

Annual Audit Letter

Gateshead Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 5 to 6); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 7 to 9).**

Audit opinion and financial statements

1 The Council provided good quality financial statements and working papers before the deadline. I gave an unqualified opinion on 24 September 2010.

Value for money

2 The Council continues to improve its arrangements for securing value for money. I gave an unqualified conclusion at the same time as I gave my audit opinion.

Current and future challenges

3 The Council faces increasing challenges as it tries to improve performance in the current economic climate. It needs to make significant savings during 2010/11 and the following years because of reducing grant funding.

4 The Council is well-placed, having already started its Fit for the Future programme and service reviews and it has reserves to support spending in the short term. Nevertheless, the challenge is significant.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 24 September 2010, well within the statutory target date.

Overall conclusion from the audit

5 The Council provided good standard accounts and supporting working papers, within statutory and agreed timescales.

6 The Council has recovered more cash invested in Heritable Bank. It expects to recover at least 90 per cent of the investment in the next two years.

7 The financial statements were materially correct. Some amendments were made to improve the presentation of the accounts but the Council did not correct two errors:

- a change in accounting requirements meant that schools financed under PFI agreements had to be accounted for as the Council's assets and be on the balance sheet. The statements should have reflected transactions as if the schools had always been on balance sheet. Whilst the schools are included on the balance sheet, downward revaluations of £3.659m are not reflected in the value; and
- the Statement of Total Recognised Gains and Losses includes an 'other' gain of £1.07m which is effectively a balancing figure.

8 I gave an unqualified opinion of the Council's statements on 24 September 2010.

Financial reporting

9 My letter last year reported that the Council expected to recover 80 per cent of its £2.8m deposit with Heritable, a wholly owned UK subsidiary of Landsbanki, an Icelandic bank.

10 Since then, the amount recovered has exceeded early estimates. The Council has received dividends of £0.966m and estimates it will recover almost 90 per cent of its investment by March 2012. The Council regularly reviews this estimate to ensure the expected loss is understood and accounted for properly.

11 International Financial Reporting Standards (IFRS) will apply for the first time in 2010/11. The change will mean additional work for the Council in preparing statements under the new standards. It will also have to restate the 2009/10 statements to reflect IFRS. The Council is making progress with its plan to implement IFRS. Whilst there has been some slippage, plans to restate the 2009/10 statements by the end of December 2010, will if achieved, allow enough time to identify issues for the first full year of implementation.

Internal control

12 My testing of controls over journals, which transfer amounts within the ledger, identified that journals were not always authorised as required by financial procedures.

13 My audit did not identify any accounting errors from this procedural shortfall. Many of the unauthorised journals were for small amounts, and there are compensating access controls. Officers are reviewing procedures to ensure appropriate controls are in place and operating effectively.

14 The Council is aware of weaknesses in financial systems supporting adult social care. These are disclosed in the Annual Governance Statement and the Council has action plans in place to address the weaknesses, in particular:

- identifying existing contractual arrangements and developing standard contract terms;
- improving arrangements for clients with personal budgets and direct payments; and
- reviewing and improving systems for financial assessments.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed the Council's performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

15 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

16 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

17 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

18 I assessed the Council's arrangements to achieve economy, efficiency and effectiveness in its use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

19 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
Managing resources	
Strategic asset management	Yes
Workforce	Yes

20 I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. The Council has managed its finances effectively, and has delivered efficiencies and improved outcomes.

21 There have been improvements in the Council's arrangements. These include:

- programme of service reviews to both identify savings and improve service delivery;
- identification of services not making use of Council contracts. Greater use of contracts will save money;
- property reviews, to free-up surplus buildings (although this is still at an early stage);
- reduced sickness levels; and
- scenario planning to help manage finances over the next three years.

22 The Council has also identified scope for further improvement, including:

- improving adult social care services, including the supporting information systems; and
- further working with partners. There may be more opportunities to share services and get more from the resources available..

23 The Council recognises that the financial pressures it faces demand more far-reaching measures. It is working on transformational change through its overarching Fit for Future programme. This is an in depth review of support services to maximise efficiency and ensure value for money. Service reviews are also planned, to test whether services are being delivered in the most efficient way.

Approach to local value for money work from 2010/11

24 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

25 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

26 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial position

27 The main challenge facing the Council is to maintain and improve service delivery with reduced resources.

28 The government has made it clear that the public sector, including local authorities, will have to reduce expenditure considerably because of the economic conditions nationally. Some reductions in grants for 2010/11 have already been announced. The Council is revising its budget to reflect the lower income levels and it expects to use reserves to support expenditure. This will allow time for Fit for Future and service reviews to identify efficiencies in a managed way. However, the Council will have to take further action from 2011/12.

29 The government confirmed in its Comprehensive Spending Review that grants to local authorities would fall by some 28 per cent over the next four years, with the biggest reductions in the first two years. In addition, there is to a 45 per cent reduction in central government capital grants. However, the Council will not know the exact implications until the provisional settlements are published, possibly not until December 2010.

30 The Council completed a detailed review and update of its strategic Vision 2030 during the summer. This will help the Council to prioritise spending on those areas important to local people. Detailed work has started on the 2011/12 budget, planning for a range of potential financial outlooks. This allows flexibility until funding levels are known. The Council knows that it will have to make significant changes, including staff reductions.

Closing remarks

31 I have discussed and agreed this letter with the Chief Executive and the Strategic Director, Finance and ICT. I will present this letter and will provide copies to all members.

32 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit plan	April 2009
Opinion Plan	April 2010
Annual Governance Report	September 2010
Opinion on the financial statements	September 2010
VFM conclusion	September 2010
Annual audit letter	November 2010

33 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Steve Nicklin

District Auditor

November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements, annual governance statement and whole of government accounts	199,550	199,550	0
Value for money	98,830	98,830	0
Total audit fees	298,380	298,380	0

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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