

Audit Completion Report

Gateshead Council – year ended March 2015

September 2015



Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

The Accounts Committee
Gateshead Council
Civic Centre
Regent Street
Gateshead
NE8 1HH

X September 2015

Dear Members

Audit Completion Report – Year ended 31 March 2015

We are delighted to present our Audit Completion Report for the year ended 31 March 2015. 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 on 20 April 2015. 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
Partner
Mazars LLP

Contents

01 Executive summary	3
02 Significant findings	4
03 Internal control recommendations	8
04 Summary of misstatements	9
05 Value for money	10
Appendix A – Draft management representation letter	17
Appendix B – Draft audit report	19
Appendix C – Independence	21

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 members or officers are prepared for the sole use of the audited body and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

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 2015 to the Accounts Committee of Gateshead Council and forms the basis for discussion at the meeting on 25 September 2015.

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;
- receive feedback from you on 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 2015.

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

Area outstanding	Work to be completed
Comprehensive Income and Expenditure Statement	Work is ongoing in a small number of areas.
Loans and Investments	We are still awaiting one external confirmation.
Pension Fund auditor assurance	We need to consider the findings of the Pension Fund auditor when this is received.
Other Areas	There are a small number of other areas where detailed work is still ongoing, for example Financial Instruments. Officers are aware of these.
Closure procedures	Our standard closure procedures, including review of the revised 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 2 October 2015.

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 8 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 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

Our work has provided the assurance we sought and has not highlighted any 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. Due to there being a risk of fraud in revenue recognition we consider it to be a significant risk on audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- cash receipts in the months of February, March, April and May 2015 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- for major grant income, obtain counterparty confirmation

Audit conclusion

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

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 and carried out procedures as appropriate.

Audit conclusion

Subject to review of the response from the local government pension scheme auditor, our audit has provided the assurance we sought, and not highlighted any issues in this area to report.

Fixed asset module implementation

Description of the risk

The Council implemented a new Fixed Asset register in March 2015. The nature and size of the Council's asset base meant that there was the potential for a material misstatement in the 2014/15 financial statements.

How we addressed this risk

We discussed with key contacts involved in the migration process.

We also:

- evaluated the management controls you had in place to manage the migration process;
- reviewed and tested to ensure that the transfer of data was migrated successfully; and
- substantively tested all material movements at year end.

Audit conclusion

Our work has not identified any material issues with the implementation of the new Fixed Asset register.

Bank change and cash receipting

Description of the risk

The Council changed banks during the year. In addition, the Council's automated third party system for income management and internal miscellaneous income allocation system were both subject to major upgrades. Following the changeover, there was an issue with the automated process for allocating income received at the bank to individual income funds at the Council and this had to be completed manually. This led to a delay in completing the bank reconciliations which is a fundamental control in terms of the Council's operations, the control environment and for the prevention and detection of material errors or frauds. As at the end of February, the December bank reconciliation had been completed and only January's was outstanding. Both the January and February reconciliations were completed in March and the year-end bank reconciliation was completed within the deadline.

How we addressed this risk

We discussed progress with key contacts involved in the bank reconciliations.

We also:

- closely monitored progress on the completion of the bank reconciliation and discussed any significant or material unreconciled amounts; and
- substantively tested the year end bank reconciliation.

Audit conclusion

Our testing identified that the Council introduced temporary compensating controls, (e.g. manual input) to help mitigate the risk of material error and fraud and we have concluded that –

- the bank reconciliation process is up to date;
- the automated process for allocating income received at the bank to individual income funds at the Council is operating as expected; and
- we did not identify any issues as a result of our work.

South Tyne and Wear Waste Management Partnership PFI service commencement

Description of the risk

The South Tyne and Wear Waste Management Partnership was established to enable Gateshead, South Tyneside and Sunderland Councils to jointly procure a solution 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.

Service commencement was on 22 April 2014 meaning that the unitary charge associated with using the asset will become payable from the 2014/15 financial year and is based upon the volumes of waste provided by each council. Due to the complexity in this area there was a risk that amounts would be materially misstated in the accounts.

How we addressed this risk

We assessed whether the Council had accounted for and disclosed its 2014/15 commitments in line with technical guidance

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention. We did identify a small number of non-trivial disclosure errors which have subsequently been amended.

Accounting for schools

Description of the risk

CIPFA issued guidance to Councils for 2014/15 in relation to the assessment and subsequent accounting for schools assets. We discussed this guidance with officers to identify the Council's intentions in relation to the recognition of maintained schools assets in the 2014/15 financial statements.

How we addressed this risk

We assessed the robustness of the Council's conclusion in relation to the treatment of the assets of maintained schools including substantive testing of detail.

Audit conclusion

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

Property, plant and equipment

Description of the area of 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'. We identified material errors in 2013/14 and there is a material risk of misstatement in 2014/15.

Our audit approach

- 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 were completed on the correct basis for each item and that movements were in line with expectations.
 - 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 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.

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 and officers.

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

The objective of this work was to evaluate the controls in place over the IT environment (applications and underlying infrastructure), by:

- Understanding the IT environment, applications, interfaces and related controls; and
- Assessing the design and operating effectiveness of the controls in place over the main processes:
 - physical security;
 - backup and disaster recovery;
 - access management; and
 - change management.

Our work concluded that reliance can be placed on the IT General Controls operating over the systems identified as material for the 2014/15 financial audit and the underlying infrastructure.

No significant issues were identified that could have an impact on the financial accounts; however we made improvement recommendations on:

- reviewing the disaster recovery plan, data classification and secondary site location in order to mitigate the risk of data loss;
- involving business users in the testing of data restoration and disaster recovery to mitigate the risk of incomplete or inaccurate data restoration;
- improving password policies, user access management and periodic user review processes to ensure access is appropriately restricted to the Council's systems and network; and
- relocating the Data Centre in order to mitigate physical and environmental risks.

Relevant action plans have been established by the Council in order to address the identified risks.

04 Summary of misstatements

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

Adjusted misstatements 2014/15					
		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Creditors balance and Note 23				708
	Debtors balance and Note 22			708	
	Our work identified debit balances were included in creditors				
2	CIES- Revenue grants, non specific grants, other grants	5194			
	CIES- Revenue grants specific grants – Adult Social Care Income		5194		
	Amount currently credited to non specific grants. It should be shown against Adult Social Care as a specific grant.				
3	CIES - Planning Services Expenditure		1741		
	CIES Cultural and Related Services Expenditure	1741			
	Revaluation losses were incorrectly charged to Planning Services rather than Cultural and Related Services.				
4	Long term debtors - Bodies external to Government				684
	Short term debtors- Bodies external to Government			684	
	Accrued interest on the long term airport debtor should be classified as short term as it is due to be received in the next 12 months.				

Disclosure amendments

The main disclosure issues identified during the course of the audit are outlined below, all of which have been amended by management:

- Provisions (Note 24) - One error noted in the disclosure note relating to Business Rate Appeals: The payment and setting up of the new provision should be disclosed in note 24 but it is currently not shown. It should show £1,132k payments and £1,132k new provision
- Employee Benefits (Note 25) - Disclosure of duration of liabilities not made. Two additional minor errors in tables.
- Housing Revenue Account – Item 8 adjustment (Note 8) - Discounts for early repayment of debt is shown as £11,722k. This should have been nil.
- Cash flow statement - Disposal cost adjustment of sales totalling £503k have been treated as a cash inflow rather than a cash outflow within 'proceeds from the disposal of PPE, investment property, assets held for sale and intangible assets'. There was a 'balancing figure' of £689k in the other non-cash movements figure of £3,190k.
- PFI Note 20 -We identified a number of non-trivial errors in the disclosure note for both the schools and waste management PFI schemes.
- Creditors Note 23 – A number of non-trivial items were misclassified in the creditors note.
- We identified a number of other minor errors, omissions, clarifications and typographical errors.

05 Value for money

We are required to conclude whether, for 2014/15, 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: financial resilience; and economy, efficiency and effectiveness.

We are also required to identify any significant risks in relation to Value for Money and then carry out specific work to address the risks.

In the Audit Strategy Memorandum we identified a significant risk relevant to the value for money conclusion

Significant Value for Money risks

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 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.

How we addressed this risk

We reviewed:

- monitoring and action plans for a sample of savings included in the budget;
- the Medium-Term Financial Strategy;
- budget monitoring reports and other finance updates;
- the progress made in identifying savings required;
- progress of the Council's Transformation Programme; and
- financial planning supporting the development of the District Energy Scheme.

We detail below our findings in relation to the two criteria specified by the Audit Commission. Summary findings in relation to the VFM significant risk that we identified can be seen in Table 1 below.

Financial Resilience

The reported 2014/15 revenue outturn was an underspend against budget of £4.413m. This was reduced to an underspend of £3.441m after taking into consideration additional funding and movement on earmarked reserves.

The overall target for revenue savings in 2014/15 was £15.403m. The final outturn for achieved savings was £14.368m, a shortfall of £1.035m. Due to timing and phasing of implementation, the full planned savings weren't achieved in 2014/15 although this was more than outweighed by unplanned underspends in other areas, such as:

- Capital Financing – underspend of £1.310m
- Savings on the Insurance Fund – underspend of £1.045m
- Adult Social Care and Independent Living - underspend of £2.499m.

The Council currently has the following reserves and balances at 31 March 2015 (with 2013/14 comparatives shown alongside):

- Unearmarked General Fund balances of £15.6m (2013/14 £14.8m)
- Earmarked General Fund reserves of £35.3m (2013/14 £27.3m)
- Schools balances of £7.8m (2013/14 £8.1m)
- HRA reserves of £19.9m (2013/14 £18m)
- Total usable reserves of £92m (2013/14 £77.5m)

The Council has a good understanding of the financial challenges and risks it faces and is taking action to ensure its financial sustainability by identifying further efficiency savings and other means of reducing spending. The Council approved a balanced budget for 2015/16 and all required savings plans for the year are in place. The budget report sets out the factors and assumptions impacting on the budget, including service pressures.

The Council extended the time horizon of its Medium Term Financial Strategy (MTFS) from three to five years in July 2015. The MTFS is aligned to the priorities of the Council Plan 2015-2020 and officers plan to update it annually (more often if circumstances require it). The MTFS has an estimated funding gap of £77.7m for the period 2016/17 to 2020/21 which is significantly front-loaded with an estimated gap of £50.6m for the first two years. Work is well advanced on the measures to be taken to secure a balanced budget in both 2016/17 and 2017/18, drawing on the Council's extensive consultation with residents, businesses and partner organisations and shaped by the priorities in the Council Plan.

Economy, efficiency and effectiveness

In view of the severe funding reductions it faces, the Council has required each Service to assess how it would manage within a 60% funding envelope by 2017/18. Services are being aided in this through the use of a Commissioning Toolkit developed by the Corporate Procurement section.

The Council do have some areas of high expenditure when compared to others however these are known. For example, the Council are identified as a high expenditure on Culture and Sport however this is in line with the priorities of the Council Plan 2015-2020.

Progress continues to be made on challenging traditional methods of delivery, an example of which is the introduction in April 2014 of the joint waste management PFI in partnership with South Tyneside and Sunderland Council. This project, led by Gateshead Council, is designed to provide an affordable and effective solution for the treatment and disposal of residual municipal waste.

The Council is continuing to work with its local authority partners to develop the Combined Authority. This new way of working should help to deal with economic growth, skills and transportation within the North East.

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

Table 1 – Significant Risk Summary Findings

Area	Auditor challenge and findings	Conclusion																		
<p>Review of monitoring and action plans for a sample of savings included in the budget</p>	<p>We carried out a review of the savings required in the 2015/16 budget which included a detailed challenge of the progress of monitoring and action plans for a sample of savings</p> <p>Findings</p> <p>The 2015/16 Budget was approved by Council in February 2015. The budget was balanced without the use of any reserves therefore preserving reserve levels for use in subsequent years. However the Council is required to identify savings of £19.140 million during the year.</p> <p>A summary of the required savings is outlined below split between each of the different Council themes:</p> <table border="1" data-bbox="434 655 1413 1002"> <thead> <tr> <th>Budget Saving Proposals Theme Summary</th> <th>Budget Saving 2015/16 £'000</th> </tr> </thead> <tbody> <tr> <td>Environment</td> <td>(896)</td> </tr> <tr> <td>Local Economy</td> <td>(1,608)</td> </tr> <tr> <td>Communities Culture and Leisure</td> <td>(2,085)</td> </tr> <tr> <td>Adult Services</td> <td>(3,006)</td> </tr> <tr> <td>Public Health</td> <td>(1,340)</td> </tr> <tr> <td>Children and Young People</td> <td>(1,412)</td> </tr> <tr> <td>Efficiency and Effectiveness</td> <td>(8,793)</td> </tr> <tr> <td>TOTAL</td> <td>19,140</td> </tr> </tbody> </table> <p>We selected a sample of the 2015/16 savings and asked officers to provide detailed plans and proposals to support the headline figures and challenged whether these will be fully realisable. We were satisfied that there were plans in place to achieve the required savings.</p> <p>At the end of August 2015, the Council reported that 2015/16 savings of £16.050m had already been secured with Strategy Group receiving frequent detailed reports on the remaining £3.090m of savings that need to be realised.</p>	Budget Saving Proposals Theme Summary	Budget Saving 2015/16 £'000	Environment	(896)	Local Economy	(1,608)	Communities Culture and Leisure	(2,085)	Adult Services	(3,006)	Public Health	(1,340)	Children and Young People	(1,412)	Efficiency and Effectiveness	(8,793)	TOTAL	19,140	<p>There are arrangements in place to achieve the required savings in 2015/16.</p>
Budget Saving Proposals Theme Summary	Budget Saving 2015/16 £'000																			
Environment	(896)																			
Local Economy	(1,608)																			
Communities Culture and Leisure	(2,085)																			
Adult Services	(3,006)																			
Public Health	(1,340)																			
Children and Young People	(1,412)																			
Efficiency and Effectiveness	(8,793)																			
TOTAL	19,140																			

<p>Review of the Medium-Term Financial Strategy</p>	<p>We reviewed the Council's Medium Term Financial Strategy and considered the robustness of budget estimates and significant assumptions made.</p> <p>Findings</p> <p>The Council introduced a five year Medium Term Financial Strategy (MTFS) which was approved by Cabinet in July 2015. The MTFS is aligned to the priorities of the Council Plan 2015-2020.</p> <p>In assessing the robustness of the budget, the Strategic Director, Corporate Resources has considered the following issues:</p> <ul style="list-style-type: none"> • the general financial standing of the Council • the adequacy of the budget monitoring and financial reporting arrangements • the adequacy of the Council's internal control system • the future budget pressures faced by the Council, as identified in the Council's MTFS • the impact of reduced income and funding • the proposed Capital programme • the delivery of agreed budget savings <p>Based on our review, we are satisfied that the revenue estimates are considered robust and that the level of reserves is considered adequate to cover the financial risks faced by the Council in the medium term. However, this assessment is based on the requirement that spending will be reduced to meet the funding gap in the MTFS as any shortfall will put the Council's financial sustainability at risk.</p> <p>We challenged the financial assumptions included in the MTFS such as:</p> <ul style="list-style-type: none"> • employees' pay increases; • levels of investment income; • non achievement of required savings; • non achievement of workforce management issues; and • Welfare and Social Care demand issues. <p>Taking account of the above, and the previous history of the Council, we are satisfied that the Council has considered the key assumptions and that the contingency of £5.3m included in the 2015/16 budget is adequate to mitigate the risk that some of the assumptions applied may differ from actual events during 2015/16 noting that there are also sufficient reserves in place should there be a shortfall.</p> <p>The revised MTFS 2015/16 to 2020/21 presented to Cabinet in July 2015 showed an estimated funding</p>	<p>The MTFS is aligned to priorities and the budget plans are based on robust estimates and assumptions.</p>
---	--	--

	<p>gap of around £77.7m for the period 2016/17 to 2020/21, significantly front loaded with an estimated gap of £50.6m for the first two years.</p> <p>The size of this shortfall represents a continuing and increasing challenge to the Council's effective financial planning and medium term financial sustainability. The Council has considered the assumptions relating to government funding (RSG) over this period and calculated its funding gap on this basis. Gateshead has taken a prudent view to tacking the funding gap by planning to achieve £35m of the gap in year 1 with the balance of £15m in year 2 although these plans are currently being strongly challenged internally and may be revised if they are not considered to be achievable in the timescales.</p> <p>We are satisfied that there are plans in place to achieve the savings required to balance the budget and recognise that these are now subject to rigorous challenge and may be revised over the next few months.</p>	
<p>Review of budget monitoring reports and other finance updates</p>	<p>We reviewed the budget monitoring reports and other finance updates throughout 2014-15 and considered the robustness of the budget monitoring arrangements.</p> <p>Findings</p> <p>The risk that expenditure will exceed budget is mitigated by the existence of a robust revenue monitoring framework. Some key features of this framework are:</p> <ul style="list-style-type: none"> - Monthly monitoring information is presented to budget holders within 8 working days of the close of each accounting period. - All projected material variances are investigated and action plans are agreed with budget holders to address any areas of projected overspending. - Quarterly monitoring reports are presented to Cabinet, which show income, and expenditure variances for each of the Council's service areas including delivery of budget savings. - Savings are monitored and reported separately against target. <p>In addition to the above, there are quarterly updates to Cabinet and there have been no unexpected significant under/overspends identified in 2014-15 or 2015-16. This is in line with the performance in previous years and the Council has a good record of managing its budget.</p> <p>The Council complies with the Prudential Code which is reported on a quarterly basis along with capital monitoring and complies with the Treasury Management Code.</p> <p>The Treasury Management Policy is updated on an annual basis and obtains advice on conditions and risks from market consultants.</p> <p>The Audit and Standards Committee receives the Corporate Risk Management report (which includes financial risks) quarterly. We have not identified any expected risks being omitted from these reports.</p>	<p>The Council has a robust budget monitoring arrangements in place. The Council also has arrangements in place to ensure that other financial updates are reported.</p>

<p>Progress made in identifying savings required</p>	<p>We reviewed the progress the Council has made in identifying the future savings required.</p> <p>Findings The Council took a 2-year approach to the budget so in addition to the £19.140m of 2015/16 savings proposals there were £8.7m of savings for 2016/17 initially identified. This has formed the basis of a corporate exercise where each Service is currently scenario planning against a 60% funding envelope to be achieved by 2017/18. They are being aided in this through the use of a Commissioning Toolkit developed by the Corporate Procurement section.</p> <p>If a Service cannot deliver an agreed saving they would need to propose and implement an alternative and deliver that in-year unless there were exceptional circumstances and this could be accommodated within the overall financial position.</p> <p>At the end of August 2015, the Council reported that 2015/16 savings of £16.050m had already been secured with Strategy Group receiving frequent detailed reports on the remaining £3.090m of savings that need to be realised.</p>	<p>The Council is making good progress in identifying the future savings required.</p>
<p>Progress of the Council's Transformation Programme</p>	<p>We have reviewed the progress on the Council's transformation programme.</p> <p>Findings The purpose of the Transformation Programme is to help groups and services identify opportunities for significant change in order to secure the best outcomes for Gateshead residents and to ensure the efficiency, sustainability and continued value for money of council services within the available budget. The programme is intended to look at</p> <ul style="list-style-type: none"> • the services that the council provides • the way in which services are delivered • how the council operates and getting the best out of our employees through workforce development and engagement <p>Project scopes have been prepared and Project Boards have been established for five areas:</p> <ul style="list-style-type: none"> • Children's Services and Adult Social Care • Support Services • Leisure • Ways of Working • Trading 	<p>The Council continues to make progress on the Transformation Programme</p>

	<p>Other projects and areas of activity may be incorporated into the programme going forward.</p> <p>Within the project plans, there are a range of options being considered including looking at alternative service delivery models, partnership working and improving workforce strategies. This is at an early stage but there is clear evidence that the Council is challenging the way that services are delivered and whether they are receiving value for money.</p>	
<p>Review of financial planning supporting the development of the District Energy Scheme</p>	<p>We reviewed the progress made by the Council in relation to the financial planning supporting the development of the District Energy Scheme</p> <p>Findings</p> <p>This project seeks to provide low-cost, low-carbon energy to Gateshead town centre, including the Civic Centre, the Sage Gateshead, BALTIC, Gateshead College, and a number of other public buildings and Council-owned tower blocks. The scheme involves:</p> <ul style="list-style-type: none"> • the purchase of wholesale gas from the grid; • conversion of gas to electricity using a combined heat and power (CHP) facility; • selling the power generated to customers and back to the grid; • the generation of hot water from the energy released as a by-product of the process; and • the distribution of the hot water to customers through a pipe network across the town centre which will be used to fuel their central heating systems. <p>Since the agreement of the above, the following progress has been made on the district energy scheme:</p> <ul style="list-style-type: none"> • contracts have been signed with Balfour Beatty, Edina and Clancy Docwra; • Balfour Beatty has taken possession of the Energy Centre site and compound, and commenced detailed site investigation works; • construction started on 1st June 2015; • the Council extended the scope deadline to allow their consultants to provide greater programme management input during the construction phase; and • the Council has reached in principle agreement with Northern Power Grid, to purchase 4 existing electrical substations subject to approval by Ofgem. <p>The Council has a financial business case in place which is continually revised and updated to allow for ongoing amendments as the Scheme progresses.</p>	<p>The Council continues to make progress on the financial planning of the District Energy Scheme.</p>

Appendix A – Draft management representation letter

To be provided to us on headed note paper

September 2015

Dear Sir

Gateshead Council - audit for year ended 31 March 2015

This representation letter is provided in connection with your audit of the statement of accounts for Gateshead Council for the year ended 31 March 2015 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 organisation 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 relevant 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 Gateshead 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 Gateshead 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 Gateshead 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, 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 Gateshead 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 Gateshead 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 Gateshead 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.

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, Corporate Services

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 2015 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 2014/15.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director, Corporate Resources and auditor

As explained more fully in the Statement of the Strategic Director, Corporate Resources' Responsibilities, the Strategic Director, Corporate Resources 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, Corporate Resources; 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 2015 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 2014/15.

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 2015.

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 2015.

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

xx September 2015

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.