

Annual Audit and Inspection Letter

Gateshead Council

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Executive summary

The purpose of this letter

This is our annual audit and inspection letter for Members, which incorporates the Annual Audit Letter for 2003/04 and is presented by the council's Relationship Manager and District Auditor. It summarises the conclusions and significant issues arising from our recent audit and inspections of the council.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information. Appendix 2 sets out the scope of audit and inspection and Appendix 3 provides information about the fees charged.

Key messages

Council performance

Gateshead Council continues to perform at a high level and retains its excellent CPA status. The overall rating for core service performance has increased in the last 12 months and 73 per cent of performance indicators improved or remained stable. In particular, the social services' rating improved from two to three stars this year. However, there is a recognised need for further improvement in areas such as housing, planning and equalities.

Overall capacity to improve remains high and the work of the council is continues to be characterised by sound leadership and a commitment to invest in improving services for local people.

Audit Commission housing inspections

An Audit Commission inspection of Gateshead Housing Company in 2004 judged the service to be a 'fair' one star service with promising prospects for improvement. However, a 'good' two star rating is required to secure funding of £63 million.

The council recognises the need to continue to support Gateshead Housing Company in its efforts to achieve an improved rating in a re-inspection scheduled for 2005.

The accounts

The quality of the financial statements continues to improve despite tighter closedown deadlines. We plan to issue an unqualified opinion on the council's accounts in January 2005, slightly later than the 30 November 2004 deadline, due to the need to amend the accounts for the impact of over-providing for debt repayment in previous years.

Financial position

The council's financial position remains sound overall. The council recognises that it cannot continue to rely on balances to fund spending in the medium-term and plans are being developed to make savings over the next three years as part of the 2005/06 budget planning process. It is important that efforts to improve income collection are maintained.

Other accounts and governance issues

The council has continued to strengthen its arrangements for securing good governance and we have not identified any significant weaknesses in the overall control framework. In particular, this is demonstrated by the improved score for standards of financial conduct, which reflects the effort the council has put into reviewing, and improving, its ethical framework over the past 12 months. The council recognises the need to develop its approach to information security and procurement and action is underway to secure improvement in these areas.

Action needed by the council

The council needs to continue to:

- maintain efforts to address identified areas for improvement, including housing, planning and equalities;
- support Gateshead Housing Company in securing the improvements necessary to secure a 'good' two star rating next year;

- develop robust plans to reduce its ongoing reliance on balances to fund spending;
- maintain efforts to improve collection rates for major sources of income;
- develop its approach to procurement; and
- ensure action to strengthen information security arrangements is maintained.

Council performance

Gateshead Council has retained its excellent CPA status. It continues to perform at a high level and the overall rating for core service performance increased, particularly in relation to social services', which has now attained a three star rating. The council remains focused on its priorities and progress continues in their delivery through investment in improving processes and services to local people. Overall capacity to ensure the council further improves performance remains high.

The council recognises the need to continue to support Gateshead Housing Company in its efforts to achieve an improved 'good' two star rating in a re-inspection scheduled for 2005.

CPA scorecard

Gateshead Metropolitan Borough Council continues to be an excellent council.

It has made significant improvements to social care and environment over the last year.

Education maintained its rating and 58 per cent of education indicators improved, including improvements in test scores, although there is a need for further progress in areas such as exclusions and surplus places. The performance of leisure, libraries and benefits remains at the highest level.

Overall, 73 per cent of indicators improved or remained stable, though the level of improvement remains variable, particularly in housing, planning and equalities.

Progress continues in delivering the council's improvement priorities, which have been refined with partners and through improved community engagement. The council is focused on its priorities and, while it is realistic about how quickly changes can be made, it continues to strive for improvement. The council continues to invest in improving the way it works and in partnership working. All of these factors will help ensure the council further improves performance.

Based on Gateshead Metropolitan Borough Council's plans, the council is well placed to continue to improve the way it works and the services it provides to local people.

Element	Assessment
Overall	Excellent
Current performance	4 out of 4
education	3 out of 4
housing	3 out of 4
use of resources	3 out of 4
social care (children)	3 out of 4
social care (adults)	3 out of 4
benefits	4 out of 4
environment	4 out of 4
libraries & leisure	4 out of 4
Capacity to improve (not reassessed in 2003)	4 out of 4

(Note: 1=lowest, 4=highest)

CPA improvement report

Prioritisation

During the past 12 months the council has further clarified its priorities and aligned them with those of the Gateshead Strategic Partnership. The Gateshead Community Strategy was agreed in March 2004 and focuses on those areas best delivered by the Gateshead Strategic Partnership. This strategy is the outcome of a review undertaken in 2003/04.

After consultation with a wide range of community representatives on their aspirations and priorities the Gateshead Strategic Partnership's vision, shared by the council, is to make Gateshead a community where 'local people can realise their full potential, enjoying the best quality of life in a healthy, equal, safe, prosperous and sustainable Gateshead'. This vision is to be realised by achieving six medium term objectives:

- effective community engagement;
- effective neighbourhood management;
- better access to services for all;
- service excellence;
- regeneration, social inclusion and wealth creation; and
- capacity building.

The council's medium term objectives as outlined in 'Towards 2010 – A Vision for Gateshead', mirror those of the partnership. To deliver the vision the council is continuing to increase its user focus, for example through using resources to enable more old people to live in their own homes, improve the environment and improve neighbourhood management, having 65 per cent of the deliverable services on line, and improve the standard of homes.

The council is continuing to seek to improve its community engagement, in part through its consultation processes and neighbourhood management approach to service delivery, and also by putting actions in hand to achieve Level two of the Equalities Standard by March 2005.

Future plans

The council's future plans continue to address the six medium term objectives, which the council shares with the Gateshead Strategic Partnership. The council has identified actions in its Improvement Plan for 2004/05 that are intended to have positive, user related, outcomes for each of the themes. In addition the Improvement Plan includes measures to continue addressing issues arising from internal and external reviews.

A series of partnerships for the various themes are also being put in place. The latest partnerships are for Employment and Economy, for Culture and another partnership for Transport is in the formation stage. It will be the responsibility of each partnership to implement outcome focused plans with clear targets for their role in delivering the community strategy.

The community strategy is taking a cross-cutting, thematic approach to formulating and delivering future plans using ten theme areas:

- children and young people;
- community safety;
- employment and economy;
- culture;
- environment;
- health;
- housing;
- lifelong learning;
- social care; and
- transport.

Future plans include a local public service agreement, with targets in 12 key areas to be delivered by March 2006, covering both national and local priorities.

Ambition

The council continues to recognise the need to strive for improvement in all areas. In light of a number of targets missed in 2002/03, more realistic targets were set for 2003/04. This approach of setting smart targets has been maintained with the emphasis on setting stretching but achievable targets for 2007/08.

In line with its ambition to engage effectively with local communities, the council has been developing its neighbourhood management approach and an area executive forum has been set up in each neighbourhood area. The council is also engaging with deprived neighbourhoods to make consultation more effective and to develop neighbourhood plans.

Focus

The council continues to maintain its focus through its Improvement Plan, and through improving planning processes by introducing service plans. The focus in these plans is on the contribution each group and service makes to realising the GSP's vision, and on creating a positive impact on the quality of life of residents of Gateshead.

The focus of the council's strategies, policies and plans is maintained on outcomes and the progress towards achieving these outcomes is tracked within the performance management system.

The council has reviewed its scrutiny processes this year in order to produce a more even spread of work and improve focus on cross-cutting outcomes rather than functional silos.

To assist in keeping what matters to local people clearly in focus the council is reviewing its consultation strategy. An internal consultation network has also been established to improve communication and cross service working within the council.

Capacity

The council is aware of the need to continue to improve its capacity if community strategy objectives are to be delivered. Increased and more effective partnership working is seen by the council to be a key factor in this delivery programme. The council has also carried out a number of partnership audits, which have resulted in improvements to existing partnership structures and membership to make them more effective and inclusive.

Additional partnerships have been established in 2003/04 to increase the council's capacity to deliver but also bring additional strengths. Two new themed partnerships Employment and Economy, and Culture have been established and progress is being made on a third themed around Transport. These partnerships will provide additional expertise to augment the resources available to the council to achieve its objectives.

Using the Gateshead Strategic Partnership to deliver the community strategy and to develop improvement planning proposals has secured an additional £4.6 million of Neighbourhood Renewal Funding for the borough.

The council continues to work with external organisations to deliver the e-Government agenda and improve service delivery to its customers. For example, the council is working in partnership with Deloitte to develop a Customer Services Strategy and implementation plan in order to improve access to services. This process has also been designed to benefit council staff through skills transfer.

The council led on the region's expression of interest in becoming a Centre of Excellence, using the successful collaborative working across councils already established under the umbrella of North East Purchasing Organisation. The council now hosts one of the nine UK Centres for Procurement Excellence on behalf of North East councils.

The council has also acted on the need for more member development and training identified in 2002/03. Consequently new member training has been introduced and all members of the council have been offered the opportunity to have a training needs assessment, which has led to personal development plans for many members. To support the delivery of these plans they are linked to the new members training strategy and new members training directory.

Performance management

To improve its performance management the council has procured and is now implementing an IT-based corporate performance management system.

The need to encourage member participation in performance management has been recognised and regular briefings are now held with portfolio holders. The remit of the Scrutiny Committees has also been reviewed to give them a more cross-cutting focus taking into account performance measures such as performance indicators, progress on implementing action plans and on policy development.

Performance management has also been further embedded in the council's culture from the management level through to individual employees with its inclusion in the achievement and development appraisal system now being used across the council.

The council is also involved in an Audit Commission pilot, which is designed to improve the outcome focus of performance indicators.

Work is continuing with the Gateshead Strategic Partnership (GSP) to implement the agreed integrated performance management framework to deliver the vision of the Community Strategy. This system is closely aligned to that of the council. The result of the Audit Commission review of the LSP performance management framework was positive and the council is now implementing recommendations to:

- produce detailed action plans showing how all themed partnerships will deliver their part of the community strategy;
- develop formal processes for appraising options and assessing resources required in the development of theme-based plans; and
- make performance information more accessible to the public.

GONE also reviewed the overall performance of the GSP in July 2004 and gave a rating of Green/Amber.

The council continues to track areas of concern based on analysis of key performance indicators. In each case the reasons underlying why the council has not met its targets or performance has deteriorated have been identified and actions proposed for 2004/05 to remedy the situation.

Learning

The council remains committed to being a learning organisation with a strong external focus and further development of this area remains a key action in the capacity building section of the improvement plan.

The council has been involved in the Innovation Forum since January 2002 and is actively involved in two projects:

- Integrated Public Services, which is examining areas of best practice in joined up public services; and

- the council is chairing a project looking at 'Improving Public Sector Targets' which aims to rationalise the number of complex and conflicting public sector targets.

As well as its continued involvement in the Innovation Forum, the council is also involved in an Audit Commission study on area profiles, which involves collating information from a wide range of sources for use in future development planning and service delivery improvement.

Joint activity with a learning content is continuing with Newcastle City Council as a follow on from the City of Culture bid, which has led to the production of a joint strategy to attract major events to Tyneside.

Internally the communications network set up in 2002/03 now provides the opportunity to share ideas and learning from both internal and external experiences amongst employees.

The council has been successfully selected as a pilot authority for Local Area Agreements. The council sees this as an excellent opportunity to improve the effectiveness of the GSP through a flexible use of resources at a local level to achieve shared outcomes; improving local performance; integrate funding streams to reduce bureaucracy and to focus on priorities.

The council are also undertaking internal reviews of each service area to better understand the relationship between corporate and service issues. The result of this self assessment is geared to producing short term corporate and service specific action plans and improved service plans.

Investment

The council continues to invest in the building blocks which will provide the basis for future service improvements. The investment in Gateshead Strategic Partnership and its theme groups is seen by the council as an important investment in building capacity to implement its objectives. Internally the new, IT based, corporate performance management system shows the council is investing in its ability to track its effectiveness in delivering services to the community.

The council continues to develop its approach to procurement and recognises that considerable improvement is needed before fully effective arrangements are in place.

Significant investment is taking place to enable future service improvements to the local community. The Borough is progressing with a Housing Market Renewal Pathfinder project with Newcastle City Council to regenerate local housing areas. Over £12 million external funding has been secured to invest in private and public housing to improve the housing stock and for housing renewal in declining areas. The council has also set up the Gateshead Housing Company as part of its approach to achieving the Government's Decent Homes target.

Although unsuccessful in its City of Culture bid, the process did have the outcome of obtaining recognition for Gateshead as a Centre for Culture Excellence. This strengthens the case for the council's investment in culture as a driver in the regeneration of the borough. The major investment in the Sage Gateshead music complex is about to come to fruition and the council is developing the Gateshead International Stadium as a regional sports performance centre. As well as providing increased opportunities for local people these major developments are integral to the regeneration of the borough with economic stimulus being enhanced by council investment in the establishment of the Gateshead International Business Centre and the Baltic Business Quarter.

Achievement

The council has continued to make progress in delivering its improvement priorities. Overall, 73 per cent of BVPIs improved or remained static in 2003/04 and the proportion of indicators in the top two quartiles has remained the same at 61 per cent. However, the level of improvement remains inconsistent across service and priority areas, as set out below.

The council has maintained its two star (upper) rating for education in 2004. In 2003/04 performance improved on 53 per cent of comparable BVPIs, including the majority of BVPIs on educational attainment. In particular, the percentage of pupils achieving five or more GCSEs at grades A* to C increased from 52 per cent to 62 per cent. However, a quarter of indicators remain in the worst quartile and a number of these did not improve in 2003/04, including the percentage of pupils achieving five GCSE's or equivalent at grades A* to G (including maths and English), the number of pupils excluded from school and surplus places in primary schools.

The council's CSCI rating improved from two to three stars this year and both children's and adults' services are now rated as serving most people well with excellent prospects for improvement. As a result the score for social care (adults) has increased from a two to a three in 2004. This is supported by the BVPIs where an impressive 80 per cent of BVPIs improved in 2003/04. Of particular note for adults is the strong record on delayed transfers of care and evidence of more people being helped to live at home. In relation to children's services, CSCI noted that 'standards are high and improving, and if the performance trajectory continues, Gateshead can realistically look to' an improved rating next year. One example is care leavers engaged in education training or employment at age 19, which has moved from the fourth to the best performance band in 2003/04.

The council has maintained its housing score of three this year and 63 per cent of BVPIs showed improvement in 2003/04. However, significant scope remains to improve performance in housing management where performance on most BVPIs remains in the bottom two quartiles. This is recognised and the Gateshead Housing Company was set up earlier this year to improve performance and secure external investment to ensure council homes meet the Decent Homes standard.

The score for the environment service block has increased from three to four. However, performance across the block was mixed in 2003/04. Improvements have been made on all waste management BVPIs and performance moved out of the bottom quartile for both the percentage of waste recycled and kerbside recycling. However, performance on waste management remains comparatively low and there is some way to go before the DEFRA target of 18 per cent is met. Performance in planning is mixed. Whilst there has been a significant increase in the percentage of new homes built on brownfield sites, performance against national for processing planning applications has dropped. In relation to transport the condition of principal roads and other highways remains in the best quartile and road safety performance has continued to improve.

In relation to recorded crime, all comparable indicators improved in 2003/04 and only the number of domestic violence refuge places now sits outside the top two quartiles.

Performance improved on 62 per cent of comparable corporate health BVPIs in 2003/04. However six BVPIs remain in the bottom quartile, including council tax and NNDR collection. The council has also recognised the need to improve its performance on equalities, which reflects its comparatively low performance on the Equalities Standard, the low proportion of staff from ethnic minorities, the low percentage of staff with disabilities and low levels of disabled access to council buildings.

Performance in both libraries and leisure and benefits administration has remained at the highest level with a score of four.

In common with many authorities public satisfaction with services, as measured by the BVPI user survey, has declined. However, over 80 per cent of these BVPIs sit within the top two quartiles, including satisfaction with the overall service provided by the council, waste management, museums and galleries and housing benefits.

Other performance work

Apart from our work on the best value performance plan and supporting performance information, no other performance work was undertaken during 2003/04 due to the council's continued excellent CPA status.

Performance information

The council has continued to improve its arrangements for producing performance information and only one national indicator was qualified this year. However, the council recognises the need to further improve quality assurance processes to reduce the number of amendments to published information. Following completion of our work, an unqualified opinion was issued on the 2004/05 Best Value Performance Plan (BVPP) on 12 November 2004.

Other Audit Commission inspections

There were no published inspection reports this year, because the council retained excellent status in 2003.

Other Audit Commission housing inspections

The Gateshead Housing Company was established in January 2004 as an arm's length management company (ALMO) to deliver housing management services on behalf of Gateshead Council. The housing inspectorate carried out an inspection of the housing services provided by the Gateshead Housing Company in 2004 and judged the service to be a 'fair' one star service with promising prospects for improvement. This inspection highlighted progress in some key areas, including rents, the investment programme, day-to-day repairs and estate management. However, a number of key areas for improvement were also identified that need to be addressed, including the company's approach to diversity and allocations and lettings.

In order to qualify for additional funding of £63 million for the period to 31 March 2006, Gateshead Housing Company needs to achieve a 'good' two star rating. With this in mind, a re-inspection will take place in 2005/06 to re-assess progress towards this standard. Once a 'good' rating is achieved, a further £169 million of additional funding will become available to the ALMO dependent on progress.

Working with other inspectorates and regulators

An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. These include:

- Ofsted;
- Commission for Social Care Inspection (CSCI);
- Benefits Fraud Inspectorate (BFI);
- DfES; and
- Local Government Office contact.

We share information and seek to provide 'joined up' regulation to the council. During the last year the council has received the following assessments from other inspectorates.

Inspectorate	Assessment
Commission for Social Care Inspection (CSCI)	Three star rating Both children's and adults' services were rated as serving most people well with excellent capacity for improvement
Benefits Fraud Inspectorate (BFI)	Fair towards Good
DfES	Two star (upper) performance rating

Accounts and governance

We have given your accounts an unqualified audit opinion. The council has continued to strengthen its overall corporate governance arrangements during the year.

Overall arrangements

This year we have updated our evaluation of key aspects of corporate governance that contributes to the council's updated CPA assessment (Exhibit 1). In particular, the score for standards of financial conduct and the prevention and detection of fraud and corruption has increased from a three last year to a four this year. This reflects the effort the council has put into reviewing, and improving, its ethical framework over the past 12 months.

EXHIBIT 1 AUDIT SCORES FOR CPA

1 = minimum, 4 = maximum

2003 Score	Code of Audit Practice area	2004 Score
3	Financial standing	3
3	Systems of internal financial control	3
3	Standards of financial conduct and the prevention and detection of fraud and corruption	4
3	Financial statements	3
4	Legality of financial transactions	4

Source Auditor Scored Judgements for CPA.

Audit of 2003/04 accounts

The quality of the financial statements continues to improve despite tighter closedown deadlines. We plan to issue an unqualified opinion on the council's accounts in January 2005, slightly later than the 30 November 2004 deadline, due to the need to amend the accounts for the impact of over-providing for debt repayment in previous years.

Matters arising from the final accounts audit

The quality of financial statements and the working papers to support them continue to improve.

Last year we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with Government requirements. The accounts were approved in advance of the 31 August 2004 deadline this year. Earlier deadlines for 2005 and 2006 will be more difficult to achieve and will require careful planning.

At a late stage of the audit, we identified an issue in relation to the council to the commutation adjustment, which affects the amount that needs to be set aside each year to repay debt. Whilst not material in any given year, the cumulative impact of the amendment to the accounts since 1992/93 has been to release £5.6 million from the capital financing reserve to increase revenue reserves at 31 March 2004. Although appropriate amendments have now been made to the accounts, the complexity of the issue has delayed the opinion on the accounts until January 2005, after the 30 November 2004 deadline.

Report to those with responsibility for governance in the authority

We are required, by professional standards, to report to 'those charged with governance' significant matters arising from our audit before we give an opinion on the financial statements. We are pleased to report that there were no significant issues that we needed to report to members before issuing our opinion. This was confirmed in letters sent to members.

Financial standing

The council's financial position remains sound overall. The council recognises that it cannot continue to rely on balances to fund spending in the medium-term and plans are being developed to make savings over the next three years as part of the 2005/06 budget planning process. It is important that efforts to improve income collection are maintained.

General fund spending and balances

The council's overall arrangements for budget setting, financial monitoring and reporting remain sound.

The general fund balance stood at £8 million at 31 March 2004, representing 3 per cent of the annual net cost of services. A further £55.4 million is held in strategic reserves.

The budget for 2004/05 totalling £243.9 million took into account the council's medium-term financial strategy, which aims to bring expenditure closer to the level of the formula spending share, reduce expenditure in real terms and retain prudent levels of reserves. The report to cabinet, which supported the budget, predicted that £12 million of usable balances would be available from reserves, but that it would not be prudent to use more than £5.75 million in the year. However, as we have highlighted in previous years, the overall level of financial resources available to the council remains finite and the continued use of balances at this rate cannot be sustained. This is recognised and a recent report to the council, advocated a reduction in the council's base budget of £12 million over the three years to 2007/08. The need to make savings whilst responding to future financial pressures, including single status, will need to be carefully managed.

Single status

Along with other local authorities, the council is at risk from equal pay claims by employees, which could result in significant payments by the council. Whilst the potential financial impact of this issue cannot yet be estimated with certainty, the council has been working closely with trade unions to develop a new pay structure and deal with claims. We are satisfied that appropriate action is being taken to address the financial risks in relation to this issue.

Capital programme

A new capital control system for local government was introduced with effect from April 2004. The basic principle of the new prudential system is that local authorities will be free to invest in capital projects without restriction, provided their capital spending plans are affordable, prudent and sustainable. The introduction of this new regime will mean the councils have to demonstrate that these conditions are satisfied.

The latest information suggests that sufficient resources will be available to finance estimated capital expenditure for ongoing projects over the next three years.

Housing revenue account

Although the balance on the HRA fell from £1.8 million to £1.2 million at 31 March 2004, the latest estimated surplus for 2004/05 would return the balance to around £2.0 million by 31 March 2005.

Income collection and arrears

Performance on collecting local taxation and housing rent improved in 2003/04 (Exhibit 2). However, the level of improvement in collecting local taxes was not sufficient to move the quartile position. As was the case in previous years, this may reflect differing methods of accounting for receipts that are adopted by councils. The ODPM has recognised this and plans to introduce new indicators in future years, which will measure in-year collection and arrears recovery performance separately.

In relation to housing rents, the council met its collection target and the quartile position improved.

Over the same period council tax and business rates arrears both fell, although housing rent arrears increased from £4.9 million to £5.5 million.

Although a prudent provision has been made for non-payment, the council recognises the importance of continuing its efforts to collect outstanding debt.

EXHIBIT 2 INCOME COLLECTION

It is important that efforts to improve income collection and reduce arrears are maintained

Progress on collection rates	Progress on arrears
<p>Business rates (NNDR)</p> <p>Collection remained stable at 97.6 per cent in 2003/04. Although the council met its own target (97.5 per cent), performance remains in the bottom quartile for single tier and district councils in 2003/04.</p>	<p>Arrears decreased by a quarter (£0.5 million) to £1.6 million in the year to 31 March 2004.</p>
<p>Council tax</p> <p>Collection increased from 94 per cent to 95.1 per cent in 2003/04. Whilst the council met its own target of 95 per cent, performance remains in the bottom quartile for single tier and district councils in 2003/04.</p>	<p>The increase in collection rates during the year is reflected by a further reduction in arrears from £6.2 million to £5.7 million at 31 March 2004.</p>
<p>Housing rents</p> <p>Collection increased from 95.9 per cent to 96.7 per cent, the target of 96.6 per cent was achieved and performance moved from the bottom to the third quartile for all councils with housing stock in 2003/04.</p>	<p>Although performance in collecting rent arrears has improved, total arrears increased by £0.6 million to £5.5 million this year. At the same time, the provision in respect of uncollectible debts has increased by £0.2 million to £3.3 million. The majority of the increase in arrears relates to current tenants, which have increased from £2.9 million to £3.3 million.</p>

Source: 2003/04 BVPPs and financial statements.

Systems of internal financial control

The council has continued to strengthen its overall control framework during the year. Progress continues on improving key areas, including the year-end bank reconciliation process, treasury management arrangements and risk management. Good progress has also been made in responding to the requirements of the prudential framework.

The council recognises the need to develop its approach to information security and action is underway to secure improvement.

Internal audit

Effective internal audit is key to providing assurance to the authority that sound systems of internal control are in place and operating effectively. Our overall assessment remains that internal audit provides an effective service and we are satisfied with the quality and coverage of their work.

IA is currently updating its manual to address some of the issues raised in our detailed review in 2001/02 and to take account of changes to procedures resulting from the introduction of an e-audit system from April 2005. This will be supported by continuing progress towards IIP accreditation, which will strengthen training and staff development.

Bank reconciliations

Last year we suggested that bank reconciliations should be prepared more promptly and this has been achieved with the year end reconciliation for 2003/04 being completed in mid-May.

Treasury management

The council administers Northumbria Police Authority's loans and investments on their behalf. Last year we identified that the two bodies needed to set out their respective responsibilities and the arrangements that were operating for managing this process. During the year a formal treasury management agreement has been put in place to address this.

Prudential code

The council has made good progress in establishing a prudential framework in response to the requirements of the Local Government Act 2003 and can demonstrate many areas of good practice. In particular, local indicators have been defined and approved and effective monitoring arrangements are operating. The council could further develop its approach by increasing the frequency by which progress is reported to members and establishing procedures for reviewing the successes and failures of the arrangements that it has implemented.

Risk management

As part of last year's letter, we reported that the Corporate Risk Policy and Strategy had been implemented and highlighted the council's intention to further develop the role of Members in relation to risk management.

We revisited this area in 2004 and concluded that a robust corporate framework is now in place to manage risks at both a strategic and operational level. There remains a need to further embed risk management within the council. At present, reliance is placed on Finance and ICT to initiate the identification, assessment and management of risks on an annual basis rather than departments developing local processes that adhere to the corporate framework. Other areas for improvement include the need to further develop the risk management policy and develop performance indicators to measure the effectiveness of risk management.

Information security

Information and the systems that provide and use it are important business assets. This emphasises the importance of a robust corporate approach to information security. During 2004, we assessed the council's compliance with the International Standards Organisation standard ISO17799 for information security. This standard provides a benchmark against which the quality of information security arrangements can be measured.

Our assessment was positive overall and highlighted a reasonable level of compliance. The council is also taking a number of actions to improve information security although there are not all complete. Whilst the council has scored highly on some aspects of the evaluation, scope for improvement remains in some areas. An action plan has been agreed with officers to take this forward.

Standards of financial conduct and the prevention and detection of fraud and corruption

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption. During the year the council has reviewed, and improved, its ethical framework.

Overall arrangements

During the year the council has continued to strengthen its overall arrangements for preventing and detecting fraud and corruption.

Setting high ethical standards

Last year, we reported that the council had begun to consider how to move from basic compliance towards a more proactive approach to ethical standards. In response, over the past 12 months, the council has carried out a review of its ethical framework. This review showed that considerable effort is being put into making members and officers aware of the ethical framework and that it is widely understood and generally well observed. The review also led to:

- improvements in training for members and officers on ethical standards;
- changes aimed at integrating the Code of Conduct, and ethical issues, more closely with other areas of the council's work; and
- efforts to raise awareness of the ethical framework with external stakeholders.

Legality of transactions

We have not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions.

Last year, we carried out a detailed review of the arrangements in place to provide assurance that the role of the monitoring officer (MO) is being discharged effectively. We concluded that the majority of expected arrangements were in place and operating effectively.

This year, we updated our review of overall arrangements and found that the council has further strengthened existing arrangements by introducing a formal monitoring officer protocol.

No significant issues were identified during the year, which need to be brought to the attention of members.

Other work

Grant claims

Arrangements for the audit of grant claims have changed in 2003/04 to reduce the burden of bureaucracy in respect of smaller value claims.

Over recent years the number of claims requiring audit certification has grown and audit fees have risen as a result. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims with effect from 2003/04. Smaller claims are no longer subject to audit or receive a lighter touch. The approach to larger claims is determined by risk and the adequacy of the authority's control environment.

These new arrangements should result in a cost saving to the council.

We have found that the liaison arrangements in terms of grant certification continue to work well and the quality and timeliness of supporting working papers is generally good. This has resulted in the need for fewer amendments to claims and qualification letters to grant-paying departments.

National Fraud Initiative

The council took part in the Audit Commission's national fraud initiative (NFI) 2002. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002 exercise exceeded £83 million of which £97,000 of savings were identified at the council.

The council has further improved its arrangements for effectively investigating NFI matches. This has been achieved by developing a comprehensive strategy, implementing a timetable to cover the key stages in the process, establishing clear arrangements for reporting the outcomes to members and officers and improving the way in which data subjects are notified of the NFI exercise.

The Audit Commission is repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Looking forward

Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.

We have sought to ensure, wherever possible, that our work relates to the improvement

priorities of the council. We will continue with this approach when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan 2005/06.

CPA 2005 and beyond

The Audit Commission has also consulted on a new framework for CPA in 2005 and beyond.

The main changes proposed are as follows:

- rationalization of service blocks;
- 'achievement' assessment element of Corporate Assessment to be driven by review of Community Plan and shared priority themes;
- move away from rigid numerical model, to one based on rules;
- corporate Assessments to be undertaken on rolling programme, integrated with Joint Area Reviews of children and young people;
- stronger focus on service delivery for users and customers; and

- more robust and explicit view of value for money (VFM) and cost-effectiveness.

Closing remarks

This letter has been discussed and agreed with the Leader, Deputy Leader, Chief Executive, Strategic Director, Assistant Chief Executive and Strategic Director, Finance and ICT. A copy of the letter will be presented to a joint meeting of the Cabinet and Corporate Vitality Overview and Scrutiny Committee in January 2005.

The council has continued to take a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the council's website at www.gateshead.gov.uk.



David Jennings
Relationship Manager and District Auditor
December 2004

Status of our reports to the council

Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by appointed auditors and addressed to directors and officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any director or officer in their individual capacity, or to any third party.

Audit and inspection reports issued

Report title	Date issued
Audit and Inspection Plan 2004/05	April 2004
Validation Review Report 2004/05: Gateshead Strategic Partnership	July 2004
e-Government Follow-up	August 2004
Performance Information in the BVPP	November 2004
Auditor's Report to Gateshead Council on its BVPP for 2004/05	November 2004
ISO 17799 Compliance	December 2004
Risk Management	December 2004
SAS 610 letter	December 2004
Audit Opinion	December 2004
Final Accounts memorandum	December 2004

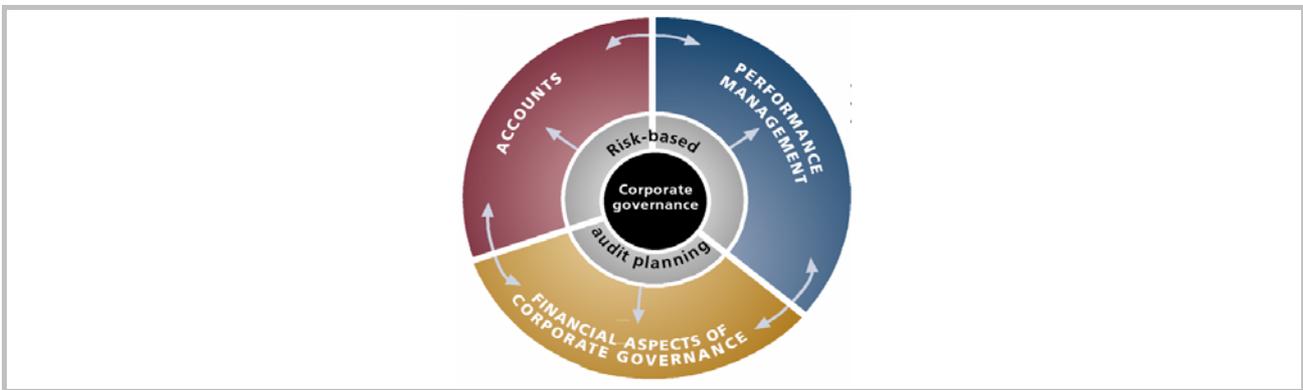
Scope of audit and inspection

Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 3.

EXHIBIT 3 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the council and the public to judge whether best value is being delivered;
- enable the council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit and inspection fees

Audit fee update

The following table sets out our latest estimate of the actual fee for 2003/04 on the basis that some work remains in progress.

Audit area	Fee per Audit Plan 2003/04 £000	Actual Fee 2003/04 £000
Accounts	56	56
Financial aspects of corporate governance	145	145
Performance	52	52
Total Code of Audit Practice Fee	253	253
Grant Claim certification (1)	£115,000	£109,000
Additional Voluntary work (under Section 35)	£0	£0

(1) The grant claim audit continues until the end of 2004 and the actual fee reported is our current estimate of the likely fee for 2003/04 certification work.

Inspection fee update

The full year inspection fee is £29,582. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.