clear governance structures which are reviewed regularly and updated when necessary to ensure they remain fit for purpose.</p> <p>The Annual Governance Statement provides a summary of the governance framework and management organisational arrangements in place to ensure informed decision-making and explains how assurance on the effectiveness of these arrangements in the year has been provided to the Audit and Standards Committee.</p> <p>The Council's system of internal control is subject to review by Internal Audit, who have given an opinion that there continues to be an adequate system of internal control in place.</p>	Yes
Sustainable resource deployment	<p>Council formally approved the 2018/19 budget of £203.466 million at the meeting on 22 February 2018. During the year, the Council received a further £3.477 million of funding, resulting in total available revenue funding of £206.943 million. The additional funding was mainly in relation to Government grants.</p> <p>Included within the approved budget was the requirement to achieve savings of £13.650 million during the year (see below for the results of our work on these savings).</p>	Yes

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Cabinet received the 2018/19 outturn report on 25 June 2019. The report identified that the net expenditure position was £205.804 million, following a movement in earmarked reserves of £3.940 million which was in line with the revenue budget approved by members on 22 February 2018. This position extends the Council's track record of delivering increasingly challenging revenue outturns within budget.</p> <p>The Council ended 2018/19 with general reserves of £14.807 million, an increase of £1.139 million from 2017/18. A further £31.848 million was also held in earmarked general fund reserves in line with the level anticipated when the budget was approved.</p> <p>The level of general fund balances is approved annually by Council as part of the MTFS review. The Capital Strategy reflects the Council's priorities. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in this strategy. The implications of the capital programme are appropriately reflected in the MTFS.</p> <p>In our Audit Strategy Memorandum we identified a significant risk in relation to this criteria. In order to assess the robustness of the Council's plans, we have:</p> <ul style="list-style-type: none"> • completed testing of the achievement of the Council's monitoring and action plans for a sample of savings included in the budget; • reviewed the Medium-Term Financial Strategy; • reviewed budget monitoring reports and other finance updates; and • reviewed progress in identifying further savings. <p>Our findings from this work are outlined below.</p> <p>Achievement of 2018/19 savings programme</p> <p>Included within the approved budget was the requirement to achieve savings of £13.650 million during the year (see below for the results of our work on these savings). This target was made up of individual projects, each with a savings target. These amounts were deducted from base budget allocations. If any service identified that it could not meet any of the savings identified then it was required to make alternative savings from other budgets within the service.</p>	



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The final outturn for achieved savings was £7.846 million, meaning that the Council achieved approx. 57% of the target, a substantial reduction on the 2017/18 saving of 71% . This reduction was due to the non delivery of a number of schemes and has resulted in the unachieved savings being carried forward into 2019/20. This highlights the ongoing challenge to achieve savings in a financially challenging environment. However the Council managed to make compensating savings elsewhere to achieve a reported underspend of £1.139m.</p> <p>We tested a sample of the 2018/19 savings plans and assessed delivery against the target level of savings. The main issues identified were in relation to the non delivery of savings relating to Care, Wellbeing and Learning schemes and were due to a delay in embedding arrangements. Work is ongoing to strengthen arrangements in this area.</p> <p>Arrangements for achievement of 2019/20 savings programme</p> <p>Included in the Council’s 2019/20 budget, approved by Council on 21 February 2019, is a savings target of £13.113 million. Officers have carried out detailed work in this area and have identified savings plans for a number of individual projects to achieve this target.</p> <p>The Council has introduced new arrangements to strengthen the budget framework and the revenue monitoring process for 2019/20 and beyond. This framework will introduce clear responsibilities so that budget holders will be held accountable for the delivery of their budget areas.</p> <p>The same detailed monitoring arrangements for the savings plans remain in place. Based on our review of the arrangements in place and management’s responses to our challenge on the deliverability of a sample of savings plans we have no issues to report however officers do acknowledge that achieving the required savings remains challenging.</p>	



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Review of 2020/21 savings target</p> <p>The Councils medium term financial strategy has identified a 2020/21 funding gap of £13.564 million. The process of working with Directorates to identify savings has already begun. When a list of savings schemes has been identified, due by Autumn 2019, it will then be challenged by both officers and members before being subject to a public consultation exercise which is due to begin in November 2019 and will last approx. 6 weeks. The outcome of this consultation will be fed back into the process before a detailed savings plan will be produced and challenged as part of the 2020-21 budget process.</p> <p>Review of the Medium Term Financial Strategy (MTFS)</p> <p>Previously, the Council have presented an update MTFS to Cabinet in July every year however due to the ongoing delays in the Government issuing future funding guidance to Councils, (for example, delays due to Brexit, Spending review and Green Paper on social care) this will now not be reported until October 2019. However the MTFS approved in July 2018 covers the period 2019/20 to 2023/24 and therefore this covers the period of our work. Despite the above, early work on the MTFS refresh is progressing well. The Council's financial challenge, based on current financial guidance outlines a funding gap of £65 million over the next 5 years with 40 million over the next three years.</p> <p>Due to the scale of the ongoing financial challenge, the Council have reviewed and updated their budget framework and revenue monitoring process to take account of the challenges. The cumulative impact of the financial pressure over a number of years means that the ability to deliver the budget from underspends in other areas is rapidly diminishing.</p>	Yes
Working with partners and other third parties	<p>The Council has written procedures for procuring products and services, which are within its Constitution. Contract Procedure Rules outline the financial regulations currently in place.</p> <p>The Council's risk register includes a strand on partnership working due to the importance of this area. It is involved in a number of significant partnerships, including:</p> <ul style="list-style-type: none"> • South Tyne and Wear Waste Management Partnership. • Gateshead Regeneration Partnership. 	Yes

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Consistent
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power 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 statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We received questions from one member of the public.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. We submitted this information to the NAO on 6 September 2019.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the audit panel in January 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice*	£100,329	TBC

* We are awaiting approval from PSAA for the variation to the scale fee

Our final fee is expected to be higher than the scale fee set by PSAA due to the need to audit the Group Accounts which were included in the Council's financial statements. Discussions have been held with PSAA and we are awaiting approval of our variation request.

Fees for other work

During the year, the Council commissioned us to carry out the work outlined in the table below –

Area of work	2018/19 fee	2017/18 fee
Housing Benefit Subsidy Claim	£10,000	£10,615
Pooling of Housing Capital Receipts Return	£1,800	£1,800
Gateshead 3-7 School Centred Initial Teacher Training (Gateshead 3-7 SCITT)	£2,250	£2,250
Teachers' Pensions Return	£3,750	£3,750
Review of Internal Audit against Public Sector Internal Audit Standards (work to be carried out in late 2019)	£4,500	N/A

As part of the 2019/20 audit we have been commissioned to carry out a review of Internal Audit against Public Sector Internal Audit Standards. This work will be carried out in late 2019 at a cost of £4,500.

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020

Financial outlook

The Council continues to make good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions.

The Council's refreshed MTFS, due in October 2019, will need to take into accounts a number of upcoming issues including Brexit and the Spending Review. This represents a significant challenge to the Council's effective financial planning and medium term financial sustainability.

Whilst the Council has a good record of delivering savings, it has set itself a challenging target of £13.113 for 2019/20. It will become even more difficult to deliver the savings required whilst also aiming to minimise impact on service delivery.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. The Council (and the Group) will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

Operational challenges

The Council's key challenges for the future include:

- the ongoing delivery of the estimated funding gap identified in the MTFS along with the potential financial instability which Brexit may bring;
- prioritising local economic growth to generate income to help sustain Council service delivery in key areas, including the regeneration work being carried out at the Gateshead Quays and Baltic Business Quarter;
- continuing the delivery of the five pledges included in the Council's new strategic approach Making Gateshead a Place Where Everyone Thrives; and
- managing the cost increases in the care sector as a result of the increases in the number and rising need levels of both adults and children.

6. FORWARD LOOK

Next year's audit and how we will work with the Council

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support the Council by:

- continued liaison with the Council's Internal Auditors to minimise duplication of work;
- attending Audit and Standard Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the officers to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

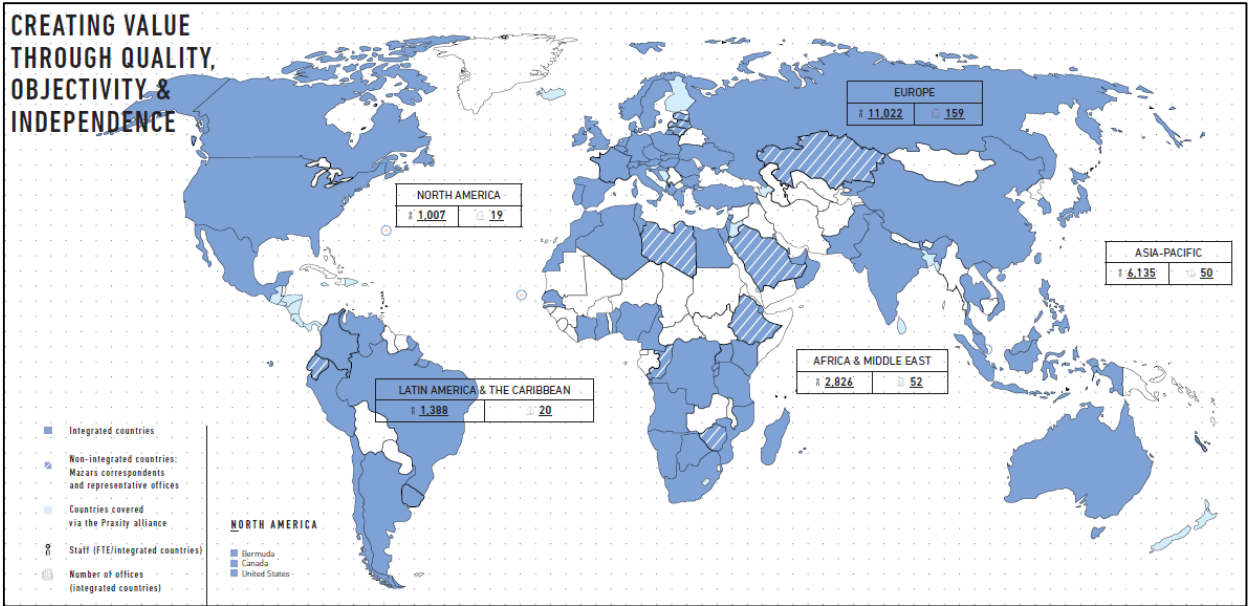
The Council has taken a positive and constructive approach to our audit and we wish to thank members and officers for their support and co-operation during our audit.

MAZARS AT A GLANCE

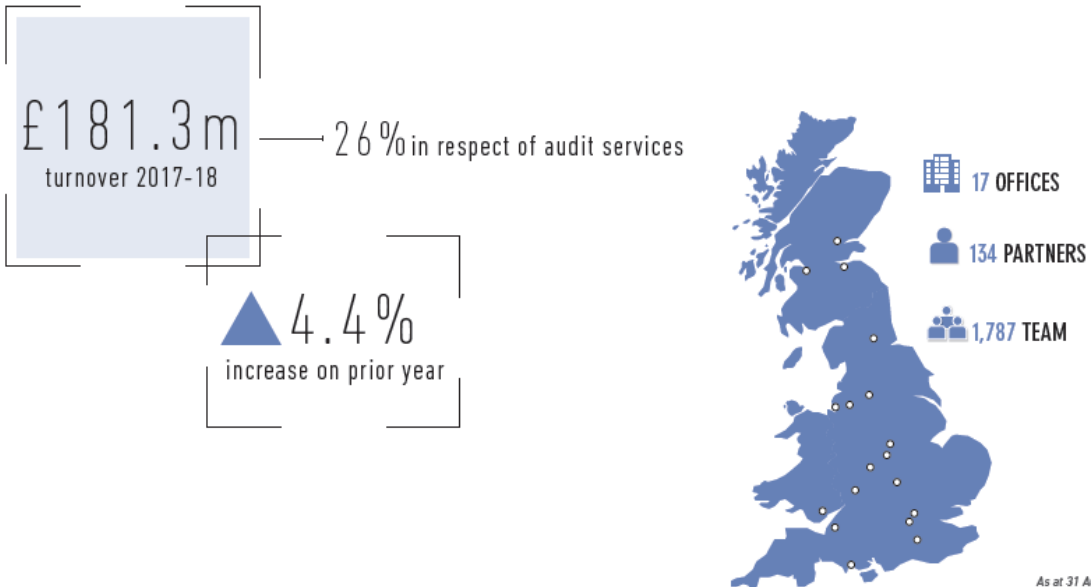
Mazars LLP

- Fee income €1.6 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

Mazars Internationally



Mazars in the UK



CONTACT

Partner: Cameron Waddell

Phone: 0191 383 6300

Mobile: 0781 375 2053

Email: cameron.waddell@mazars.co.uk

Senior Manager: Jim Dafter

Phone: 0191 383 6300

Mobile: 07815 876 042

Email: jim.dafter@mazars.co.uk