

Annual Governance Report

Gateshead Metropolitan Borough Council

Audit 2009/10

September 2010

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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

2009/10 Annual Governance Report

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Strategic Director Finance and ICT on 14 September 2010 and updated it as issues have been resolved.

My 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 6 to 9);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- 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 6).

Yours faithfully

Steve Nicklin
District Auditor

16 September 2010

Key messages

This report summarises the findings from the 2009/10 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 your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	7
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	10

Audit opinion

- 1 My audit is largely complete. Subject to satisfactory resolution of the remaining issues, I propose to issue an unqualified opinion by the end of September 2010.

Financial statements

- 2 My audit identified a number of errors in the statements, which have been amended. There are two issues which officers have not agreed to amend. These relate to the impairment of PFI schools and the Statement of Total recognised Gains and Losses. (Appendix 3).

Value for money

- 3 The Council has adequate arrangements in place to secure value for money and improvements have been made since my last review.

Independence

- 4 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

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.

5 I ask the Accounts Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 10);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- 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 6).

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

- 6 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.

Errors in the financial statements

- 7 The draft statements were approved before the end of June, allowing us to start our audit as planned. Good working papers supported the accounts, and use of the Sharepoint intranet site (for the third year) ensured all audit queries were logged and promptly addressed. We have good working relationships with officers, who were always very helpful and ensured that key issues were identified and addressed.
- 8 A number of amendments were made to the draft statements. Several were minor presentational, consistency and disclosure issues. Quality review arrangements are in place, which are reviewed each year following the completion of the audit. This should ensure that the need for any improvements to arrangements are identified and addressed.
- 9 There are two errors which officers have not agreed to amend. Details are included in Appendix 3, in summary:
- a change in accounting requirements meant that schools financed under PFI agreements had to be accounted for as the Council's assets and brought onto the balance sheet. The statements should have been amended to reflect transactions as if the schools had always been on balance sheet. Whilst the schools have been included on the balance sheet, downward revaluations of £3.659m are not reflected in the value.; and
 - the Statement of total recognised Gains and Losses includes an 'other' gain of £1.07m which is effectively a balancing figure.

Recommendation

- R1** Amend the statements to account for the fall in value of PFI schools and the balancing entry in the Statement of Total Recognised Gains and Losses, or explain why it is considered appropriate not to make the amendments.

Financial statements

Important weaknesses in internal control

- 10 My testing of controls over journals, which transfer balances within the ledger, identified that journals are not always authorised as required by financial procedures.
- 11 My audit did not identify any accounting errors as a result of this. Many of the unauthorised journals were for small amounts, and there are compensating access controls.
- 12 The Council is aware of weaknesses in financial systems supporting adult social care. These are disclosed in the Annual Governance Statement and the Council has action plans in place to address the weaknesses, in particular:
 - identifying existing contractual arrangements and developing standard contract terms;
 - improving arrangements for clients with personal budgets and direct payments; and
 - reviewing and improving systems for financial assessments.

Recommendation

R2 Review financial procedures to ensure journals are appropriately authorised.

Key areas of judgement and audit risk

- 13 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Treasury management – risks relating to deposits following the banking crisis	The Council has reviewed its treasury management arrangements. The expected loss has been updated.
Assessment of PFI scheme under IFRIC 12 and any consequent accounting changes/prior period adjustments may not be correctly accounted for.	Schools funded through PFI have been brought on balance sheet. The Council has not correctly accounted for changes in value of the schools (see Appendix 3)
Risk that the changes to accounting for NNDR and council tax introduced by the SORP will not be correctly reflected throughout the financial statements.	The changes have been correctly accounted for (after amendment)
There may be a failure to account for ongoing Equal Pay liabilities.	A provision and contingent liability are included in the statements

Issue or risk	Finding
The Council may not prepare group accounts.	The Council has completed a detailed assessment of whether group accounts are required and concluded that group accounts are not required in 2009/10.
The new disclosure requirements for remuneration may not be met.	Senior officers' remuneration is appropriately disclosed
Internal audit reports have identified some significant weaknesses, although not in major systems. There is a risk that disclosure in the Annual Governance Statement may be inaccurate.	The Annual Governance Statement appropriately discloses identified weaknesses
There is a risk that issues raised on last years statement of accounts may not have been addressed concerning the revaluation of fixed assets, Newcastle Airport revaluation, and members' allowances and expenses.	<p>The issues raised last year have been largely addressed.</p> <p>The valuer's report on council dwellings was not clear on how the 1/4/2009 valuation had been reached - it initially appeared to exclude additions in year and excluded assets which were disposed of in year.</p> <p>The Council needs to ensure it regularly updates the valuation of its Airport investment.</p>
Our systems testing of the Main Accounting System has highlighted that journals are not always authorised. There is a risk of financial misstatement.	We found no evidence of misstatement arising from the lack of authorisation of some journals
Our systems testing of the Carefirst system has indicated that a number of controls are not operating effectively.	The weaknesses are disclosed in the Annual Governance Statement and our income and expenditure testing did not find any material impact on the accounts as a result of this control weakness.

Recommendation

- R3** Ensure that the asset valuation report clearly sets out the basis of the valuation and what is included and excluded from the 1 April valuation.
- R4** Ensure an annual valuation of the Airport is obtained.

Accounting practice and financial reporting

14 I consider other aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

Issue or risk	Finding
Fair value of assets and liabilities carried at amortised cost, note 35.	Trade debtors and trade creditors balances disclosed here include all prepayments (£1.188m) and receipts in advance (£11.370m). Such balances represent cash transactions which have already taken place. Debtors and creditors should be reviewed for other similar balances, with a view to excluding them from disclosures in future.
Accounting for joint arrangements (JANEs)	The Council is involved in a number of JANEs. It currently accounts for its annual contribution to each, rather than its share of assets, liabilities and cash flows as required by the SORP.

Recommendation

- R5** Ensure the Council fully complies with the SORP in accounting for joint arrangements.
- R6** Debtor and creditor balances should be reviewed for items where the transfer of cash has already taken place. These balances should then be excluded from the fair value of assets and liabilities note.

Letter of representation

15 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Value for money

I am required to assess whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 16** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 17** The Council has managed its finances effectively, and has delivered efficiencies and improved outcomes.
- 18** There have been some improvements in the Council's arrangements. These include:
- programme of service reviews to both identify savings and improve service delivery;
 - identification of services not making use of Council contracts, to save money;
 - property reviews, to free-up surplus buildings (although this is still at an early stage);
 - reduced sickness levels; and
 - scenario planning to help manage finances over the next three years.
- 19** The Council has also identified scope for further improvement, including:
- improving adult social care services, including the supporting information systems; and
 - further working with partners to maximise the benefits from spending by all.
- 20** The Council recognises that the financial pressures it faces demand more far reaching measures. It is working on transformational change through its overarching Fit for Future programme. This is an in depth review of support services to ensure value for money.
- 21** The Council is relatively well placed to meet the future challenges. However, the pressures on public spending are so great that members will inevitably be faced with difficult choices in relation to future service provision. Future audit work will focus on financial resilience and the way in which the Council balances the delivery of cuts in public spending with the maintenance of effective service provision.
- 22** 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.

Glossary

Annual governance statement

- 23** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 24** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 25** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
-

Audit closure certificate

- 26** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.
-

Audit opinion

- 27** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.
-

Qualified

- 28** The auditor has some reservations or concerns.
-

Unqualified

- 29** The auditor does not have any reservations.
-

Value for money conclusion

- 30** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Opinion on the accounting statements

I have audited the Council's accounting statements and related notes of Gateshead Metropolitan Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of 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 published by the Audit Commission in April 2008.

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

The Strategic Director of Finance & ICT’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

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 accounting 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 Council's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the 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 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 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 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 accounting statements and related notes.

Opinion

In my opinion the Council's accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

Council's Responsibilities

The Council 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 regularly to 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

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

to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’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 October 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 ended 31 March 2010.

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 2010

Appendix 2 – Amendments to the draft accounts

I identified misstatements during my audit and managers have made the necessary adjustments. The Strategic Director of Finance and ICT has a full list of amendments. The following are the main amendments, which I bring to your attention to aid you in fulfilling your governance responsibilities.

Table 3 Amendments to accounts

The following amendments were made

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Deferred capital receipts	Deferred capital receipts (£1,337m) moved from reserves to long-term liabilities.			1,337	1,337
Long/short term investments	One short term investment classified as long term			2,894	2,894

A number of other adjustments were agreed relating to statements, prior year comparative figures and to notes which had no impact on the Income and Expenditure Account or the balance Sheet. These included:

- Cash Flow Statement amended to include over-payment to precepting authorities of £86k ;
- Collection fund balance of income due from NNDR reduced by £559k;
- Other operating cash payments in Cash Flow Statement increased by £9,248m in respect on share of council tax receipts due to precepting bodies. Corresponding decrease to cash inflows. (Council tax receipts £7,057m, DWP grants for benefits £2,106m);
- details of some accounting policies amended to make them clearer;
- note 8 Prior Period Adjustments amended to include long-term creditors £47,581m;

Appendix 2 – Amendments to the draft accounts

- note 26 leasing amended to show rentals receivable and values of assets, together with depreciation; and
- PFI Assets note 27 has been amended to include the gross liability and bullet payments, rather than the net position.

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 4 Unadjusted misstatements

The following misstatements have not been amended

Description of error	Accounts affected	Value of error £000s
Downward revaluation of PFI schools	Balance sheet I&E Notes	3,659
'Other' gains is a balancing figure	STRGL	1,070

Appendix 4 – Draft letter of representation

Draft management representation letter

To: Steve Nicklin
Appointed Auditor
Nickalls House
Metro Centre
Gateshead
NE11 9NH

Gateshead MBC - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Gateshead MBC, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

Compliance with the 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 give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements shown below are not material to the financial statements. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows:

Value of schools funded through PFI, on restatement applying IFRIC 12

- the value represents changes to the 2008-09 comparative figure;

- the 2008-09 value that would have gone through the I&E Account (£1.783m) represents 0.2% of the 2008-09 gross expenditure. This would have been reversed out through the SMOGFB;
- the cumulative impairment value for 2007-08 and 2008-09 of £3.659m represents only 0.2% of the value of fixed assets and is therefore not material to the financial statements;
- the entries are notional and have no impact on the General Fund position;
- the entries have no impact on the Council's Net Worth;
- this means that notes 8 and 27 are consistent with the statement but not with the financial model used to calculate the restatement..
- the cumulative balance of Fixed Assets will be corrected as part of the 2010-11 statement of account.

'Other' gains included in the Statement of Total Recognised Gains and Losses (STRGL)

This figure includes the reduction in the fair value of the shareholding in Newcastle Airport. In total, the figure represents only 0.3% of the net worth of the Balance Sheet and is therefore not material to the financial statements. The imbalance on the STRGL will be reviewed as part of the 2010/11 closedown process.

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 Council and 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

Appendix 4 – Draft letter of representation

- 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.

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.

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

Specific representations:

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

I confirm that the following investments were held at 31 March 2010:

- RBS D090576819246 £2m Matures 2/11/10
- RBS 1001210201867 £10m Matures 21/10/10
- HBOS 1916679CE £3m Matures 7/9/10 (rolled forward)
- HBOS 51963153 - 1140358 £1m Matures 4/11/10
- HBOS 2005432CE £3m Matures 4/1/11
- HBOS 2009047CE £5m Matures 10/1/11
- HBOS 2064596CE £3m Matures 23/9/10
- HBOS 2065517CE £2m Matures 28/9/10
- HBOS S2063586 - 1496886 £4m Matures 24/3/11
- HBOS 2064595CE £1m Matures 25/3/11
- RBS 090470196480 £10m matures 6/4/10 (rolled forward)

Signed on behalf of Gateshead MBC

I confirm that this letter has been discussed and agreed by the Accounts Committee on 24 September 2010.

Signed

Derek Coates
Strategic Director Finance and ICT

Date

Appendix 5 – Value for money criteria

KLOE	Met	Summary of conclusions
Managing finances		
Planning for financial health	Yes	<p>The Council's integrated financial planning continues to support the delivery of strategic priorities. A sound financial position has been maintained, with a planned use of reserves to allow time to deliver substantial savings from the Fit for Future programme.</p> <p>A comprehensive and balanced budget was set, which included realistic savings plans. Treasury management arrangements have been reviewed following the banking crisis, and have been updated to reflect CIPFA's recent Code of Practice update. Members now have a greater role in scrutiny of treasury management activity, although training for members has not yet been delivered. Over £3m growth was allocated to priority areas (children, old people, waste management and sustainability). Some services for older people can be improved.</p>
Understanding costs and achieving efficiencies	Yes	<p>The Council has a good understanding of its costs. It benchmarks costs and uses its analysis to challenge service provision, and there are examples of improvements in value for money across the Council, such as rationalising support services in Learning & Children, Property Services and Financial services, reducing surplus capacity in children's residential homes and seeking alternative providers of some domiciliary care.</p> <p>Overall costs are medium to high but most services and outcomes are good. The Council has a good understanding of the reasons for costs being above average, where this is the case. However, adult social care services costs are very high and the outcome of a recent inspection by CQC found significant weaknesses in assessment. The Council has a strong record of efficiency improvement and continues to outperform government targets, in 2009/10 achieving £11m against an increased target of £9.4m.</p>

KLOE	Met	Summary of conclusions
Financial reporting	Yes	<p>Budget information is produced on a timely basis and is monitored by budget holders, senior managers and members. Corrective action is identified and action plans developed to address issues. Partnerships are monitored, with the Council taking the lead role in many. Internal Audit review budget processes annually which leads to further improvements, and a review of the budget process has also been carried out to reduce duplication and improve efficiency. Historically, the year end position has been as forecast in year.</p> <p>Performance and finance reports are separate although links are made. Budget holders have access to the financial system and receive regular reports.</p> <p>2009/10 timetable and guidance issued in good time and statutory deadlines were achieved. Regular liaison and agreed protocol with auditor are in place to ensure previous high standard of working papers is maintained and that complex or potentially contentious issues are discussed early. Progress is being made on IFRS although timetable has slipped.</p> <p>Accounts, summary accounts and annual audit/inspection letters are on the Council's website. Some documents provide detail on how to get the information in other formats/languages, although there is no general information on the website. The Council produces an annual report summarising performance in the year, with financial information</p>
Governing the business		
Commissioning and procurement	Yes	<p>An intelligence system (Gateshead Electronic Neighbourhood Intelligence Engine - GENIE) is in place which helps prioritise areas of greatest need by providing ongoing analysis of geographic and themed levels. A 10 Point Plan for Economic Resilience is in place. This supports local residents and businesses in the economic downturn.</p> <p>There is good evidence of the Council engaging with stakeholders / users eg. the Community Development Framework, Area Forums and Local Area Plans (5), the employment of "involvement officers" who engage with difficult to reach groups, consultation via MORI surveys, consultation on major projects such as Town</p>

Appendix 5 – Value for money criteria

KLOE	Met	Summary of conclusions
		<p>Centre, BNG, piloting of participatory budgeting (UP2U), listening to residents views on leisure before implementing a £30m investment in sports and leisure facilities within the Building an Active Future programme, consulting on the Children and Young People's Plan.</p> <p>A Gateshead officer currently chairs the Tyne & Wear ICT Partnership making the most of ICT expertise across the region.</p> <p>A corporate procurement handbook is in place supported by extensive training.</p> <p>Gateshead is the lead authority for the North East Purchasing Organisation and the Council has undertaken a Procurement Gateway Review and is undertaking an internal review of procurement policies and the corporate procurement function.</p> <p>The Council has an active approach to having dialogue with suppliers and tries to assist potential providers to develop their services / commodities.</p> <p>The Council has developed a spend analysis tool using COGNOS software to identify areas that have not used existing contracts.</p> <p>The Council gives appropriate consideration to key factors in evaluating its procurement options eg consideration of internal / external suppliers, joint purchasing activities, compliance with internal governance and legal requirements.</p> <p>The Council assesses sustainable development implications of its procurement practices.</p> <p>The Council can demonstrate areas where commissioning and procurement have helped to improve economic prosperity eg Gateshead Quays area (including Baltic, Sage etc), Housing Renewal Programme, Joint Waste Management Programme. This includes working with partners where appropriate.</p>
Use of information	Yes	The Council has good arrangements to ensure that its data is accurate, reliable and relevant, through its service planning and performance management

KLOE	Met	Summary of conclusions
		<p>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 a continuing role for the corporate service improvement team and internal audit, working with designated staff throughout the Council.</p> <p>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.</p> <p>Performance reporting is effective, based on the priorities and targets in Vision 2030, the Gateshead Agreement and the corporate plan. Decision making is supported by good quality information and widespread consultation. However, formal reports to Cabinet do not always document this clearly.</p> <p>Gateshead Neighbourhood Vitality Index provides a view of the relative vitality/need across 85 neighbourhoods. It incorporates data from several sources, including Council services, partners and external agencies, and organises these into six domains: crime, education, health, housing, income and unemployment. A range of profiles have been produced to provide easy to understand information, including area, ward and neighbourhood profiles. Information to support targeting of services on particular areas or diversity groups is good and there is consultation with a range of diversity groups. However, there is limited information about service use by different groups to examine equality and diversity.</p> <p>The Council has suitable arrangements to ensure data security including ISO27001 accreditation and Code of Connection compliance.</p> <p>The Council has increased its use of social media in the past year. They were well used during the extreme weather of the past winter and in promoting new recycling facilities.</p> <p>However, work in specific areas by the Audit Commission and the Care Quality Commission has again identified some weaknesses in information.</p>

Appendix 5 – Value for money criteria

KLOE	Met	Summary of conclusions
		<p>These include evaluation of health promotion and health inequality initiatives and some areas of adult social care. The Council accept that there have been major deficiencies, data errors and inadequate network capacity in the Care First system which have led to poor access and the system being slow. This is now receiving attention.</p>
Good governance	Yes	<p>A comprehensive constitution is in place which is reviewed and updated annually. There is a constructive working relationships between members, management and staff . The Council's purpose and vision is comprehensively reflected in Gateshead's Strategic Partnership document Vision 2030, which is supported by the Corporate Development Plan and the Gateshead Agreement. (updated in 2009/10 to reflect changing economic conditions).</p> <p>The Council demonstrates its open, outward facing culture reflecting the needs of the local community by making its agendas and papers available on its website, holding area forms in local communities and having particularly good member / senior officer working relationships . However registers of interests are not currently available online-set to change in 2010/11.</p> <p>An effective ethical framework and culture are demonstrated by member / officer codes of conduct, registers of interests, gifts and hospitality, a code of governance, a good Standards Committee, effective and easily accessible procedures for both whistle blowing and complaints as well as a confidential reporting code, well attended training programmes, good partnership governance is reflected in the Gateshead's Strategic Partnership including a GSP handbook and effective procedures for ensuring that governance arrangements are effective in the major projects / partnerships.</p>
Risk management and internal control	Yes	<p>A comprehensive fraud and corruption policy is in place which is linked to the Council's strategic objectives. The Council has a strong pro-active counter fraud culture which is evidenced by a programme of anti-fraud work carried out by Internal Audit and a policy of applying sanctions and recovering losses where fraud and corruption is proven. It also has a fraud response plan in place. All potential cases of fraud and corruption are investigated by trained audit</p>

Appendix 5 – Value for money criteria

KLOE	Met	Summary of conclusions
		<p>staff and benefits fraud investigations are carried out. All successful cases of proven fraud / corruption are widely publicised.</p> <p>Effective employee checks are undertaken and the Council actively participates in NFI.</p> <p>The Council participates in CIPFA benchmarking which includes questions on fraud and corruption.</p> <p>The Council shares intelligence with appropriate partner organisations.</p> <p>Effective arrangements exist covering fraud and corruption arrangements for the Council's partnerships.</p> <p>A strong internal control environment has been built up in recent years. The following key factors are particularly relevant:</p> <ul style="list-style-type: none"> -a strong Audit Committee which works alongside an officers' Internal Control Group. These form an effective core of the Council's framework of assurance -standing orders and standing financial instructions are contained within the Council's Constitution -effective arrangements exist for the compilation of the Annual Governance Statement including the completion of Managers' Assurance Statements by all service heads -comprehensive business continuity plans are in place and are subject to testing. The plans of significant contractors and partners are reviewed by Council officers.
Managing resources		
Natural resources	N/A	Not specified criteria 2009/10.
Strategic asset management	Yes	The Council takes a strategic approach to asset management. It is well integrated into corporate and service planning. Development of new and refurbished assets has played a significant role in transforming services. After several years when there was no up-to-

Appendix 5 – Value for money criteria

KLOE	Met	Summary of conclusions
		<p>date asset strategy in place, the Council adopted a new corporate asset strategy and management plan in April 2010. This is too recent to show any significant impact yet. Assets are managed as a corporate resource and the Council is increasingly taking robust decisions about holding and disposal of assets. Reviews of most categories of property have now been completed, but most are too recent to have had much impact. The review of offices has identified the potential to release some buildings. A systematic review of the Civic Centre has significantly improved use of space as part of a wider workspace strategy. Most assets are fit for purpose but the proportion of buildings which meet statutory disability access standards is low. Recent improvements have been made to information held on assets and to performance management. The carbon reduction programme is starting to deliver improvements. Partnership arrangements to maximise use and development of assets are widespread and the Council and its partners are developing a more strategic joint approach to asset issues.</p>
Workforce	Yes	<p>The Council manages and develops its workforce well. It ensures that training keeps pace with service development. Recruitment initiatives target areas where the Council has experienced recruitment difficulties but there are some areas where more needs to be done. ICT has helped to make recruitment more efficient. The Council celebrates good performance by teams and individuals. It has taken effective action to reduce very high levels of sickness absence, so that it has reduced substantially, though remaining too high. Workforce accidents are increasing. The Council has a good approach to promoting positive workforce health and well-being, but it has limited evidence of the impact of the initiatives it has taken.</p> <p>Workforce planning is well integrated into service planning. The Council works well with partners to meet their joint workforce needs and to integrate and improve services. It has reduced costs of employing agency staff by rationalising arrangements. The Council prepares its workforce well for change and involves them in designing change. It has collaborated well with partners in developing its managers through the Public Service Academy. Gateshead's employee attitude survey results consistently outperform other</p>

KLOE	Met	Summary of conclusions
		<p>local authorities. Two way communication with the workforce is effective and has been strengthened.</p> <p>The Council has good workforce policies and practices, which are easily accessible. It has recently completed a large-scale pay review, reducing the number of grades by more than half and harmonising and modernising key terms and conditions. Its response to diversity issues requires strengthening. The Council is committed to the fair, equal, and consistent treatment of its employees and provides extensive training on diversity issues. It has embarked on several recruitment initiatives targeted at under-represented groups. However, the numbers of BME and disabled employees are low. The number of BME employees has increased slightly over the past two years but the number of disabled employees has decreased. Turnover has decreased overall and among BME employees, but for BME employees remains well above the overall rate. Analysis of barriers to recruitment is at an early stage and the Council has no analysis of exit interviews. The Council has not analysed responses of specific population groups as to whether they feel they are fairly treated as service users.</p>

Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
6	Amend the statements to account for the fall in value of PFI schools and the balancing entry in the Statement of Total Recognised Gains and Losses, or explain why it is considered appropriate not to make the amendments.					
7	Review financial procedures to ensure journals are appropriately authorised.					
8	Ensure that the valuation report clearly sets out the basis of the valuation and what is included and excluded from the 1 April valuation.					
8	Ensure that an annual valuation of the Airport is obtained.					
9	Ensure the Council fully complies with the SORP in accounting for joint arrangements.					

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	Debtor and creditor balances should be reviewed for items where the transfer of cash has already taken place. These balances should then be excluded from the fair value of assets and liabilities note					

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.

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