

Audit Completion Report

Gateshead Council – year ended 31 March 2014

25 September 2014

APPENDIX 2



Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

The Accounts Committee and the Audit & Standards Committee
Gateshead Council
Civic Centre
Regent Street
Gateshead NE8 1HH

25 September 2014

Dear Committee Members

Audit Completion Report – Year ended 31 March 2014

We are delighted to present our Audit Completion Report for the year ended 31 March 2014. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented to the Audit Committee on 28 April 2014. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

We 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

Yours faithfully



Gareth Davies

Mazars LLP

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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to Non-Executive Directors, Directors or managers are prepared for the sole use of the audited body and we take no responsibility to any Non-Executive Director, Director or Manager in their individual capacity or to any third party.

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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 2014 to the Accounts Committee and the Audit and Standards Committee of Gateshead Council and forms the basis for discussion at the Accounts Committee meeting on 29 September 2014.

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 yourselves as to the performance of the engagement team.

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 2014.

At the time of preparing this report, there are no significant matters outstanding

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 3 October 2014.

Our proposed audit report is 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 four 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; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their 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

We addressed this risk through performing audit work over:

- accounting estimates impacting on amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

The most significant estimates included in the financial statements relate to pension liabilities (separate risk below) and property valuations (management judgment area reported below). Both are based on information provided to the Council by experts in their field, and we did not identify any issues with estimates made. Our work on other estimates did not indicate any issues.

We did not identify any significant transactions outside the normal course of business.

Our testing of journals and other adjustments did not identify any inappropriate adjustments made to the financial statements.

Revenue and expenditure recognition

Description of the risk

There is a risk of fraud in the financial reporting relating to revenue and expenditure recognition due to the potential to inappropriately record revenue and expenditure in the wrong period. As a result, we consider it to be a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over cash receipts and payments in the months of March and April 2014 and their treatment in the financial statements.

Audit conclusion

Our work did not identify any instances of transactions being recorded in the wrong financial year.

Pension liability

Description of the risk

There is considerable uncertainty over the estimate of the local government pension scheme liability.

How we addressed this risk

We assessed the work of the Council's actuary and confirmed that the disclosures in the financial statements properly reflect the actuary's report.

We liaised with the pension scheme auditor, in line with Audit Commission requirements.

Audit conclusion

Our work confirmed that the financial statements reflect the information the Actuary provided.

The pension scheme auditor did not report to us any issues which impact on our opinion.

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 and assumptions used by your valuer in making valuations, ensuring that these have been done on the correct basis for each item. We assessed whether the report produced by the valuer has been correctly reflected in the accounts.

We considered valuation trends.

Audit conclusion

Our work concluded that the valuer is appropriately qualified and followed an appropriate approach in completing the valuation. The financial statements accurately reflect the valuer's report. The valuations are not out of line with trends.

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. Appropriate prior period adjustments were made to reflect changes required by the Code in pension accounting.

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.

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.

We have no findings and recommendations to report.

Follow up of previous internal control points

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

04 Summary of misstatements

We set out on the next page the misstatements identified during the course of the audit, above the trivial level, for adjustment. There are no errors above the trivial level which management has not agreed to adjust.

The table outlines the misstatements that have been adjusted by management during the course of the audit.

Adjusted misstatements 2013/14

	CIES		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
1 Dr property, plant and equipment			6,041	
Cr Cultural and related services expenditure		6,464		
Cr HRA expenditure		1,179		
Cr Children's and education services expenditure		385		
Cr HRA asset revaluation		4,600		
Dr Surplus on revaluation on non current assets	6,355			
Dr Other operating expenditure	232			
Various, mainly error in depreciating land, incorrectly grossing up valuations to include disposals and charging a revaluation gain to revaluation reserve rather than reversing a previous revaluation loss in the CIES. This impacts on a number of notes and the Revaluation Reserve and Capital Adjustment Account				
2 Dr Taxation and non specific grant income	15,401			
Cr Public health income		15,401		
Specific grant shown as general				
3 Dr Children's and education services income	7,338			
Cr Children and education services expenditure		7,338		
Dedicated schools grant grossed up in error				
4 Dr Debtors			664	
Cr Long term debtors				664
Interest due treated as long rather than short term				
5 Dr Debtors			1,656	
Cr Provisions				1,656
Estimated cost of business rate appeals treated as bad debt rather than provision				
6 Dr Taxation and non specific grant income	4056			
Cr Adult social care		4056		
Grant for specific purposes included as a general grant				
7 Dr Short term debtors			883	
Cr Short term creditors				883
Two credit balances included in debtors				
Total adjusted misstatements	33,382	39,423	9,244	3,203

Disclosure amendments

We identified significant amendments to disclosures:

- Note 9 councillors allowances updated to exclude NI;
- Note 13 operating leases amended to reflect value of payments by year rather than lease expiry dates;
- Note 14 updated to include Director of Public Health and update bandings;
- additional related party information added to Note 15;
- Note 17 amended to provide additional information and correct descriptions;
- Note 26 financial instruments updated to include relevant creditors and other minor amendments;
- HRA notes updated; and
- classification of debtors and creditors amended in Notes 22 and 23.

05 Value for money

We are required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do this by considering the Council's arrangements against two criteria specified by the Audit Commission.

In the Audit Strategy Memorandum we identified significant risks relevant to the value for money conclusion. We detail below how we have addressed these risks and our conclusions.

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

Financial resilience

Description of the risk

The Council is facing continuing 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 deliver services. Should these measures not be effective, the Council's financial resilience will deteriorate as reserves are used to support on-going expenditure.

How we addressed this risk

We reviewed:

- monitoring and action plans for a sample of savings included in the budget;
- how public health staff have been integrated and how allocated public health funding has been used; and
- financial planning supporting the development of the District Energy Scheme.

Conclusion

Our review showed that:

- the Council continues to face significant financial challenges, as central government funding is reduced and there is pressure to maintain council tax at existing levels. These challenges are well understood, and savings plans are in place and monitored. In 2013/14 the Council achieved its overall budget with a £4.5m underspend, allowing reserves to increase to support future spending. Savings plans for 2014/15 are in place and work is ongoing to identify the requisite 2015/16 savings, as part of its rolling two year plan. In the current financial climate, with the need for further savings very likely, the Council should consider longer term financial planning (for example five years rather than the current three years included in its Medium Term Financial Strategy), and aim to have firm savings plans for the following financial year in place earlier. This has been recognised, and work is well underway on 2015/16 plans;
- public health staff have transferred to the Council and funding has been used as planned. This is separately disclosed in the financial statements, as required; and
- we did not identify any issues with the financial planning in support of the District Energy Scheme, at this early stage.

Appendix A – Draft management representation letter

To be provided to us on client headed note paper

Gateshead Council
Civic Centre
Regent Street
Gateshead
NE8 1HH

[Date]

Dear Sirs

Gateshead Council - audit for year ended 31 March 2014

This representation letter is provided in connection with your audit of the statement of accounts for Gateshead Council for the year ended 31 March 2014 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, Finance and ICT 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 Cabinet 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 and that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

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.

We have 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, Finance and ICT 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; and
- 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 its 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.

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.

Yours faithfully

Strategic Director, Finance and ICT

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 2014 under the Audit Commission Act 1998. 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 2013/14.

This report is made solely to the members of Gateshead Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of the Strategic Director, Finance and ICT's Responsibilities, the Strategic Director, Finance and ICT 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, 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 Strategic Director, Finance and ICT and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword 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 2014 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 2013/14.

Opinion on other matters

In our opinion, the information given in the explanatory foreword 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 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or

- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

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 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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 have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. 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 criteria published by the Audit Commission, 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 2014.

Certificate

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

Gareth Davies
For and on behalf of Mazars LLP, Appointed Auditors
The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

xx September 2014

Appendix C – 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.

The level of additional fee we have agreed is small in comparison to the audit fee, and the work does not involve any threat to our independence. The work involved is:

- review of Internal Audit. We will assess Internal Audit's self assessment against the Public Sector Internal Audit Standards, highlighted any area where arrangements or practices do not comply: and
- certification of grant claims (ERDF and health agreements).