

# Audit Completion Report

Gateshead Council – year ended 31 March 2016

July 2016



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The Accounts Committee  
Gateshead Council  
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July 2016

Dear Members

**Audit Completion Report – Year ended 31 March 2016**

We are delighted to present our Audit Completion Report for the year ended 31 March 2016. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, was outlined in our Audit Strategy Memorandum which we presented to Audit and Standards Committee on 7 March 2016. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

From the 2017/18 financial year, the deadlines for the publication of both the draft and audited accounts will come forward to 31 May and 31 July respectively. In preparation for this change, the Audit and Standards Committee agreed at its March 2016 meeting to aim to meet the new timetable for the 2015/16 accounts.

We have worked closely with officers to ensure that our work was completed in line with the new deadlines. I would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

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

Yours faithfully

Gareth Davies  
Partner  
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# 01 Executive summary

## Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2016 to the Accounts Committee of Gateshead Council and forms the basis for discussion at the meeting on 29 July 2016.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Gateshead Council; and
- receive feedback from you as to the performance of the engagement team.

Our work on the Council's accounts is designed to provide reasonable assurance that they are free from material misstatement. In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'. We consider materiality when planning and performing our work and in assessing audit results.

At the planning stage, we made a judgement about the size of misstatements which we would consider to be material and which gave a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We determined overall materiality to be £11.478 million (being 2.0% of gross revenue expenditure), with a clearly trivial threshold of £344k below which identified errors will not usually be reported. We also set lower materiality values for accounting entries we consider to be more sensitive, for example, senior officer's remuneration. We updated our materiality calculation when we received the draft accounts and set the overall level at £11.556 million (being 2.0% of gross revenue expenditure) with a clearly trivial threshold of £344k. Appendix C provides more information on our approach.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 2 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 3 and a summary of misstatements discovered as part of the audit in section 4.

## Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2016.

At the time of preparing this report, the following matters remain outstanding:

Area outstanding	Work to be completed
Pension Fund auditor assurance	We need to consider the findings of the Pension Fund auditor (EY) when these are received. We expected to receive their audit report by the end of July however this has now been delayed until the end of August 2016
Closure procedures	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.

We will provide an update to you on these outstanding matters in the form of a letter to the Accounts Committee.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 21 October 2016.

Our proposed audit report is as set out in Appendix B.

## 02 Significant findings

Set out below are the significant findings from our audit. These findings include:

- Our audit conclusions regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum.
- Our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 6 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year.
- Any significant difficulties we experienced during the audit.

### Significant risks

#### Management override of controls

##### Description of the risk

In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

##### How we addressed this risk

Our testing strategy included:

- reviewing material accounting estimates, which may be subject to management bias, included in the financial statements;
- consideration and reviewing of unusual or significant transactions outside the normal course of business; and
- testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

##### Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

#### Revenue recognition

##### Description of the risk

There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period. We consider revenue recognition to be a significant risk.

##### How we addressed this risk

We addressed this risk by performing the following audit work:

- testing cash receipts in the months of March, April and May 2016 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- obtaining counterparty confirmation for major grant income.

### **Audit conclusion**

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

## **Pension Estimates (IAS 19)**

### **Description of the risk**

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and uses estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

### **How we addressed this risk**

We discussed with management the significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we:

- evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and
- considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned by the National Audit Office.

### **Audit conclusion**

We are awaiting the findings of the relevant work being carried out on the Tyne & Wear Pension Fund by its external auditor. We will update this conclusion when we have received and reviewed those findings.

## **Property, plant and equipment**

### **Description of the area of management judgement**

Valuations of these assets, in particular of land and buildings, require work from an expert valuer. Valuations of buildings must reflect both the condition of the building but also the valuation basis for that class of building as required by the CIPFA 'code'.

### **How we addressed this area of management judgement**

We:

- examined the professional qualifications of your valuer;
- challenged and substantiated the assumptions and the appropriateness of the date of the valuation used by your valuer in completing the valuations;
- ensured that valuations and impairments had been completed on the correct basis for each item and that movements were in line with expectation; and
- assessed whether the report produced by the valuer had been correctly reflected in the accounts.

### **Audit conclusion**

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

### **Accounting policies and disclosures**

We have reviewed Gateshead Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting 2015/16.

### **Significant difficulties during the audit**

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

### **Electors' rights to inspect the accounts**

The Accounts and Audit (England) Regulations 2015 ('the regulations'), introduced new requirements in respect of publishing the financial statements and the period within which local electors may raise questions on the financial statements or make an objection to an item of account. For 2015/16 the Authority set this period as between 13 June 2016 to 22 July 2016. We received no questions or objections within this period.



## 03 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below.

We have not identified any significant deficiencies as a result of our work this year.

A small number of minor control issues have been reported to Management.

### Follow up of previous internal control points

We did not raise any internal control points in the prior year.

### IT audit review

As part of the audit for the year ended 31 March 2016 the objective of our IT audit work was to provide an assessment on the design, implementation and operating effectiveness of the key IT general controls over applications supporting the Council's financial statements.

The IT general controls work covered security, change management, and IT operations for the key systems materially relevant to the financial statements.

We concluded that reliance can be placed on the IT general controls operating over the systems reviewed. No significant issues were identified that could have an impact on the financial statements.

However we made the following recommendations:

- reviewing the disaster recovery plan, data classification and secondary site location in order to mitigate the risk of data loss. This issue was previously raised as part of our 2014/15 audit work, however management have yet to fully implement this recommendation;
- ensuring data restoration is tested at least once every year to mitigate the risk of data loss; and
- ensuring the user access management process is documented for all leavers in order to mitigate the risk of unauthorised access to the Council's network, programs and data.

The findings and recommendations have been agreed with officers and action plans are being produced in order to address the identified control issues.

## 04 Summary of misstatements

We set out in the table below the misstatements identified during the course of the audit, all of which have been adjusted by management during the course of the audit.

Adjusted misstatements 2015/16					
		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Short term debtors - bodies external to government			<b>831</b>	
	Long term debtors - bodies external to government				<b>831</b>
	We identified 2 issues in relation this misstatement – <ul style="list-style-type: none"> <li>Accrued interest on the airport long term debtor should have been classified as short term as it is due to be paid in the next 12 months (£664k).</li> <li>2016/17 repayments on Keelman loans (£167k) should have been classified as short term as they are due to be paid in the next 12 months.</li> </ul>				
2	CIES- Revenue grants, non specific grants, other grants	<b>5,808</b>			
	CIES- Revenue grants specific grants – Adult Social Care Income		<b>5,808</b>		
	Amount currently credited to non specific grants. It should be shown against Adult Social Care as a specific grant.				
3	Short term creditors - bodies external to government			<b>1,065</b>	
	Short term debtors - bodies external to government				<b>1,065</b>
	Gateshead Council manages the ledgers of three other legal entities. Testing identified that the Inter Client closing position included an overstatement of £1,065k to both debtors and creditors in relation to the North East Purchasing Organisation.				
4	Cash			<b>94</b>	
	Short term creditors - bodies external to government				<b>94</b>
	Accrued income was posted in error to bank instead of short term creditors. Officers adjusted general ledger however this happened after the draft accounts were produced. Difference trivial £94k, but potentially sensitive area.				
5	CIES - Children' and education services		<b>961</b>		
	CIES - Financing and Investment Income & Expenditure	<b>961</b>			
	Contingent rent amount of £961k was incorrectly included in the CIES as part of Net Cost of Services however the Council's accounting policy in Note 20 states that contingent rent is debited to Financing and Investment Income & Expenditure in the CIES.				

6	CIES - Central Services to the public		<b>990</b>		
	Taxation & Non specific Grant Income	<b>990</b>			
The figure in the draft accounts was from the revenue monitoring outturn summary, however the figure should have been from the ledger.					
7	CIES - Central Services to the public		<b>1,517</b>		
	Financing and investment income & expenditure	<b>1,517</b>			
Error in relation to the double counting of IAS19 transactions for trading activities.					
8	CIES - Central Services to the public	<b>161</b>			
	Taxation & Non specific Grant Income		<b>161</b>		
The HRA Interest receivable figure was not included in Note 7 of the draft accounts.					

We have not identified any actual errors (rather than extrapolated), above the level of trivial that affect the primary statements. We have identified one trivial matter that when extrapolated based on the value of our sample would be non-trivial, but not material and as such we are satisfied that there is not a risk of material misstatement.

### Disclosure amendments

The main disclosure issues identified during the course of the audit are outlined below

We identified one issue in relation to the Cashflow Statement that management has not amended. Audit work has identified that a balancing figure of £4,035k is included in the 'Other non-cash movement' figure of £9,367k. Officers have carried out additional work but have been unable to resolve this issue.

Other main disclosure issues we have identified during the course of the audit are listed below. All of these have been amended by management.

- Provisions (Note 24) - One error noted in the disclosure note relating to Business Rate Appeals: The figure included in the Provision was £3,011k, which was 100% of the Appeals figure. The provision should have been only £1,475k, being the 49% of Appeals that would be attributable to the Council.
- Officers Remuneration (Note 14) – Errors were identified in relation to the banding of staff earning over £50k (with and without redundancy). In addition, an error of £33k was identified in relation to the Pension Strain on the Fund charge for one exit package.
- Segmental Analysis (Note 8) – A number of issues were identified including non-compliance with the Code of Practice, for example, we were unable to reconcile the table in the Note to the Cost of Services in the Comprehensive Income and Expenditure Statement.
- Related Party transactions (Note 15) - No disclosure was included in the draft Accounts for Gateshead Trading Company (GTC)
- Government and non-government grants (Note 10) - A number of non-trivial items were misclassified in the Note.
- We identified a number of other minor errors, omissions, clarifications and typographical errors.

## 05 Value for money

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

We follow the guidance to auditors set out in the NAO's Auditor Guidance Note 3 (AGN03) which identifies the following overall criterion against which we evaluate the Council's VFM arrangements:

*'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'*

AGN03 also sets out three sub-criteria and provides examples of proper arrangements under each of these. Although we are not required to reach a separate judgement against each of the sub-criteria, we have used them to structure our consideration of the Council's arrangements. The three sub-criteria are set out below.

Sub-criteria
Informed decision making
Sustainable resource deployment
Working with partners and other third parties

As part of our work, we also:

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

In the Audit Strategy Memorandum we identified a significant risk relevant to the VFM conclusion. We detail below how we have addressed this risk and our conclusions. We kept our risk assessment under review throughout the audit up to the date of this report and have not identified any additional significant risks to the VFM conclusion.

We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

### Significant Value for Money risk

VFM risk
<p><b>Description of the risk</b></p> <p>The Council continues to face financial pressures from reduced funding, increased demand and changing responsibilities. The Council is responding to the challenges by a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services. The risk is that the measures taken by the Council are not effective, leading to a lack of financial resilience</p>
<p><b>How we addressed this risk</b></p> <p>We reviewed:</p> <ul style="list-style-type: none"><li>• monitoring and action plans for a sample of savings included in the 2015/16 budget;</li><li>• the Medium-Term Financial Strategy (MTFS);</li><li>• budget monitoring reports and other finance updates;</li><li>• the progress made in identifying further savings required in 2016/17 and 2017/18; and</li><li>• the progress of the Council's Change (formerly Transformation) Programme.</li></ul>

We detail below our findings. In addition we also set out our findings in relation to the VFM significant risk that we identified above.

### **Informed decision-making**

The Council has a clear governance structure which is regularly reviewed and where necessary adjusted to remain fit for purpose. A formal constitution is in place setting out the scheme of delegation for decisions which was last updated in July 2016 and is available on the Council's website.

A Council Plan is in place for the period 2015 to 2020 setting out how the Council will play its part in realising the Vision 2030 which is Gateshead's Sustainable Community Strategy, produced with a wide range of partners and others with a stake in the area. The Council's Annual Governance Statement for 2015/16 provides a clear summary of the governance and management arrangements in place to ensure informed decision-making and explains how assurance on the effectiveness of these arrangements in the year has been provided to the Audit and Standards Committee.

We have no findings to report on the adequacy of the Council's arrangements to support informed decision-making.

### **Sustainable resource deployment**

The 2015/16 budget was approved by the Council in February 2015. The budget was balanced without the use of any reserves therefore preserving reserve levels for subsequent years. The budget required the Council to identify savings of £19.1 million during the year (see below for the results of our work on these savings).

The final 2015/16 Revenue outturn, which was reported in June 2016, was an underspend of £771,000. This extends the Council's track record of delivering increasingly challenging revenue outturns within the agreed budgets. The Council ended 2015/16 with general reserves of £16.3m, up from £15.6m the year before. It also had £36.7m of earmarked general fund reserves (including £3.0m in a budget flexibility reserve), up from £35.3m and £1.9m respectively the year before. The level of general fund balances is approved annually by Cabinet and Council as part of the MTFS review.

A Capital Strategy is in place which reflects the Council's priorities. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in the strategy. The capital programme is included as part of the MTFS.

The Council believes that it will only be able to maintain its good performance in achieving financial balance despite further reductions in central government funding if it secures a fundamental transformation in what it does and how it does it. The Change Programme is therefore a critical element in the Council's arrangements for securing sustainable resource deployment in the coming years. We comment on the Change Programme in the significant risk section below.

### **Working with partners and other third parties**

The Council is involved in a number of significant partnerships, including:

- The Better Care Fund (BCF). The Health and Wellbeing Board has oversight of the BCF which is managed through a joint board to ensure effective working between the parties. There has been a Pooled Budget Partnership in place since April 2015. Its role is to oversee the Section 75 pooled budget and to receive performance and progress updates.
- South Tyne and Wear Waste Management Partnership - This partnership was established to procure a service for the treatment and disposal of residual municipal waste. In April 2011, the partnership, led by Gateshead Council, signed a £727m PFI contract with a consortium led by SITA UK. 2014/15 was the first year of trading.
- Gateshead Regeneration Partnership - On 27 March 2012, the Council formally appointed Evolution Gateshead as partner in a joint venture vehicle to be known as the Gateshead Regeneration Partnership

(GRP) as part of the Council's Housing Market Renewal and Growth Strategy. Construction has commenced on the first tranche of sites at Bensham and Saltwell, Avon Street and Birtley.

The Council's risk register includes a strand on partnership working due to the importance of this area. We have no findings to report on the Council's arrangements for managing its partnerships.

### Specific work on VFM significant risk

#### Achievement of 2015/16 savings

As highlighted above, the Council identified required savings of £19.1 million as part of the 2015/16 budget setting process.

The amounts identified in the 2015/16 savings plans were deducted from the base budget allocations. If any service identified that it could not meet any of the savings identified then it was required to make alternative savings from other budgets within the service.

The Council monitored the savings plans using a risk assessment methodology and separate general ledger codes which allowed officers to keep track of delivery as part of the Council's monthly budget monitoring process. The latest position and any residual actions are escalated through the Strategy Group.

Overall at the end of 2015/16, the savings achieved were £16.8m which is a shortfall of £2.3m, meaning that 88% of the planned savings were achieved. Services made other savings to result in overall delivery of a £771,000 underspend.

We selected a sample of the 2015/16 savings plans and assessed delivery against the target level of savings. In the majority of cases the plans achieved the savings required however in one case we identified a scheme that did not deliver the saving required due to a delay in the implementation of new arrangements. In this case, the delay was reported to the Strategy Group and alternative arrangements were made in-year to ensure that the service met its overall budget target.

#### Arrangements for achievement of 2016/17 savings target

The 2016/17 budget was presented to Council on 25 February 2016. The base budget was £198.9m and included a savings requirement of £18.8m. The budget was balanced without recourse to the General Reserve thus preserving reserve levels for subsequent years. However a total of £4.4m from reserves was earmarked to assist in service transformation and ensure Council priorities can be delivered whilst bringing down the cost of service delivery.

A summary of the budgeted 2016/17 savings is outlined below, split between each of the Council themes:

Budget Saving Proposals Theme Summary	Budget Saving 2016/17 £'000
Environment	(1,620)
Economic Growth	(832)
Communities & Volunteers	(643)
Adult Services	(9,192)
Governance & Resources	(2,382)
Public Health	(1,445)
Children and Young People	(2,682)
<b>TOTAL</b>	<b>(18,796)</b>

Each of the above theme summaries are made up of a number of detailed savings plans and we selected a sample to test in detail. We challenged management as to whether the savings were realisable in 2016/17.

The same detailed monitoring arrangements for the savings plans remain in place for 2016/17. Based on our review of the arrangements in place and management's responses to our challenge on the deliverability of a sample of savings plans, we have no recommendations to make in this area.

## 2017/18 savings target

The process of working with Directorates to identify savings for the 2017-18 savings, currently identified in the MTFS, as £22.146m, has begun. This process will be managed through the Change Programme Board which meets weekly.

When a list of savings has been identified, due by Autumn 2016, it will then be challenged by both officers and members before being subject to a public consultation exercise which is due to begin in November 2016. A detailed savings plan will be produced and challenged as part of the 2017-18 budget process.

## Review of the 2017-2022 Medium Term Financial Strategy (MTFS)

We reviewed the Council's latest MTFS, which was presented to Cabinet on 12 July 2016, and considered the robustness of budget estimates and significant assumptions made.

The MTFS is based on a financial forecast over a rolling 5 year timeframe from 2017/18 to 2021/22 and is designed to help ensure resources are aligned to the outcomes in the Council Plan 2015-2020. The MTFS sets the financial context for the Council's resource allocation process and budget setting.

Over the 5 year period the Council faces a funding gap that is currently estimated at £92.3m. The size of this shortfall represents a significant challenge to the Council's effective financial planning and medium term financial sustainability.

The total savings required over a 5 year period is split as follows

- 2017-18 - £22.1m
- 2018-19 - £35.8m
- 2019-20 - £13.9m
- 2020-21 - £8.3m, and
- 2021-22 - £12.1m.

The Council has considered the assumptions relating to government funding over this period where possible and calculated its funding gap on this basis. There is a high level of uncertainty in some of the assumptions made. In particular, the Council will need to keep under review any impact of the recent EU referendum result and change of Prime Minister, Chancellor and other ministers on national policy on local government funding and devolution. On devolution, the Council's current position is that it will not take part in the Mayoral Combined Authority proposed for the North East. The MTFS will need to be updated once the impact on the Council's funding assumptions of these developments becomes clearer.

### Recommendation

The Council should update its Medium Term Financial Strategy as information becomes available on any financial impact of the recent EU referendum result, changes in government policy and the Council's final decision on participation in the Mayoral Combined Authority for the North East.

## Progress of the Council's Change Programme

On 9 February 2016, the Cabinet agreed to a major programme of change to guide budget decisions and the shape of the Council in the future.

The Change Programme (formerly Transformation Programme) is intended to deliver the fundamental changes required in the way the Council provides its services and works with partners in order to meet its aspirations with reduced funding. It is therefore of critical importance to both the Council's financial sustainability and its ability to achieve the desired outcomes set out in the Council Plan.

The Council has introduced 4 key workstreams to deliver the Change Programme. These are –

- People
- Place
- Trading
- Ways of working.

The workstreams, which are led by senior council officers, cover 30 projects designed to look at all aspects of the Council's business.

The Change Programme Board oversees delivery of the programme and comprises members of the Senior Leadership Team. In addition, Cabinet receive Quarterly Progress reports, the latest report being presented on 12 July 2016. The latest progress reports show that the Programme is at an early stage and will require sustained management focus to meet its objectives.

### Recommendation

The Council should maintain close oversight of the progress being made by the Change Programme.



# Appendix A – Draft management representation letter

## Gateshead Council - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the statement of accounts for Gateshead Council ('the Council') for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

### **My responsibility for the statement of accounts and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Strategic Director, Corporate Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

### **Accounting records**

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

### **Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

### **Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

### **Contingencies**

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

#### **Laws and regulations**

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

#### **Fraud and error**

I acknowledge my responsibility as Strategic Director, Corporate Services for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's statement of accounts communicated by employees, former employees, analysts, regulators or others.

#### **Related party transactions**

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

#### **Impairment review**

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

#### **Future commitments**

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

#### **Service Concession Arrangements**

I am not aware of any material contract variations, payment deductions or additional service charges in 2015/16 in relation to the Council's PFI schemes that you have not been made aware of.

#### **Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

**Going concern**

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

**Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Darren Collins  
Strategic Director, Corporate Services

Date.....

# Appendix B – Draft audit report

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GATESHEAD COUNCIL

### Opinion on the Authority financial statements

We have audited the financial statements of Gateshead Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Gateshead Council in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Gateshead Council, as a body, for our audit work, for this report or for the opinions we have formed.

### Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Gateshead Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

### Opinion on other matters

In our opinion, the information given in the Narrative Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;

- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Authority and the auditor**

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 review regularly the adequacy and effectiveness of these arrangements.

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the National Audit Office and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, we are satisfied that, in all significant respects, Gateshead Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Gareth Davies

For and on behalf of Mazars LLP

The Rivergreen Centre

Aykley Heads

Durham

DH1 5TS

July 2016

# Appendix C - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assumed that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We considered materiality whilst planning and performing our audit.

Whilst planning, we made judgements about the size of misstatements which we considered to be material and which provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

In 2015/16 we set materiality at the planning stage at £11.478 million (2 per cent of gross revenue expenditure) with a clearly trivial threshold of £344k below which identified errors will not usually be reported. We set lower materiality levels for the accounting entries we consider to be more sensitive, for example, senior officer's remuneration, as we considered these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, was £11.556 million with a clearly trivial threshold of £346k below which identified errors were not reported.

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit and we reported in our Audit Completion Report all unadjusted misstatements we identified other than those which were clearly trivial, and obtained written representation that explained why these remain unadjusted.

## Appendix D – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.