

Annual Audit Letter

Gateshead Council

Year ending 31 March 2020





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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 (the Council) for the year ended 31 March 2020. 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 30 November 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council and Group's financial position as at 31 March 2020 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 2019/20.
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.</p>
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 2020.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under section 24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO on 4 November, we reported to the group auditor in line with the requirements applicable to the Council's WGA return on 16 February 2021.</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 Group and whether they give a true and fair view of the Council and Group's financial position as at 31 March 2020 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 and Group'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, stated that in our view, the financial statements give a true and fair view of the Council and Group's financial position as at 31 March 2020 and of its financial performance for the year then ended. The report included emphasis of matter paragraphs in relation to material uncertainties in the valuation of the Council's valuation of land and properties and the Council's share of pension fund property investments.



2. AUDIT OF THE FINANCIAL STATEMENTS

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 the Council. 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 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure	£12.952 million (Council) £12.958 million (Group).
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£389,000 (Council) £389,000 (Group)
Specific materiality	We have applied a lower level of materiality to the following area of the accounts: <ul style="list-style-type: none">- Senior Officer Remuneration- Members Allowances- Exit Packages	£5,000 £124,000 £122,000



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 and Group's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Council within our 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 audit work has provided the assurance we sought and has not identified any material issues to bring to your attention. There is no indication of management override of controls.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
<p>Revenue recognition (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 addressed this risk by:</p> <ul style="list-style-type: none"> • substantively testing fees, charges and other income to ensure it had been correctly classified and recognised; • testing journals; and • obtaining 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

Identified significant risk	Our response	Our findings and conclusions
<p>Defined benefit liability valuation (relevant to Council and Group accounts)</p> <p>The financial statements contain material pension entries in respect of 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>The risk has increased as a result of the economic downturn arising from COVID-19.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> discussing 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>The Council included in its revised financial statements, a disclosure in respect of material uncertainty due to Covid-19 for the pension fund property investments. We therefore updated our auditor's report wording to draw attention to this.</p> <p>The Pension Fund auditor reported non-material findings in their testing of pension assets figure and the Council's share of this would equate to £3.443 million. This was included in our Audit Completion Report as an unadjusted misstatement.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
<p>Property, plant and equipment valuation (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 property, plant and equipment (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>The risk has increased as a result of the economic downturn arising from COVID-19.</p> <p>We note also the Valuation Practice Alert issued by the valuation body The Royal Institute of Chartered Surveyors (RICS) recently. This highlighted the use by valuers, where appropriate, of material uncertainty declarations in their valuation reports.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • considering the Council's arrangements for ensuring that PPE values were reasonable; • using an external expert (Gerald Eve) to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer; • using an external expert (Cluttons) to provide data to enable us to assess the reasonableness of the valuation of the Council's waste facility; • assessing the competence, skills and experience of the valuer; and • where necessary, performing further audit procedures on individual assets to ensure that the basis and level of revaluation were appropriate. 	<p>We concluded our review of the valuation of the Council's shared waste PFI facility, with a resulting reported overstatement of £5.964 million. The Council amended the Statement of Accounts for this issue.</p> <p>Following our audit testing of the PPE valuation rolling programme, the Council amended the Statement of Accounts to recognise that schools (primary and special schools) were understated by £12.787 million.</p> <p>The Council included in its revised financial statements, a disclosure in respect of material uncertainty due to Covid-19 on the valuation of the Council's land and buildings. We therefore updated our auditor's report wording to draw attention to this.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
<p>Valuation of short and long-term debtors</p> <p>There is an increased risk that the valuation of debtors, both short and long-term, will be impacted by the economic downturn.</p> <p>The Council's long-term debtors includes loans to other bodies and Newcastle Airport.</p> <p>The Council also has provided for the potential impairment of short-term debtors which may be impacted by the economic downturn.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> critically reviewing the basis of valuation of short and long-term debtors; challenging the assumptions made by the Council; and requiring specific representations from management. 	<p>There were no significant matters arising we are required to report to you.</p>

Identified enhanced risk	Our response	Our findings and conclusions
<p>Valuation of long-term investments (Airport shares and other investments)</p> <p>The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, namely Newcastle Airport.</p> <p>The risk has increased as a result of the economic downturn arising from COVID-19.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> assessing the basis of valuation for the Council's shares in the Airport; critically reviewing the assumptions made by management; and assessing whether disclosures were in line with the Code of Audit Practice. 	<p>There were no significant matters arising we are required to report to you.</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	When preparing Note 10 Government & non-government grants of the financial statements the data as per Agresso is taken and then manual amendments are made. Given the quantity of data, this year it amounted to over 8,000 lines, manual review is very time consuming and is prone to errors.
Potential effects	When large amounts of data are involved manual preparation can lead to errors. Our audit identified a number of small errors in terms of value.
Recommendation	Data from Agresso should require as little manipulation as possible when preparing the financial statements.
Management response	This is inevitable given the large number of grants received and the number of transactions. The approach to compiling this information will be considered as part of the accounts review process.

Description of deficiency	Beacon property records should be updated. In our testing we became aware that the same property was aligned to two Beacons (Springwell Tarslag and Springwell Dorran) which would indicate there is little difference in these Beacons.
Potential effects	Incorrect valuations of council dwellings.
Recommendation	Review Beacon properties to ensure they are appropriate. Ensure individual addresses aligned to the Beacon property are appropriate.
Management response	This will be completed as part of the review process.



2. AUDIT OF THE FINANCIAL STATEMENTS

Description of deficiency	Errors were identified in relation to the calculation of bad debt provision for council tax debt, business rates debt and housing benefit overpayments debt. The error in calculating bad debt provision for housing benefit overpayments debt has been ongoing for a number of years.
Potential effects	Provision for bad debts is misstated which could result in a material misstatement in the accounts.
Recommendation	All bad debt provision calculations should be reviewed to ensure they have been correctly calculated.
Management response	This will be completed as part of the review process.

Description of deficiency	On the Housing Rents walkthrough, the formal document which approves sign off of the rent calculations has not been signed by an accountant and business partner.
Potential effects	Incorrect rent charges are made.
Recommendation	Sign off of the rent calculations should be made by an accountant and business partner.
Management response	This will be reviewed as part of the review process and incorporated into future processes.



2. AUDIT OF THE FINANCIAL STATEMENTS

Prior year internal control recommendations

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.
Position for 2019/20	Following the Cabinet decision on 16 July 2019, a revised management fee letter was agreed which included specific key performance indicators (KPI's) to strengthen the Council's oversight of TGHC's performance. An updated schedule of performance meetings between TGHC and the Council was also agreed as part of the process.

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.
Position for 2019/20	No evidence found of weaknesses in relation to this control in 2019/20 testing. Recommendation not repeated.



2. AUDIT OF THE FINANCIAL STATEMENTS

Description of deficiency	<p>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</p> <ul style="list-style-type: none"> • 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	<p>If leavers continue to have access to IT systems when they are no longer employees there is a risk of</p> <ul style="list-style-type: none"> • Inappropriate or fraudulent accesses to IT resources • Fraudulent or unintentional data alteration or entry.
Recommendation	<p>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.</p>
Position for 2019/20	<p>No evidence found of weaknesses in relation to this control in 2019/20 testing. Recommendation not repeated.</p>

Description of deficiency	<p>The iTrent and Capita system users are not regularly reviewed to identify any out of date user accesses.</p>
Potential effects	<p>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.</p>
Recommendation	<p>Officers should ensure that the access rights of out of date users are removed.</p>
Position for 2019/20	<p>No evidence found of weaknesses in relation to this control in 2019/20 testing. Recommendation not repeated.</p>



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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Our audit approach

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; and
- working with partners and other third parties.

Our auditor’s report, stated that 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 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The Council have clear decision-making processes in place along with clear governance structures which are reviewed regularly and updated when necessary to ensure they remain fit for purpose.</p> <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'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> <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>	Yes



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Council formally approved the 2019/20 budget of £206.999 million at the meeting on 21 February 2019. During the year, the Council received a further £0.263 million of funding in relation to the Better Care fund, resulting in total available revenue funding of £207.262 million.</p> <p>Included within the approved budget was the requirement to achieve savings of £13.113 million during the year (see below for the results of our work on these savings).</p> <p>Cabinet received the 2019/20 outturn report on 23 June 2020. The report identified an overall surplus of £0.237 million. In addition, the Council received an in-year VAT refund of £3.893 million in relation to Leisure Services, resulting in an overall surplus of £4.130 million. This outcome extends the Council's track record of delivering increasingly challenging revenue outturns within budget.</p> <p>The Council ended 2019/20 with general reserves of £11.058 million, a reduction of £3.749 million from 2018/19. A further £43.391 million is held in earmarked general fund reserves. 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 updated 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 2019/20 savings programme</p> <p>Included within the approved budget was the requirement to achieve savings of £13.113 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.</p> <p>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>	Yes



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The final outturn for achieved savings was £10.470 million, meaning that the Council achieved approx. 80% of the target, a substantial increase on the 2018/19 saving of 58% . The unachieved savings being have been carried forward into 2020/21. 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 £0.237 million.</p> <p>We tested a sample of the 2019/20 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 Children, Adults & Families, Public Health & Wellbeing and Housing, Environment & Healthy Communities. Work is ongoing to strengthen arrangements in this area.</p> <p>Arrangements for achievement of 2020/21 savings programme Included in the Council's 2020/21 budget, approved by Council on 27 February 2020, is a savings target of £0.451 million. Officers have carried out detailed work in this area and have identified savings plans for a number of individual projects to achieve this target.</p> <p>The same detailed monitoring arrangements for the savings plans remain in place. Based on our review of the arrangements in place and management's responses to our challenge on the deliverability of a sample of savings plans we have no issues to report however officers do acknowledge that achieving the required savings remains challenging.</p> <p>Review of 2021/22 savings target. The Councils medium term financial strategy has identified a 2021/22 funding gap of £16.260 million. The process of working with Directorates to identify savings has already began. When a list of savings schemes has been identified, due by Autumn 2020, it will then be challenged by both officers and members before being subject to a public consultation exercise which is due to begin in late 2020. 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 2021/22 budget process.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Council continues to have 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"> • Patrizia Limited and Ask Real Estate Limited; • Gateshead Regeneration Partnership; and • South Tyne and Wear Waste Management Partnership 	Yes



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Other information published alongside the audited financial statements	Consistent
Completion of group audit reporting requirements	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 did not exercise 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 did not receive any such objections or questions.

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.

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. We submitted this information to the NAO on 16 February 2021.



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 and Standards Committee in March 2020.

For the 2019/20 financial year, our fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£100,329	See note*
Housing Benefit subsidy claim: agreed upon procedures	£10,000	See note**
Other non-Code work		
• Pooling of Housing Capital Receipts	£2,450	£2,450
• Teachers' Pension annual return	£4,000	£4,000

* At the time of preparing this report, we are proposing additional fees to meet additional work required for:

- additional work undertaken in respect of the IAS 19 pensions liability, including:
 - consideration of COVID-19, leading to material valuation uncertainty in respect of property assets in the Pension Fund;
 - additional work to consider and report the implications of the McCloud (and Goodwin) legal cases; and
 - consideration of the impact of the Pension Fund's triennial review.
- additional work undertaken in respect of property valuations, most notably in relation to housing valuations, the rolling programme and the valuation of the waste facility;
- consideration of the impact of COVID-19 on property and pensions valuations, leading to the inclusion of emphasis of matter paragraphs in the Auditor's Report;
- additional work required to audit the Council's group accounts
- additional work required, due to the number of amendments to the draft accounts;
- additional work completed relating to the impact of COVID-19 in relation to our Value for Money Conclusion work and going concern assessment;
- the impact of the November Court of Appeal judgment on "water rates", which required additional work on the Council's potential liability arising from this judgment; and
- in common with all our public sector client, the continued regulatory focus specifically in regard to valuations and going concern, resulting in significant additional work in these audit areas.

We are not able to confirm the final amount, as any fee variations are subject to challenge and scrutiny by Public Sector Audit Appointments at the time of issuing this report.

** At the time of preparing this report, this work is on-going.



6. FORWARD LOOK

Financial outlook

The COVID-19 pandemic and the consequences of local and regional lockdowns and restrictions will have a significant impact on the UK economy for years to come. The pandemic has created significant uncertainties and pressures in the Council's medium term financial planning arrangements. Clarity over the impact will only be obtained when the virus has been brought under control and the impact on the economy becomes clearer. The Council is monitoring and updating plans but is anticipating future pressures in the income it receives. In particular, Collection Fund income is likely to be affected by any negative impact to the local and national economy. Public spending is also likely to be tightly controlled as the Government begins to manage the levels of borrowing incurred.

There is also uncertainty stemming from the UK's new trading arrangements with the European Union. While this may not directly impact on the Council's supply chains, the impact on the overall economy may create indirect pressures.

The Council recognises the importance of continuing to monitor and refresh its medium term plan so that potential funding shortfalls can be identified as early as possible and mitigations identified to minimise the impact on services.

Operational challenges

The Covid-19 pandemic has had a significant impact on the services provided by the Council. Services have either been suspended or redesigned in order for them to be delivered in a safe manner for officers and users. Aside from Covid-19, other key challenges faced by the Council include:

- generating the savings necessary to deliver the medium term financial strategy;
- responding to the demand and funding pressures faced, for example in Children's services;
- maintaining available reserves to support the budget, reserves are reducing and the available balances may soon reach the minimum needed to deal with unforeseen circumstances and risk; and
- addressing future uncertainties around the funding position as much depends on the outcome of the comprehensive spending review, fair funding review and the measures that will be taken in relation to the future operation of the business rates system. However, it seems unlikely that the overall financial position for the Council will improve sufficiently to allow it to defer any of the difficult decisions that are still needed.

How we will work with the Council

In terms of the technical challenges around the production of the statement of accounts, we will continue to offer accounting workshops to finance officers, and the audit team will continue to share our knowledge of new accounting developments. We will also be on hand to discuss any issues as and when they arise.

Given the impact of COVID-19 on the 2019/20 reporting timetable, there is some uncertainty in respect of the 2020/21 completion dates. We will continue to work with the finance team to ensure timely completion of our audit work.

We will also share relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.



6. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

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

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.



6. FORWARD LOOK

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings of this review have been considered by the Ministry of Housing, Communities and Local Government and a response was issued on 17 December 2020. We look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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