

Annual Governance Report

Gateshead Metropolitan Borough Council

Audit 2008-2009

September 2009

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Status of our reports

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

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

Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Strategic Director of Finance and ICT on 18 September 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- either accept officers reasons for not amending the unadjusted error or arrange for the error to be amended; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4);
- take note of the VFM Conclusion and Use of Resources score (pages 13 to 16); and,
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Steve Nicklin
District Auditor
September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	7
Use of resources	Results	Page
Use of resources judgements	Yes	13
Arrangements to secure value for money	Yes	16

Audit opinion

- 1 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Financial statements

- 2 A small number of errors have been found as a result of our audit. Appendix 2 provides a summary of adjusted errors.
- 3 There is one non-material error which officers do not wish to amend, and this is shown in Appendix 3. Officers have explained that they do not wish to amend this error because it is not material to the financial statements, and it has no impact on the General Fund Balance.

Key messages

Use of resources

- 4 The Audit Commission's overall draft score for the Council's use of resources is level 3. This takes into account:
 - the general strengthening of the Audit Commission's scoring criteria in the new Use of Resources approach this year; and
 - the Council's planned and actual progress, and the positive impact this has had on arrangements and outcomes.
- 5 The scores are summarised in this report, but more detail will be made available in my separate report on the Use of Resources assessment.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

6 I ask the Accounts Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- either accept officers reasons for not amending the unadjusted error or arrange for the error to be amended (Appendix 3);
- take note of the VFM Conclusion and Use of Resources score (pages 13 to 16);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 7** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
 - 8** Once again, we found officers helpful and responsive to the queries we raised, and we appreciate the assistance that was provided in enabling us to undertake our audit work effectively. In particular, we feel that the Sharepoint Site which was developed to help manage queries arising from the audit operated very well and contributed to improved arrangements.
 - 9** Our view remains that the financial statements continue to be of a high standard and are well supported by working papers.
-

Errors in the financial statements

- 10** A small number of errors have been found as a result of our audit. Appendix 2 provides a summary of the errors which officers agreed to amend in the financial statements.
- 11** There is one non-material error which officers do not wish to amend, and this is shown in Appendix 3. Officers have explained that they do not wish to amend this error because it is not material to the financial statements, and it has no impact on the General Fund Balance.
- 12** As this error is not material I still plan to issue an unqualified opinion on the financial statements. However, Members should either accept officers reasons for not amending the unadjusted error (and set out the reasons for this in the letter of representation, a draft of which is at Appendix 4) or arrange for the error to be amended. Officers have provided some draft wording to explain why this error has not been amended by them, which Members may find helpful in considering this issue.

Recommendation

- R1** Members should either accept officers reasons for not amending the unadjusted error (and set out the reasons for this in the letter of representation, a draft of which is at Appendix 4) or arrange for the error to be amended.

Material weaknesses in internal control

13 I have not identified any material weaknesses in internal control.

Letter of representation

14 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

15 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>Risks relating to the revaluation of fixed assets. The risk that an impairment review is not undertaken in light of the economic downturn and fall in property values, meaning that fixed assets may be materially misstated.</p>	<p>We discussed this issue with officers at an early stage, and the valuer carried out a full impairment review and the necessary adjustments to fixed asset values were made in the accounts approved on 25 June 2009.</p> <p>We focused on these adjustments as part of our audit testing and we do not have any issues to raise in relation to them.</p>

Financial statements

Issue or risk	Finding
<p>Risks relating to the new banking and investment arrangements introduced for Northumbria Police Authority from 1 April 2008. This risk that the new arrangements from this date do not adequately record the cash balance for the Council or the split of any investments between the Police Authority and the Council, possibly leading to material misstatement.</p>	<p>We discussed the changes to these arrangements on an ongoing basis with officers, and received assurances regarding the arrangements that had been put in place.</p> <p>We carried out testing of these arrangements during our audit work. The arrangements were understandably complex, and there were some changes made in the year as additional information came to light. However, we have concluded that there are no further issues to raise in relation to these arrangements other than the issue below in relation to impairment of Heritable deposits.</p>
<p>Risks relating to accounting for the impairment relating to deposits in Icelandic Banks. The Council has a £3.5m deposit with Heritable, a UK subsidiary of Landsbanki. The impairment has no impact on council tax payers in 2008/09, but there are risks in relation to reflecting the correct accounting entries 'above the line'.</p>	<p>We discussed this issue with officers. Officers were aware of the accounting requirements and reported that they had followed CIPFA guidance.</p> <p>As a result of the new banking arrangements (noted above), there were ongoing changes in arrangements made in the year as new information came to light. Specifically, the Council's share of the Heritable investment was determined to be £2.8m rather than the £4.5m originally disclosed. This revised share of the investment was reflected in the financial statements approved by Members on 25 June 2009.</p> <p>However, the accounting entries for the impairment were not revised to reflect the correct share. The consequence of this is that the impairment is overstated by £420k.</p>

Issue or risk	Finding
(continued from previous page)	<p>Officers have declined to make an amendment to the statements on the grounds that the adjustment is not material, and it has no impact on the General Fund Balance.</p> <p>Officers propose to adjust for this error in the 2009/10 financial statements.</p>
<p>Risks relating to the valuation of the Council's investment in Newcastle International Airport. The valuation has not been updated for some time, and given the financial restructuring that has taken place, the value of this asset could be overstated.</p>	<p>This issue was raised with officers, and through South Tyneside Council, the lead authority for the airport, an updated estimate of the value of the airport was received.</p> <p>We considered the new estimate of the airport's value, and the Council's share of this, during our audit work.</p> <p>We concluded that there was a reasonable basis for the revised value, particularly given the time scales available to get the value updated.</p> <p>However, we suggest that officers discuss with the Council's partners the best way to get the fair value of the airport investment updated in future, and whether a more comprehensive valuation is needed.</p> <p>The Council, in line with other authorities, originally treated the fall in value as an impairment with a charge of £7.853m to the income and expenditure account, reversed through the statement of the movement on general fund balance so that it had a neutral effect on the General Fund Balance.</p>

Financial statements

Issue or risk	Finding
(continued from previous page)	<p>However, it has subsequently been agreed with all authorities that the most appropriate treatment is for the fall in value to be reflected on the balance sheet and then a reconciliation undertaken through the statement of total recognised gains and losses.</p> <p>The Council's statements have been amended to reflect these changes and to ensure consistency with other authorities, and the amendment is reflected in Appendix 2.</p>
<p>Risks relating to equal pay claims against the Council. These are currently disclosed as a contingent liability.</p>	<p>We have discussed this issue with officers, and we reviewed the appropriateness of this disclosure in the context of FRS12.</p> <p>In particular, we queried why an estimate of the potential liability could not be disclosed. Officers explained that the potential liability could be very significant, but there are so many uncertainties that it is not possible to accurately estimate a value at present.</p> <p>We concluded that the disclosure was reasonable.</p>
<p>Risks relating to the disclosure of members allowances. The accounts currently include only basic and special responsibility allowances, but travel and subsistence allowances also need to be disclosed.</p>	<p>We raised this issue with officers and information was collected.</p> <p>The sums involved were not material, but the Council wanted to extend the current disclosure given the wider public interest in this issue.</p> <p>An amendment was made to the appropriate note to the financial statements.</p>

Issue or risk	Finding
Risks if errors identified during the audit of the 2007/08 statements, which were corrected, recur or issues agreed for further action are not followed up.	Tests were undertaken to ensure the correct treatment of areas where errors were identified or further action identified from the 2007/08 audit. There are no significant issues arising.

Accounting practice and financial reporting

16 I consider the qualitative aspects of your financial reporting. I have no specific issues of concern to draw to your attention.

Use of resources

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

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

Use of resources judgements

17 The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised below. I plan to issue a separate report detailing the findings, conclusions and recommendations for discussion with officers.

Table 2 Use of resources theme scores

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

Managing finances

18 The arrangements in place for managing finances, including robust financial planning linked to service planning processes, have contributed towards significant outcomes. These have been achieved across the Council, and examples include good progress on the indicators within the Gateshead Agreement and improvements in social care and educational attainment. Further significant outcomes are planned to be delivered.

19 The Council engages its local community and other stakeholders in the financial planning process. There has been significant consultation, particularly for Vision 2030, and community engagement is relatively strong. This has been reflected in the relatively strong results in the recent Place survey.

20 The Council has a strong record of efficiency improvement, achieving £25 million of efficiency savings over the last three years; this is £9.6 million in excess of the Government's target. Examples of savings accompanied by service improvement include children and adolescent mental health services, learning disability services, day services for people with learning difficulties, recovery of benefits overpayments, reductions in costly independent fostering and out of borough placements for children and benchmarking within the partnership for delivering refurbishment of the Council's housing stock.

- 21** Financial reporting arrangements are sound. Budget management is strong and performance management has been further developed. The arrangements for producing the statutory financial statements are effective. Reporting to the public has improved, but there is scope for further development in this area.

Table 3 Managing finances scores

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

Governing the business key findings

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

Table 4 Governing the business scores

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

Managing resources

- 26** This year's assessment of managing resource is based on sustainability and asset management.
- 27** The Council has good information on energy use and carbon emissions and has set out baseline information and ambitious plans to reduce carbon emissions by 35% in the next 5 years. It has set out a 5 year programme to achieve this and has already quantified the carbon and financial implications of actions to achieve two thirds of the target. There are examples of outcomes that have already been achieved, for example, the Council reused or recycled 97% of highways and building waste produced in 2008/09, it has reduced energy used by its transport fleet by purchasing fuel efficient vehicles and training drivers in fuel economy, it has increased biodiversity by creating some 300 hectares of new or improved habitats, including woodland from restored landfill, wetland from former agricultural land and a nature park from a former quarry. Further improvements are in progress or planned for the future.
- 28** We have recently completed a detailed Review of Asset Management, which identified a number of areas for improvement. The Council has accepted our conclusions and agrees that asset management requires improvement.
- 29** There is a strategic approach to asset management and it is well integrated into corporate and service planning. Development of new and refurbished assets has played a significant role in service transformation. However, there is no strategic plan as such for the Council's assets as a whole and no up to date corporate asset management plan, though a more strategic plan is now in preparation. Assets are managed as a corporate resource and the Council is increasingly taking robust decisions about holding and disposal of assets. A review of office accommodation has recently been completed and this has identified the potential to release a number of buildings. A systematic review of the Civic Centre has achieved significant improvements in space utilisation as part of a workspace strategy. Most assets are fit for purpose but there are deficiencies in some of the information currently held by the Council on its assets and this has had a negative impact on strategy development and performance management; however, it is currently being rectified. Partnership arrangements to maximise on the development and utility of assets are widespread.

Table 5 Managing resources scores

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

Value for money conclusion

- 30** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Table 6 below.
- 31** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Table 6 VFM criteria 2008/09

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

Appendix 1 – Independent auditor’s report to the Members of Gateshead Metropolitan Borough Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Gateshead Metropolitan Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Strategic Director of Finance & ICT and auditor

The Strategic Director of Finance & ICT’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting 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 accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its income and expenditure for the year.

Appendix 1 – Independent auditor’s report to the Members of Gateshead Metropolitan Borough Council

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither am I 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 Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword and 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 Authority accounting 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 Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, 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 Authority accounting statements and related notes 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 Authority accounting statements and related notes.

Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

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.

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.

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 May 2008 and updated in February 2009, and the supporting guidance, 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 2009.

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.

Steve Nicklin
District Auditor

Audit Commission
Nickalls House
Metro Centre
Gateshead NE11 9NH

September 2009

Appendix 2 – Adjusted amendments to the accounts

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

Table 7

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
<p>The Council, in line with other authorities, originally treated the fall in value of Airport shares as an impairment with a charge of £7.853m to the income and expenditure account, reversed through the statement of the movement on general fund balance.</p> <p>However, it has subsequently been agreed with all authorities that the most appropriate treatment is for the fall in value to be reflected on the balance sheet and then a reconciliation undertaken through the statement of total recognised gains and losses.</p>	<p>Debit Depreciation and Impairment of Fixed Assets, Statement of Movement on General Fund Balance</p> <p>Credit Impairment of Airport, Income & Expenditure Account</p> <p>The Council's statements have been amended to reflect these changes and to ensure consistency with other authorities.</p>	7,853	7,853		

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
As part of officers review of the monthly control accounts it came to their attention that the adjustment required to transfer an amount equal to the Newcastle International Airport annual debt repayment from Deferred Capital Receipts to Useable Capital Receipts had not been completed as part of 2008/09 Final Accounts closedown process.	Debit Deferred Capital Receipts			310	
	Credit Capital Receipts Unapplied				310

Other adjustments

- The note on members allowances has been amended to include expenses as well as allowances.
- The note on audit costs has been corrected.
- A post balance sheet note has been added in respect of the impairment of Heritable deposits, but the impact of the disclosure is not significant.
- In addition, a small number of relatively minor amendments were made to the financial statements to correct minor errors, typographical errors and inconsistencies.

Appendix 3 – Unadjusted misstatements in the accounts

The following misstatement was identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected error is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 8

Description of error	Accounts effected	Value of error £Million
<p>Impairment of the Authority's share of the Heritable investment was based on an initial estimate of the Authority's share of the investment as £4.5m rather than the final confirmed share of £2.8m.</p> <p>The consequence of this is that the impairment is overstated by £420k.</p> <p>Officers have declined to make an amendment to the statements on the grounds that the adjustment is not material and it has no impact on the General Fund Balance.</p> <p>Officers propose to adjust for this error in the 2009/10 financial statements.</p>	<p>Debit Investments £418k</p> <p>Debit Statement on Movement of General Fund Balance £418k</p> <p>Credit Interest payable and receivable (I&E) net £418k</p> <p>Credit Financial Instrument Adjustment Account £418k</p>	<p>£0.418m</p>

Appendix 4 – Draft letter of representation

To: Steve Nicklin, District Auditor

Gateshead Council - Audit for the year ended 31 March 2009

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 2009.

Compliance with statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatement

I confirm that I believe that the effects of the uncorrected financial statements misstatement listed in the attached schedule is not material to the financial statements. This misstatement has been discussed with those charged with governance within Gateshead Council and the reasons for not correcting this item are as follows:

- The amounts in question are not material to the financial statements;
 - Government Regulations regarding treatment of impairment calculations in relation to outstanding deposits in Heritable Bank mean that there is no impact on the Authority's General Fund Balance.
-

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 committee meetings, have been made available to you.

Irregularities

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

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.

The Council 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.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For each assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require/do not require adjustment to the fair value measurement.

Appendix 4 – Draft letter of representation

Assets

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

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

Compensating arrangements

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

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and 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, other than those already disclosed in the financial statements.

Related party transactions

I confirm the completeness of the information disclosed 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.

Post balance sheet events

Since the date of approval of the financial statements by the Accounts Committee, no significant post balance sheet events have occurred which would require adjustment or disclosure in the financial statements.

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.

Signed on behalf of the Council.

Signed

Name	Derek Coates
Position	Strategic Director of Finance and ICT
Date	September 2009

Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 – Recommendations						
7	R1 Members should either accept officers reasons for not amending the unadjusted error (and set out the reasons for this in the letter of representation, a draft of which is at Appendix 4) or arrange for the error to be amended.	3	Accounts Committee	Yes	At the Accounts Committee meeting on 24 September 2009 Members accepted officers reasons for not amending the accounts and this was set out in the letter of representation.	24 September 2009

The Audit Commission

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

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

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

Copies of this report

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