

Audit Progress Report

Gateshead Council



June 2017



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Audit progress

Introduction

The purpose of this report is to update the Audit and Standards Committee of Gateshead Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

On-going work

We have now completed our detailed audit planning, in particular we have:

- carried out our initial planning in respect of 2016/17, refreshing our understanding of the business and what we consider are the significant risks of material misstatement in respect of the financial statements and also the Value for Money (VfM) conclusion so as to inform our testing strategy;
- documented a walkthrough of the key financial systems;
- held on-going liaison meetings with your Internal Auditors to both share common knowledge and ensure no duplication;
- held on-going liaison meetings with senior officers; and
- considered key agendas and papers.

In addition, our IT staff are currently updating our knowledge of the Council's IT arrangements.

Based on our work to date we have no significant matters arising to report to you and there are no changes to our original assessment of significant risks (Opinion and VfM) as set out in our Audit Strategy Memorandum which was presented to the Audit and Standards Committee on 6 March 2017.

Work has now commenced on the Council's draft 2016/17 Statement of Accounts.

We have been informed by EY, the auditors of the Tyne and Wear Pension Fund, that they are proposing to provide the required assurance by 31 July 2017.

We plan to include our Audit Completion Report on the agenda of the Audit and Standards Committee on 24 July 2017 before we present to the Accounts Committee for approval on 28 July 2017.

Issues arising

At this stage of our audit work, we have no significant deficiencies in internal control to report to you and there are no changes to our risk assessment previously reported to you in our Audit Strategy Memorandum.

National publications and other updates

National publications and other updates	
1.	Integrating health and social care, Public Accounts Committee, April 2017
2.	Financial sustainability of schools, National Audit Office, December 2016
3.	Capital funding for schools, National Audit Office, February 2017
4.	Planning for 100% local retention of business rates, National Audit Office, March 2017
5.	2017-18 work programme and scale of fees, Public Sector Audit Appointments Ltd, March 2017

1. Integrating health and social care, Public Accounts Committee, April 2017

Further to a National Audit Report on the Better Care Fund and various PAC hearings, the Public Accounts Committee published a report on integrating health and social care.

The conclusions and recommendations are summarised below.

- The Departments do not know the most effective balance of limited funding across health and social care. The Department and NHS England should assess the impact that financial pressure in social care is having on the NHS, so that it can better understand the nature of the problem and how it can be managed.
- The Departments and NHS England should reassess whether the Better Care Fund in its current form is still necessary and should identify what has worked well so this can be brought into sustainability and transformation planning.
- NHS England and the Local Government Association should encourage and support the full involvement of local government in the sustainability and transformation planning process. Working with their local authority partners, local health bodies should improve the involvement of local populations in the planning process.
- The Departments, NHS England and the Local Government Association must take responsibility for the performance of their programmes, including the Better Care Fund while it continues. We expect greater accountability and more realistic objectives, which the Departments and partners will stand by.

<https://www.publications.parliament.uk/pa/cm201617/cmselect/cmpubacc/959/95902.htm>

2. Financial sustainability of schools, National Audit Office, December 2016

The Department of Education's approach to managing the risks to schools' financial sustainability cannot be judged to be effective or providing value for money until more progress is made, according to the National Audit Office. The Department estimates that mainstream schools will have to find savings of £3.0 billion (8.0%) by 2019-20 to counteract cumulative cost pressures, such as pay rises and higher employer contributions to national insurance and the teachers' pension scheme. It expects that schools will need to make efficiency savings through better procurement (estimated savings of £1.3 billion) and by using their staff more efficiently (the balance of £1.7 billion).

However, the Department has not clearly communicated to schools the scale and pace of the savings required. While it can show, on the basis of benchmarking analysis, that schools should be able to achieve such savings without affecting educational outcomes, it does not know whether schools will achieve them in practice.

<https://www.nao.org.uk/report/financial-sustainability-in-schools/>

3. Capital funding for schools, National Audit Office, February 2017

The Department for Education, working with local authorities and schools, has created a large number of new school places and is making progress in improving schools in the worst condition, but significant challenges remain, according to the National Audit Office.

Between 2010 and 2015, the Department and local authorities created 599,000 new school places at a cost of £7.5 billion, mostly in good or outstanding schools, enabling them to meet the growing demand for places. The Department has also improved how it estimates the need for school places, collecting more localised forecasts of pupil numbers, and allocates money more closely according to need.

According to the NAO, the expected deterioration in the condition of the school estate is a significant risk to long-term value for money. Responsibility for maintaining the condition of school buildings is devolved to schools, multi-academy trusts and local authorities. The Department's property data survey estimates it would cost £6.7 billion to return all school buildings to satisfactory or better condition, and a further £7.1 billion to bring parts of school buildings from satisfactory to good condition. The most common major defects are problems with electrics and external walls.

While the Department cannot yet assess reliably how the condition of the school estate is changing over time, it estimates that the cost of dealing with major defects in the estate will double between 2015-16 and 2020-21, even with current levels of funding, as many buildings near the end of their useful lives. Much of the school estate is over 40 years old, with 60% built before 1976.

<https://www.nao.org.uk/report/capital-funding-for-schools/>

4. Planning for 100% local retention of business rates, National Audit Office, March 2017

The Department for Communities and Local Government has made progress in designing the scheme for 100% retention of business rates by local authorities, but the scale of the remaining challenges presents clear risks both to the timely delivery of the initiative and to the achievement of its overall objectives, according to the National Audit Office.

By allowing local authorities to retain 100% of business rates, the Department hopes that this will incentivise them to grow their tax bases by adopting pro-development planning practices which in turn will support economic growth. But tax base growth does not necessarily mean economic growth: new developments might lead to the relocation of existing economic activities rather than the creation of new ones, for instance. The Department needs to understand the link between business rates and economic growth to ensure that the scheme is configured to maximise economic growth rather than just growth in the tax base.

<https://www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates/>

5. 2017-18 work programme and scale of fees, Public Sector Audit Appointments Ltd, March 2017

PSAA has published the work programme and scales of fees for 2017/18 audits of principal local government and police bodies. There are no changes to the overall work programme for 2017/18. Scale fees for 2017/18 have therefore been set at the same level as the fees applicable for 2016/17. This is the final year for which PSSA will set fees under the transitional arrangements made by DCLG.

<http://www.psa.co.uk/audit-and-certification-fees/201718-work-programme-and-scales-of-fees/>

Contact details

Please let us know if you would like further information on any items in this report.

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