

Annual Governance Report

September 2007



Annual Governance Report

Gateshead Metropolitan Borough Council

Audit 2006/07

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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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Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance, in this case, the Accounts Committee, at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Accounts Committee on 28 September 2007. Members are invited to:
 - consider the matters raised in the report before the financial statements are approved;
 - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
 - consider the adjustments made to the financial statements and significant qualitative aspects of financial reporting.
- 5 Our work during the year was performed in line with the plan that we presented to you on 22 May 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

Key messages

- 6 Our work on the financial statements is substantially complete. We propose to issue an unqualified audit opinion on 28 September 2007 (a draft report is attached at Appendix 4).
- 7 In our view, the Annual Governance Statement has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose to issue an unqualified conclusion on the use of resources on 28 September 2007 (a draft report is also included in Appendix 4).

Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete.

Accounts and Annual Governance Statement

- 10 Our work on the financial statements is substantially complete. The Authority complied with the new requirements contained in CIPFA's Statement of Recommended Practice (SORP) 2006. However, working papers did not fully meet requirements, and we will work with officers to ensure that improvements are made next year. A number of issues arose from the audit and these have been discussed with officers and appropriate action agreed.
- 11 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 12 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 13 The final draft of the letter of representation has been attached as Appendix 5.

Unadjusted misstatements

- 14 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements for us to bring to the attention of members.

Adjustments to the financial statements

- 15 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. These are recorded at Appendix 6 and we provide an analysis below for your attention.

Newcastle International Airport

- 16 An adjustment of £4.556m has been made to increase long-term investments and the Newcastle International Airport reserve to £8.912m, to reflect the impact of the 2001 restructuring exercise in relation to the Council's long-term investment in Newcastle International Airport. This amendment also required a prior period adjustment.

- 17 In May 2001, the seven Local Authority shareholders of Newcastle International Airport Ltd (NIAL) entered into a strategic partnership with Copenhagen Airports Limited for the latter to purchase a 49 per cent share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Plc, to own 100 per cent of the shares in NIAL and the creation of Newcastle Airport Local Authority Holding Company Limited to represent the Local Authority interests. The seven Local Authorities, via the new holding company, retained a 51 per cent interest in NIAL Holdings Ltd with the remaining 49 per cent held by Copenhagen Airports Limited. At the time of the acquisition of the new shares, the net worth of NIAL Holdings Ltd was £134m, of which Gateshead Council owned 13.04 per cent of the local authority share of 51 per cent (£8.912m).

Collection fund

- 18 The collection fund included a separate line showing £1.547m of bad debts written off in 2006/07. This comprised £0.926m in relation to council tax and £0.621m in relation to NNDR. This line of the collection fund should only show the £0.926m of write offs in respect of council tax, as the write offs in respect of NNDR are already accounted for through the payments to the national pool. This required an amendment to the collection fund. In addition, this was the first time that the Council presented its collection fund in this way, and a prior period adjustment was needed so that a comparison could be shown with write offs in the previous year.

Other adjustments

- 19 In addition, a number of presentational amendments have been made to the financial statements, and amendments have also been made to correct minor errors or clarify disclosures that are contained in the notes to the statements.

Accounting practices

- 20 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority. We have made five recommendations in relation to these issues and these have been incorporated into the Action Plan in Appendix 1. The action plan has been completed by officers to reflect the agreed action that will be taken to address these issues.

Provision for bad debts

- 21 The provision for bad debts for council tax has been reduced by £1.4m from £2.8m at 31 March 2006 to £1.4m at 31 March 2007, and in relation to NNDR it has reduced from £1m to £0.2m. Overall, the bad debts provision for council tax and NNDR has reduced by £2.2m.
- 22 However, the council tax provision is just £1.4m against outstanding arrears of £9.3m (compared to arrears of £9.8m at 31 March 2006). For NNDR, the provision is £0.2m against arrears of £1.5m. The provisions seem low relative to the outstanding levels of arrears.

- 23 We recommend that a full review of the provision for bad debts for council tax and NNDR is undertaken and any changes are reflected in the 2007/08 financial statements. In particular, where percentages are applied to arrears to determine the level of the provision, the percentages used need to be explained and supported.

Accounting for bad debts written off

- 24 Bad debts of £1.547m have been written off in the collection fund for 2006/07 (£0.9m for council tax and £0.6m for NNDR). The write offs were not approved by Members as required in the Council's own financial regulations. In response to the issues we have raised, officers have informed us that the necessary approvals were secured by Cabinet on 18 September 2007. In future write-offs should be approved before reflecting them in the financial statements.

Transfer of prior year Collection Fund surplus/deficit

- 25 In the collection fund accounts for 2006/07, there is a transfer of £2.224m (£2m to the Council's general fund, £116k to the police authority and £108k to the fire authority). However, the actual position at 31 March 2006 was a deficit of £206k. Officers have pointed out that the transfers were based on an estimate made in January 2006, in accordance with the regulations.
- 26 The main issue is that the estimate made of a £2.224m surplus was significantly different to the outcome of a £206k deficit. The estimation process should be reviewed.

Valuation of fixed assets

- 27 There has been a professionally assessed valuation of council dwellings, land and buildings as required. The valuation has however taken into account the impact of additions during 2006/07 instead of the value at 1 April 2006. Based on further discussions with officers we are satisfied that the net book value stated in the accounts is reasonable.
- 28 We recommend that the accounting policies in relation to fixed assets and, in particular, the basis for reflecting revised valuations when assets are re-valued and review of potential impairments, should be revisited and any changes made in the production of the 2007/08 financial statements.

Signing and Approval of the Financial Statements

- 29 In future, when the Authority approves its financial statements in June, the statements presented for consideration should be signed by the Treasurer, and following approval by the Committee, the Chair of the meeting should add a certificate to the statements confirming that they were approved at the meeting. This is to comply fully with the requirements of the Accounts and Audit Regulations 2006. Officers have agreed to ensure that the required process is followed in full in future years.

Systems of internal control

- 30** As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified.
- 31** We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed. There are no matters arising.
- 32** We have also reviewed whether the Annual Governance Statement has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.

Use of resources

Work performed

- 33** The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements.
- Use of resources assessment.
 - Data quality work.
 - The best value performance plan.
- 34** Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 7.

Use of resources assessment

- 35** We reported the conclusions from our last use of resources assessment in the Annual Audit and Inspection Letter published in March 2007. The overall assessment was 3 out of 4, which is 'performing well'. For the purposes of informing our value for money conclusion, we have drawn on last year's score together with known changes in arrangements. At the current time, these changes have not impacted adversely on our assessment for the purposes of the value for money conclusion.
- 36** We are currently undertaking fieldwork in relation to the use of resources assessment for 2007. When finalised, we will discuss this with relevant officers.

Data quality work

- 37** We are currently finalising our data quality review and will discuss our findings with relevant officers. This review builds on work undertaken last year. To date, our findings support the positive conclusions reached last year, and there are no matters arising that would need to be reported to those charged with governance.

Best value performance plan

- 38** Our work in respect of the Authority's 2006/07 best value performance plan (BVPP) was reported in December 2006. No recommendations were made to the Audit Commission or the Secretary of State.

Audit fee update

- 39 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

	Plan 2006/07	Actual 2006/07
Financial statements and Statement on internal control	188,000	188,000
Use of resources	69,000	69,000
Whole of Government Accounts	0	2,500
Additional Work in relation to Issues Raised by a Local Elector	0	5,586
Total Audit Fees	257,000	265,086
Grants certification work	90,000	90,000
Other work	0	0

- 40 The fee set out in the original Audit Plan for 2006/07 did not include the fee for work required on the Whole of Government Accounts (WGA) return, because at that time the fees that would be charged were still subject to consultation. The fact that there would be additional fees to be specified at a later date was set out in the plan. The expected fees for this work were reported in the Audit Plan for 2007/08 and have recently been confirmed with the Strategic Director of Finance and ICT.
- 41 During the 2006/07 audit, we also undertook additional work in relation to issues raised by a local elector. Wherever possible, we seek to accommodate additional work of this nature within the agreed fee, but on this occasion, although we absorbed some of the cost, we did need to charge an additional fee of £5,586 to reflect the additional unplanned work that was undertaken.
- 42 The outturn on inspection fees will be reported in the annual audit and inspection letter.

Appendix 1 – Action plan

Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated implementation date
R1 Review the basis of the provision for bad debts for council tax and NNDR, and reflect any changes in the 2007/08 financial statements.	High	Strategic Director of Finance and ICT	Yes	All council reserves and provisions are reviewed on at least an annual basis. The bad debt provision forms part of this review and therefore will be covered in the 2007/08 review.	March 2008
R2 Ensure that bad debts are only written off in the financial statements when the necessary approvals have been received from Members.	High	Strategic Director of Finance and ICT	Yes	The approval for write off of irrecoverable debts by cabinet will be undertaken in a more timely manner for 2007/08.	March 2008
R3 Review the estimation process for Collection Fund surpluses or deficits used within the annual budget process.	Medium	Strategic Director of Finance and ICT	Yes	The budget process currently correctly takes account of the estimated surplus/deficit on the Collection Fund. However, this will be further reviewed in 2007/08.	January 2008

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Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated implementation date
R4 Review the accounting policies in relation to fixed assets, and in particular, the basis for reflecting revised valuations when assets are re-valued.	High	Strategic Director of Finance and ICT	Yes	This will be reviewed in 2007/08.	March 2008
R5 Ensure that the financial statements are signed by the Strategic Director of Finance and ICT before they are approved by Members, and that the Chair of the meeting approving the statements signs a certificate confirming that they were approved at the meeting.	High	Strategic Director of Finance and ICT	Yes	This will be implemented for the 2007/08 accounts.	June 2008

Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1** We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2** We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	April 2006	April 2006	Audit Committee
Opinion audit plan	July 2007	July 2007	Strategic Director of Finance and ICT
Annual governance report	September 2007	September 2007	Accounts Committee
Opinion on financial statements	September 2007	September 2007	Council
VFM conclusion	September 2007	September 2007	Council
Use of resources conclusion	November 2007	Planned for November 2007	Audit Committee
Final accounts report	October 2007	Planned for October 2007	Strategic Director of Finance and ICT
BVPP report	December 2006	December 2006	Audit Committee
Data quality report	October 2007	Planned for October 2007	Audit Committee
Annual audit letter	March 2008	Planned for March 2008	Council

Appendix 4 – Proposed auditor’s report

Independent auditor’s report to the Members of Gateshead Metropolitan Borough Council

Opinion on the financial statements

I have audited the financial statements of Gateshead Metropolitan Borough Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Gateshead Metropolitan Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditor

The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the Annual Governance Statement (containing the Statement on Internal Control) reflects compliance with CIPFA’s guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

Lynne Snowball
District Auditor

Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH

28 September 2007

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s responsibilities

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor’s responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Gateshead Metropolitan Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best value performance plan

I issued my statutory report on the audit of the authority’s best value performance plan for the financial year 2006/07 on 20 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Lynne Snowball
District Auditor

Audit Commission
Nickalls House
Metro Centre
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NE11 9NH

28 September 2007

Appendix 5 – Management representation letter

To: Lynne Snowball, District Auditor

Gateshead Council - Audit for the year ended 31 March 2007

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Gateshead Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view and for making accurate representations to you. I acknowledge my responsibilities under the relevant statutory authorities to prepare the Council's accounts in accordance with proper practices as defined in relevant legislation or guidance.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

- The provision for bad debts in relation to Council Tax and NNDR has a sound basis and is fairly stated.
- Systems are in place to ensure that the Council holds the title to all fixed assets disclosed in the financial statements.
- The compensatory payment scheme agreed by the Council in September 2004 resolved the majority of equal pay claims in previous years and the current disclosure as a contingent liability remains valid for the small number of claims that have been received or may still be made.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all members meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent liabilities

There are no contingent liabilities to be disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

In all material respects, the expenditure and income disclosed in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The body has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Assets

The following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements. We have no plans or intentions that will result in any excess or obsolete stock and no stock is stated at an amount in excess of net realisable value.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Signed on behalf of Gateshead Council.

Signed

Derek Coates

Strategic Director of Finance and ICT

28 September 2007

Appendix 6 – Summary of adjusted misstatements

The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Description of misstatement					
Dr Long Term Investments, Newcastle International Airport	Amendment to reflect restructuring which took place in 2001 with the creation of NIAL Holdings Ltd. The revised investments value is £8.912m, reflecting the Council's share of 13.04 per cent of the 51 per cent local authority interest, based on the net worth of NIAL Holdings Ltd at the restructuring date (£134 million). A prior period adjustment and disclosure has also been made in the accounts.			4,556	
Cr Newcastle International Airport Strategic Reserve	As above				4,556
Net Effect		0	0	4,556	4,556

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		Collection Fund	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s
Description of misstatement			
Dr Collection Fund: Bad and Doubtful Debts, Write offs	The collection fund included a separate line showing £1.547m of bad debts written off in 2006/07. This comprised £0.926m in relation to council tax and £0.621m in relation to NNDR. This line of the collection fund should only show the £0.926m of write offs in respect of council tax, as the write offs in respect of NNDR are already accounted for through the payments to the national pool. This entry removes the NNDR write offs. A prior period adjustment and disclosure has also been made in the accounts.	621	
Cr Collection Fund: Movement on Provisions	As above		621
Net Effect on Collection Fund			0

Appendix 7 – Value for money conclusion

The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.

The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are shown in the table below.

Code criteria	Description	Associated UoR KLoE	VFM conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	Adequate

Code criteria	Description	Associated UoR KLoE	VFM conclusion
6	The body has put in place arrangements to manage its significant business risks.	4.1	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	Adequate