

# Annual Audit Letter

Gateshead Metropolitan Borough Council

Audit 2008/09

December 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

**This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

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## Audit opinion

- 1 I issued an unqualified opinion on the 2008/09 financial statements.
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## Financial Statements

- 2 A small number of errors were amended as a result of our audit. One non-material error was not amended. Members confirmed that they did not wish to amend this error because it was not material to the financial statements, and it had no impact on the General Fund Balance.
  - 3 My view remains that the financial statements continue to be of a high standard and are well supported by working papers.
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## Value for money

- 4 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
  - 5 Throughout the year, I have made recommendations where appropriate to assist the Council in meeting its responsibilities and to help support improvement. Recommendations have been agreed with officers and we will continue to monitor progress as part of next year's work.
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## Independence

- 6 The audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.
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# 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.**

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## Significant issues arising from the audit

- 7 I issued an unqualified opinion on the financial statements. Once again, officers were helpful and responsive to the queries we raised, and I appreciate the assistance that was provided in enabling us to undertake our audit work effectively. My view remains that the financial statements continue to be of a high standard and are well supported by working papers.
- 8 A small number of errors were amended as a result of our audit. One non-material error was not amended. Members confirmed that they did not wish to amend this error because it was not material to the financial statements, and it had no impact on the General Fund Balance.
- 9 My Annual Governance Report set out the areas where we evaluated the action taken by the Council. The main area for further action was our suggestion that officers discuss with the Council's partners the best way to get the fair value of the airport investment updated in future, and whether a more comprehensive valuation is needed. In addition, it is important that the Council monitors progress on equal pay claims so that potential liabilities can be better estimated in future.
- 10 I also noted the latest position relating to the Council's deposit of £2.8m with Heritable, a wholly owned UK subsidiary of Landsbanki, an Icelandic bank. The creditor progress report issued by the administrators Ernst and Young in April 2009 outlined that the return to creditors was projected to be 80p in the £ by the end of 2012 with the first dividend payment of 15p in the £ due in the summer of 2009. In the event, a first dividend of 16.13p in the pound was received from the administrators in August 2009, along with a notification of the intention to pay a further 10p in the pound in December 2009. The prospects for recovery are therefore promising.

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## Material weaknesses in internal control

- 11 I did not identify any significant weaknesses in the Council's control arrangements.

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## Accounting Practice and financial reporting

- 12 I considered the qualitative aspects of the Council's financial reporting and I had no specific issues of concern to draw to your attention.

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# Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

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## Use of resources judgements

- 13** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 14** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 15** The Council's use of resources theme scores are shown in Table 2. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

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**Table 1** Use of resources theme scores

| Use of resources theme | Scored judgement |
|------------------------|------------------|
| Managing finances      | 3                |
| Governing the business | 3                |
| Managing resources     | 3                |

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- 16** Gateshead Council's overall use of resources score notified by the Audit Commission is level 3, exceeds minimum requirements – performs well.

- 17 The Council achieved a level 3 score for each of the three use of resources themes; managing finances, governing the business and managing resources. Within the detailed assessment of nine key lines of enquiry, there were seven level 3 scores and two level 2 scores (level 2 is meets only minimum requirements – performs adequately). The level 2 assessments were in respect of commissioning and procurement and asset management. In respect of commissioning and procurement, the Council has plans to make further improvements through its 'fit for future' programme, and in respect of asset management the Council is implementing a detailed action plan following our audit review of asset management.
- 18 Positive outcomes have been delivered across the Council, and examples include good progress on actions within the Gateshead Agreement and improvements in social care and educational attainment. The Council engages its local community and other stakeholders in the financial planning process. There has been significant consultation, particularly for Vision 2030, and community engagement is good. This has been reflected in the results of the recent Place survey.
- 19 The Council has a good record of efficiency improvement, achieving £25m of efficiency savings over the last three years which is £9.6m in excess of the Government's target. Savings have also been accompanied by service improvements.
- 20 However, the current economic climate is difficult and tight financial settlements can be expected in future. The challenge for the Council is to continue to identify savings and efficiencies, to refocus resources into priority areas, and generally deliver better outcomes for less resource input. Consequently, the delivery of the Council's major programmes, such as the 'fit for future' programme and the waste management partnership, and other measures such as improving asset management, will be critical to future success. Although the progress has been made, there is still the scope to bring about further significant outcomes. It is important in the current difficult economic climate that the Council also continues to invest in measures to improve its use of natural resources.
- 21 A summary of our findings against each theme are set out in Appendix 1.

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### VFM conclusion

- 22 I assessed the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out below.

## Value for money and use of resources

**Table 2 VFM criteria 2008/09**

| <b>VFM criteria</b>                               | <b>The Council has met requirements</b> |
|---|---|
| Financial planning and management                 | Yes                                     |
| Understanding costs, performance and efficiencies | Yes                                     |
| Financial reporting                               | Yes                                     |
| Commissioning and procurement                     | Yes                                     |
| Data quality                                      | Yes                                     |
| Good governance                                   | Yes                                     |
| Risk management and internal control              | Yes                                     |
| Sustainability                                    | Yes                                     |
| Asset management                                  | Yes                                     |

**23** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Local risk work

**24** We carried out a number of pieces of local risk work, most notably the following.

- Managing sickness absence.
- Review of asset management.
- Review of health inequalities.
- Good governance survey.

### Review of sickness absence

- 25** When we undertook our review in the summer of 2008, we found that the Council was not performing well in relation to the management of sickness absence. Our view, shared by officers, was that there was scope for the Council to make significant improvements in its arrangements, with the aim of improving performance, achieving significant financial benefits and contributing to the improved well being of its workforce. Several areas for improvement were identified in the Council's arrangements.
- Information systems needed to be improved and contribute more effectively to absence reduction.
  - Policies and procedures needed to be consistently followed, and services held to account where they were not followed.
  - Senior management, HR and services needed to be more proactive in monitoring the application of procedures and in promoting the right culture for improvement.
- 26** Officers have responded positively to our recommendations, and further measures have been taken to improve performance. As a consequence, sickness absence reduced from 12.4 days for 2007/08 to 10.8 days for 2008/09. We have estimated that this represents a £1.7m improvement in efficiency.

### Review of asset management

- 27** There is a good understanding across the Council of its strategic aims and objectives and how assets fit into this. Asset management planning is well integrated into wider service planning and there are many significant asset initiatives which contribute to service transformation and achievement of wider community benefits. Major investment secured for the Quayside has totally transformed it over the past five years. Partnership arrangements to maximise on the development and utility of assets are widespread. However, there was no strategic plan as such for the Council's assets as a whole and no up to date corporate asset management plan.
- 28** The following issues needed to be addressed.
- Developing a strategic plan for asset management, including links with partners.
  - An improved performance management framework, including better property information to support decisions and a role for scrutiny in asset management.
  - Improved pace of change and more rapid delivery of outcomes.
- 29** Officers have responded positively to our recommendations, and we will be following up progress during the 2009/10 audit.

### Review of health inequalities in the North East

- 30** Our review, completed jointly by the Audit Commission and Deloitte has involved public sector bodies across the North East, as well as the voluntary sector, looking at how organisations are working together to tackle health inequalities. Our draft report is currently being discussed, and we will summarise key findings and conclusions in our letter next year.

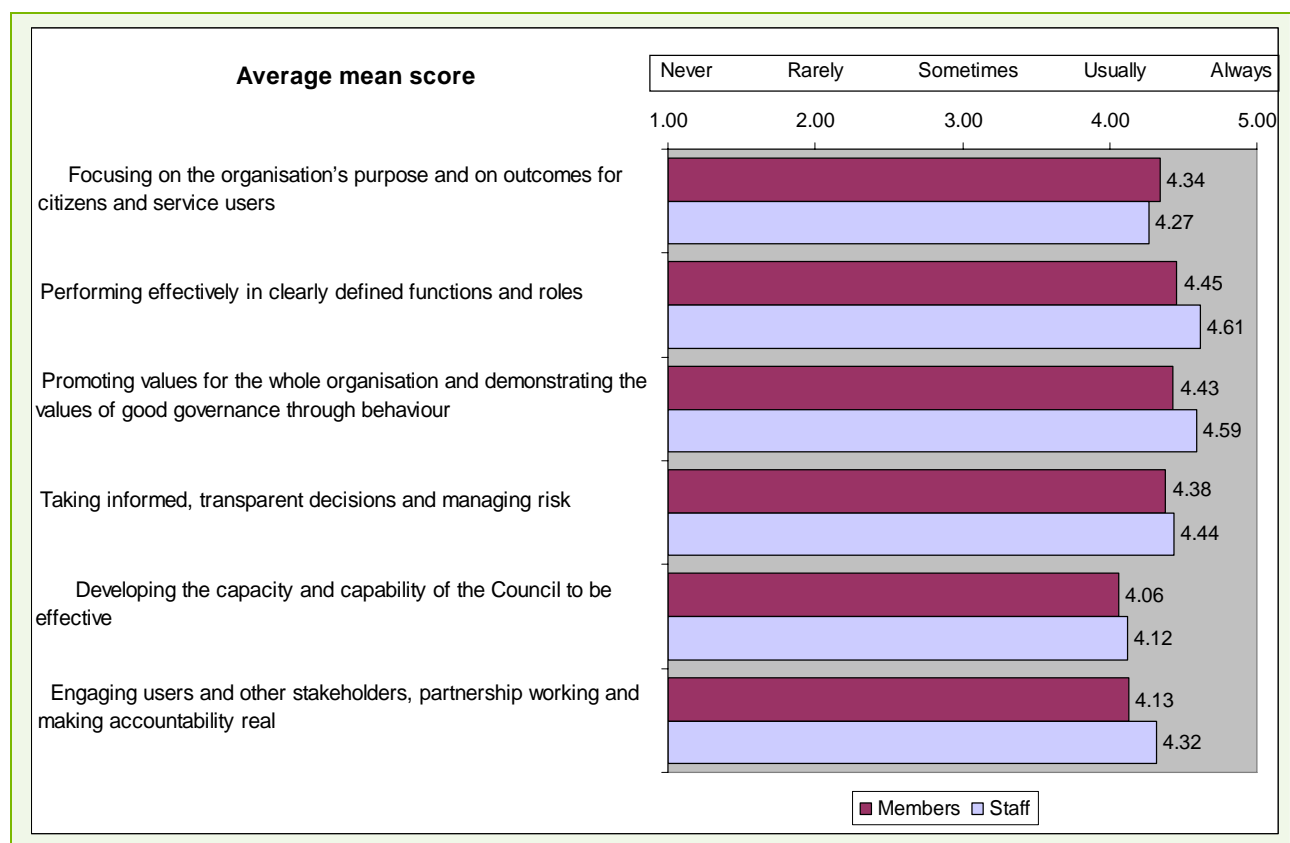


## Value for money and use of resources

### Good governance survey

- 31** We undertook a Good Governance survey as part of this year's audit. The aim was to build upon the work carried out in use of resources assessments which indicated that the Council does generally have good governance arrangements in place.
- 32** The survey provided an opportunity to assess the extent to which Members, and senior officers of the Council are aware of the framework, fully understand it and their part in it and whether it is perceived to be working in practice.
- 33** The Council survey was completed in May to August 2009, and was sent to 66 Members and 85 officers (total = 151). There were 77 respondents, an overall response rate of 51 per cent. The survey was sent to all Members and the 85 most senior officers of the Council.
- 34** The final responses for the governance survey were split 30 Members (of 66 = 45.5 per cent) and 47 officers (of 85 = 55.3 per cent).
- 35** The responses were positive overall as seen in Figure 1. More detailed survey feedback is included in our separate report.

**Figure 1 Council summary - average responses for the six themes in the survey**



# Closing remarks

- 36** I have discussed and agreed this letter with the Chief Executive and Strategic Director of Finance and ICT and it will be presented to Members with copies provided to all Members in December 2009.
- 37** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

**Table 3** Reports issued during the audit

| Report  | Date issued    |
|---|----------------|
| Audit plan  | May 2008       |
| Managing sickness absence                         | April 2009     |
| Review of asset management                        | May 2009       |
| Review of Internal Audit                          | June 2009      |
| Interim opinion work (letter)                     | June 2009      |
| Information systems risk assessment (letter)      | June 2009      |
| Supplementary opinion plan (letter)               | July 2009      |
| Annual Governance Report                          | September 2009 |
| Opinion on the financial statements               | September 2009 |
| VFM conclusion                                    | September 2009 |
| Good governance - results of the Authority survey | November 2009  |
| Use of resources report                           | November 2009  |
| Annual Audit Letter                               | November 2009  |

- 38** Our actual audit fee is the same as the original fee agreed in April 2008.

**Table 4** Audit fees

|  | Actual         | Proposed       | Variance |
|--|----------------|----------------|----------|
| Financial statements and annual governance statement | 187,100        | 187,100        | 0        |
| Value for money                                      | 91,500         | 91,500         | 0        |
| <b>Total audit fees</b>                              | <b>278,600</b> | <b>278,600</b> | <b>0</b> |

## Closing remarks

|                | Actual         | Proposed       | Variance |
|----------------|----------------|----------------|----------|
| Non-audit work | 0              | 0              | 0        |
| <b>Total</b>   | <b>278,600</b> | <b>278,600</b> | <b>0</b> |

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- 39 The Council have taken a positive and constructive approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Steve Nicklin  
District Auditor  
December 2009

# Appendix 1 – Use of resources key findings and conclusions

- 1 The following pages summarise the key findings and conclusions for each of the three use of resources themes.

## Managing finances

- 2 The arrangements in place for managing finances, including robust financial planning linked to service planning processes, have contributed towards significant outcomes. These have been achieved across the Council, and examples include good progress on the actions within the Gateshead Agreement and improvements in social care and educational attainment. The Council is also planning to deliver further significant outcomes.
- 3 The Council engages its local community and other stakeholders in the financial planning process. There has been significant consultation, particularly for Vision 2030, and community engagement is good. This has been reflected in the results of the most recent Place survey.
- 4 The Council has a good record of efficiency improvement, achieving £25m of efficiency savings over the last three years, £9.6m in excess of the Government's target. Savings accompanied by service improvement include children and adolescent mental health services, learning disability services, day services for people with learning difficulties, recovery of benefits overpayments, reductions in costly independent fostering and out of borough placements for children.
- 5 Financial reporting arrangements are sound. Budget management is good and performance management has been further developed. The arrangements for producing the statutory financial statements are effective. Reporting to the public has improved, but there is scope for further development in this area.

**Table 5** Managing finances scores

| Area                         | Score | Overall theme score |
|------------------------------|-------|---------------------|
| KLOE 1.1 Financial planning  | 3     | Level 3             |
| KLOE 1.2 Understanding costs | 3     |                     |
| KLOE 1.3 Financial reporting | 3     |                     |

## Appendix 1 – Use of resources key findings and conclusions

### Governing the business

- 6 The arrangements for commissioning and procurement are sound, but there is scope for further development in this area. The Council has embarked on an ambitious 'fit for future' programme which is looking at innovative changes in commissioning. There are other challenges in, for example, realising the potential benefits of the waste management partnership.
- 7 The Council has good arrangements to ensure that its data is accurate, reliable and relevant, through its service planning and performance management framework, supported by clear guidance, templates and protocols. This includes the use of named 'experts' to support and challenge plans, performance, quality of information and an ongoing role for the corporate service improvement team and internal audit, working with designated staff throughout the council. Performance management training has been provided on a wide scale for staff and councillors. Good progress is being made in data sharing and development of shared performance management through effective partnership arrangements.
- 8 The Council has adopted, promoted and demonstrated the principles of good governance. There is a robust ethical framework and culture. In addition to the sound arrangements, there is no evidence of any governance failing. We have recently carried out a Good Governance survey of Members and officers and this reinforces the view that robust governance arrangements are in place.
- 9 Risk management is well developed and there is a good framework of internal control. There are arrangements in place to prevent and detect fraud and corruption and these appear to be operating effectively.

**Table 6**      **Governing the business scores**

| Area  | Score | Overall theme score |
|---|-------|---------------------|
| KLOE 2.1 Commissioning and procurement        | 2     | Level 3             |
| KLOE 2.2 Data quality                         | 3     |                     |
| KLOE 2.3 Good governance                      | 3     |                     |
| KLOE 2.4 Risk management and internal control | 3     |                     |

### Managing resources

- 10 This year's assessment of managing resource is based on the Council's arrangements for sustainability and asset management.

## Appendix 1 – Use of resources key findings and conclusions

- 11 The Council has good information on energy use and carbon emissions and has set out baseline information and ambitious plans to reduce carbon emissions by 35 per cent in the next five years. It has set out a five-year programme to achieve this and has already quantified the carbon and financial implications of actions to achieve two thirds of the target. There are examples of outcomes that have already been achieved, for example, the Council reused or recycled 97 per cent of highways and building waste produced in 2008/09, it has reduced energy used by its transport fleet by purchasing fuel efficient vehicles and training drivers in fuel economy, it has increased biodiversity by creating some 300 hectares of new or improved habitats, including woodland from restored landfill, wetland from former agricultural land and a nature park from a former quarry. Further improvements are in progress or planned for the future.
- 12 The Council meets minimum requirements in its arrangements for asset management and we identified a number of areas for improvement. The Council has accepted our conclusions and agreed to make improvements.
- 13 There is a strategic approach to asset management and it is well integrated into corporate and service planning. Development of new and refurbished assets has played a significant role in service transformation. However, there was no strategic plan for the Council's assets as a whole and no up to date corporate asset management plan, though a more strategic plan is now in preparation. Assets are managed as a corporate resource and the Council is increasingly taking robust decisions about holding and disposal of assets. A review of office accommodation has been completed and this identified the potential to release a number of buildings. A systematic review of the Civic Centre has achieved significant improvements in space utilisation as part of a workspace strategy. Most assets are fit for purpose but there were deficiencies in some of the information held by the Council on its assets and this had had a negative impact on strategy development and performance management. Partnership arrangements to maximise on the development and utility of assets are widespread.

**Table 7**      **Managing resources scores**

| Area                      | Score                  | Overall theme score |
|---------------------------|------------------------|---------------------|
| KLOE 3.1 Sustainability   | 3                      | Level 3             |
| KLOE 3.2 Asset Management | 2                      |                     |
| KLOE 3.3 Workforce        | Not assessed this year |                     |

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# The Audit Commission

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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