

Annual Audit Letter 2014/15

Gateshead Council

October 2015



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27 October 2015

Dear Members

Annual Audit Letter 2015

I am delighted to present to you our Annual Audit Letter for the 2014/15 audit year.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

I would like to express my thanks for the assistance of the finance team, as well as senior officers and the Audit and Standards Committee, during the audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07979 164467 or gareth.davies@mazars.co.uk

Yours sincerely

Gareth Davies
Partner
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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to Members or employees of Gateshead Council are prepared for the sole use of the Council. We take no responsibility to any Member or employee in their individual capacity or to any third party.

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01 Overall messages

Purpose of this letter

Our Annual Audit Letter provides a summary of our work and findings for the 2014/15 audit period for Members and other interested parties.

In addition to this letter, we presented our Audit Completion Report to the Accounts Committee on 25 September 2015 which, together with the follow up letter we issued, provides more detail of the work we have undertaken as the Council's external auditor in 2014/15. The key conclusions for each element of our audit are summarised below.

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's statement of accounts on 28 September 2015.

The Council's draft statements were available for audit by the deadline and were of a good quality, as were the supporting working papers.

We did not encounter any significant difficulties during our audit, and received the full support and cooperation of the finance team in meeting the statutory deadline.

Our Value for Money Conclusion

We performed our work in line with the Audit Commission's Code of Audit Practice for Local Government bodies and the Commission's guidance on the Value for Money conclusion for 2014/15. We obtained sufficient assurance that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

We issued an unqualified value for money conclusion on 28 September 2015. Further details are provided in the sections that follow.

Whole of Government Accounts

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of the Council's Whole of Government Accounts consolidation pack with the audited statement of accounts. We reported that the Council's consolidation pack was consistent with the audited statement of accounts on 2 October 2015.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions or objections in relation to the Council's 2014/2015 accounts from local electors, nor did we exercise our wider reporting powers.

02 Financial Statements

Audit of the financial statements

We audited the Council's financial statements in line with auditing standards and we reported the detailed findings of the audit in our Audit Completion Report and subsequent follow up letter. We issued an audit report including an unqualified opinion on the Council's financial statements on 28 September 2015.

The draft accounts were of a good quality overall, as was the standard of supporting working papers which were made available during the audit. Other supporting evidence was produced on a timely basis throughout the audit.

The audit progressed smoothly, and identified only a small number of errors, with no significant issues. The Strategic Director, Corporate Resources amended the draft accounts for the small number of changes identified during our audit.

Annual Governance Statement ('AGS')

The AGS is drafted by the Council to provide assurance to the reader over how the Council is managed and how it dealt with risks in the year. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the Council. We found no areas of concern to report in this context.

Weaknesses in internal control

Our work on the Council's financial systems identified no significant weaknesses in internal control. We made recommendations arising from our work on the Council's IT controls.

03 Value for Money Conclusion

For 2014/15, we were required to give a statutory conclusion on the Council's arrangements to secure Value for Money (VfM) in its use of resources, based on the following two specified reporting criteria:

Criteria	Focus of each criterion
The Council has proper arrangements in place for securing financial resilience.	The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The Council has proper arrangements for challenging how it secures economy, efficiency, and effectiveness.	The Council is prioritising resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

As part of our work, we also:

- reviewed the annual governance statement;
- reviewed the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities (where applicable); and
- carried out any risk-based work we determined to be appropriate.

Like other public sector bodies, the Council faces a number of financial challenges and in the light of these we reviewed the Council's arrangements for managing financial risks and securing a stable financial position. We identified a significant risk in the Audit Strategy Memorandum regarding financial pressures faced from reduced funding, increased demand and changing responsibilities.

We addressed this risk by carrying out detailed work on all of the areas highlighted below:

- monitoring and action plans for a sample of savings included in the budget;
- the Medium-Term Financial Strategy;
- budget monitoring reports and other finance updates;
- the progress made in identifying savings required;
- progress of the Council's Transformation Programme; and
- financial planning supporting the development of the District Energy Scheme.

As a result of this work we were able to mitigate the significant risk identified.

We detail below our findings in relation to the two criteria specified by the Audit Commission.

Financial Resilience

The reported 2014/15 revenue outturn was an underspend against budget of £4.413m. This was reduced to an underspend of £3.441m after taking into consideration the movement on earmarked reserves.

The overall target for revenue savings in 2014/15 was £15.403m. The final outturn for achieved savings was £14.368m, a shortfall of £1.035m. Due to timing and phasing of implementation, the full planned savings weren't achieved in 2014/15 although this was more than outweighed by unplanned underspends in other areas, such as:

- Capital Financing – underspend of £1.310m
- Savings on the Insurance Fund – underspend of £1.045m
- Adult Social Care and Independent Living - underspend of £2.499m.

The Council has a good understanding of the financial challenges and risks it faces and is taking action to ensure its financial sustainability by identifying further efficiency savings and other means of reducing spending. The Council approved a balanced budget for 2015/16 and all required savings plans for the year are in place. The budget report sets out the factors and assumptions impacting on the budget, including service pressures.

The Council extended the time horizon of its Medium Term Financial Strategy (MTFS) from three to five years in July 2015. The MTFS is aligned to the priorities of the Council Plan 2015-2020 and officers plan to update it annually (more often if circumstances require it). The MTFS has an estimated funding gap of £77.7m for the period 2016/17 to 2020/21 which is significantly front-loaded with an estimated gap of £50.6m for the first two years. Work is well advanced on the measures to be taken to secure a balanced budget in both 2016/17 and 2017/18, drawing on the Council's extensive consultation with residents, businesses and partner organisations and shaped by the priorities in the Council Plan. The Council has been open with all stakeholders that the savings required are significant and are requiring fundamental rethinking of the range and nature of Council-funded services.

Economy, efficiency and effectiveness

In view of the severe funding reductions it faces, the Council has required each service to assess how it would manage within a 60% funding envelope by 2017/18. Services are being aided in this through the use of a Commissioning Toolkit developed by the Corporate Procurement team.

The Council is aware of how its service costs compare to those of other similar authorities. This comparative data is used alongside the priorities set in the Council Plan to identify potential savings, especially in service areas outside the high priorities.

Progress continues to be made on challenging traditional methods of delivery, an example of which is the introduction in April 2014 of the joint waste management Private Finance Initiative (PFI) in partnership with South Tyneside and Sunderland Councils. This project, led by Gateshead Council, is designed to provide an affordable and effective solution for the treatment and disposal of residual municipal waste.

The Council is continuing to work with its local authority partners to develop the North East Combined Authority. This new vehicle offers the opportunity of increasing the collective impact of the North East authorities on economic growth, skills and transport.

Annual Governance Statement

We reviewed the Council's Annual Governance Statement to identify if there were any issues disclosed that would lead us to consider that the Council did not have proper arrangements for securing economy, efficiency and effectiveness. Our review did not identify any such issues. Nor did we identify any significant omissions from the Annual Governance Statement.

Overall Conclusion

Our overall conclusion was that the Council had adequate arrangements in place for each criterion and accordingly we issued an unqualified VFM conclusion.

04 Future challenges

The Council's planning for the next five years is dominated by the need to respond to continuing significant reductions in central funding whilst delivering the objectives in the new Council Plan. In addition, the local government finance and policy landscape is changing rapidly, bringing significant shifts in the risks and opportunities facing the Council. These include closer working with the NHS, restrictions on housing rental income, the full localisation of business rates and negotiations with central government on a package of devolution measures to the North East.

This adds up to a demanding agenda for Members and officers. Our 2015/16 audit will take into account how the Council is responding to this agenda.

05 Audit regime changes

Earlier in the year we briefed Members of the Audit and Standards Committee on changes to the framework for external audit in local government, with the abolition of the Audit Commission on 31 March 2015 and, under the Local Audit and Accountability Act 2014, new provisions including:

- the National Audit Office to oversee the Code of Audit Practice and issue guidance to auditors;
- the establishment of a new company, Public Sector Audit Appointments Ltd (PSAA Ltd) to appoint auditors and manage the existing contracts with firms of private sector auditors until they expire; and
- the requirement for Councils to appoint their own auditors when the current contracts end.

Extension of current local government contracts by one year

The Department for Communities and Local Government recently announced that the external audit contracts for local authorities (except parishes in the limited assurance regime) will be extended for one year to include the 2017/18 audit. The legislation requires the Council to have appointed the auditor for the 2018/19 audit by 31 December 2017. The Chartered Institute of Public Finance and Accountancy is preparing guidance for local authorities to support them in this process.

06 Fees and closing remarks

Our Audit Strategy Memorandum presented to the Audit and Standards Committee on 20 April 2015 set out our proposed fees for the 2014/15 audit, which are based on a scale fee set by the Audit Commission.

The fees applicable to our work in 2014/15 are summarised below.

Element of work	2013/14 Final Fee	2014/15 As previously reported	2014/15 Final Fee
Code audit work	£173,000	£173,730	£173,730
Certification work	£14,928	£16,540	£16,540*
Non-audit work	£13,500	N/A	£14,900
Total	£201,428	£190,270	£205,070

* The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim. We will confirm the final fee charged for certification work when we issue our Certification Report.

The non- audit work agreed to date is:

- certification of a Teacher's Pensions return;
- certification of Gateshead 3-7 School Centred Initial Teacher Training (Gateshead 3-7 SCITT)
- certification of eighteen s256 Health Act annual vouchers; and
- certification of the Pooling of Housing Capital Receipts return.

During the audit year we have continued to support the Council in other ways, including:

- attendance at Audit and Standards Committee meetings where we inform the Committee about progress on the audit, report our key findings and provide updates about developments in the public sector and the wider environment; and
- hosting briefing events for finance staff, such as our Accounts workshops, and more focused Accounts update sessions, as appropriate.

Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the Council during the year, which are summarised below.

Report	Date issued
2014/15 Audit Fee Letter	April 2014
Audit Strategy Memorandum	April 2015
Progress reports to Joint Independent Audit Committee	To each meeting
Audit Completion report, including follow up letter	September 2015
Auditors Report	September 2015
Annual Audit Letter	January 2016

The Council and management have taken a positive and constructive approach to our audit and I wish to thank them and the Audit and Standards Committee for their support and co-operation during our audit.

Gareth Davies

Partner

October 2015

Should you require any further information on this letter or on any other aspects of our work, please contact:

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