

Annual Audit Letter 2015/16

Hartlepool Borough Council

October 2016



HARTLEPOOL
BOROUGH COUNCIL

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October 2016

Dear Members

Annual Audit Letter 2016

I am delighted to present to you Hartlepool Borough Council's (the Council's) Annual Audit Letter. The purpose of this document is to summarise the outcome of the audit of the Council's 2015/16 annual accounts and our work on our value for money conclusion.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies issued by the National Audit Office and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2015.

2015/2016 has been another challenging year for the Council and, like most other authorities across the country, the Council made some tough decisions on its spending priorities and plans. We reflect on these matters in the value for money and future challenges sections of this letter.

Given the difficult circumstances we were pleased to issue an unqualified opinion on the statement of accounts and the value for money conclusion.

I would like to express my thanks for the assistance of the Council's finance team, as well as senior officers and the Audit and Governance Committee. The continued constructive approach to our audit is appreciated.

If you would like to discuss any matters in more detail then please do not hesitate to contact me or my senior manager Cath Andrew on 0191 383 6300.

Yours faithfully

Mark Kirkham
Partner
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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies 2015-16' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the Council and we take no responsibility to any Member or officer in their individual capacity or to any third party.

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01 Key messages

Our Annual Audit Letter provides a summary of our work and findings for the 2015/16 audit period for Members and other interested parties.

We reported the detailed findings from our audit work to the Audit and Governance Committee in our Audit Completion Report on 22 September 2016. We also confirmed that your Whole of Government Accounts (WGA) return was consistent with the audited financial statements.

The key conclusions for each element are summarised below:

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's financial statements on 23 September 2016.

Our VFM conclusion

We carried out sufficient, relevant work, in line with the National Audit Office's guidance, so that we could conclude on whether you had in place, for 2015/16, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We issued an unqualified VFM conclusion on 23 September 2016.

Whole of Government Accounts (WGA)

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your WGA consolidation pack with the audited statement of accounts. As the Council's activity is below the threshold set by the NAO for a full review of WGA, the procedures we were required to carry out were limited. We reported that your consolidation pack was consistent with the audited statement of accounts.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Local Audit and Accountability Act 2014. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions about the accounts or valid objections in relation to your 2015/16 accounts from local electors, nor did we exercise our wider reporting powers.

02 Financial statements

Audit of the financial statements

We audited your financial statements in line with auditing standards and we reported our detailed findings to the meeting of the Audit and Governance Committee on 22 September 2016. We issued an audit report, including an unqualified opinion, on the statement of accounts on 23 September 2016.

Our work on your financial statements aims to provide reasonable assurance that your accounts are free from material misstatement. The assessment of materiality is, therefore, a key part of our work and we specify an overall materiality threshold, based on your gross revenue expenditure, together with lower materiality values for accounting entries we consider to be more sensitive, such as officer and member remuneration, and members' interests.

We consider materiality when planning and performing our work and in assessing the results.

At the planning stage, we make a judgement about the size of misstatements which we consider to be material and which provides 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 updated our materiality calculation when we received the draft accounts and set the overall level at £4.753m.

In applying our view of materiality we identified the following three significant risks:

- management override of controls;
- revenue recognition; and
- LG pension estimates.

We carried out a programme of work to address these risks which included including the testing of journals, transactions and disclosures. Our work did not identify any issues to report.

In completing our work we assess the scale of errors and uncertainties using our materiality calculation to determine the impact on our audit reports. We did not identify any material errors in your statement of accounts.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline. Working papers and other supporting evidence were produced on a timely basis throughout the audit. Your arrangements and the responsiveness of officers enabled us to complete our comprehensive procedures efficiently.

Issues arising from the audit of the accounts

We would like to highlight the following key points:

- officers prepared good quality draft financial statements and working papers;
- there were very few errors identified and no errors impacting on the Council's General Fund balance;
- all errors were corrected other than those which were clearly trivial; and
- the audit progressed well and there were no significant difficulties encountered. We received the full co-operation of officers.

Annual Governance Statement (AGS)

The AGS is drafted by the Council to provide assurance to the reader over how it is managed and how it has dealt with risks in the year. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the Council. We found no areas of concern to report.

03 VFM conclusion

For 2015/16, we are required to satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We performed our work in this area in accordance with guidance set out by the NAO in Auditor Guidance Note 3. This required us to consider one overall criterion as set out below.

Overall criterion: *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.*

Our work in this area focused on the three sub-criteria specified by the National Audit Office namely:

Sub-criteria	Focus of the sub-criteria
Informed decision-making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance. Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management. Reliable and timely financial reporting that supports the delivery of strategic priorities. Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. Managing and utilising assets effectively to support the delivery of strategic priorities. Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities. Commissioning services effectively to support the delivery of strategic priorities. Procuring supplies and services effectively to support the delivery of strategic priorities.

As part of our work, we also:

- reviewed your Annual Governance Statement;
- considered 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 to be appropriate.

Risk based work

We identified a significant audit risk relating to sustainable resource deployment reflecting the significant financial pressure from reduced funding and increasing demand for some services. We reported the detailed findings of our risk assessment of the Council's arrangements in a separate report to the Audit and Governance Committee on 28 April 2016.

We were able to gain sufficient assurance from our risk based work to mitigate the audit risk although we note that the scale of the financial challenge is so significant that fundamental changes to the level and scope of service provision are envisaged to ensure the Council manages within its available resources.

Overall conclusion

We satisfied ourselves that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016 and we issued an unqualified VFM conclusion.

04 Future challenges

Financial challenges

The main challenge we see for the Council, along with others and the wider public sector, is the continued pressure on finances and the need to plan for further reductions in spending power which will make it increasingly difficult to maintain the existing level service provision. We have noted how the Council has dealt with this challenge so far and expect there to be a need for difficult decisions to ensure spending is kept within available resources.

The Council has made good progress in addressing its biggest challenges to date and has a proven track record of strong budget management and delivering planned budget reductions. The Council reported an uncommitted outturn of £1.548 million at the year end, £91,000 higher than predicted in February 2016. The Council ended the year with usable reserves of £60.859 million, excluding the business rates safety net reserve, most of which is earmarked for known commitments including the budget support fund reserve of £5.781 million. £6.765 million has been committed to support the 2016/17 budget.

The Council faces significant financial pressure from reduced funding and increasing demand for some services. The Council is working to achieve challenging savings plans for 2016/17 and to identify further plans to bridge the funding gap for 2017/18 to 2019/20 of £12.690 million as set out in the Council's Medium Term Financial Strategy reported to Finance and Policy Committee on 20 June 2016. This work is being done through a new framework which consists of three key areas:

- vision for Hartlepool of the Future - this sets out the vision for Hartlepool and where the Council want Hartlepool to be;
- proposed outcome framework - which will form the basis of the 2017/18 Council Plan. The outcomes are shown as falling under three headings; People, Place and Organisation; and
- monitoring arrangements – that define how the Council know if the longer term strategic measures are having the required impact. To be reported annually to show whether the Council is making progress.

Other challenges

The difficulty in maintaining good service performance levels at the same time as reducing budgets is recognised by the Council. Performance assessment arrangements are in place and outcomes are regularly reported to and monitored by Members.

The Council faces a number of other challenges in the coming year which we will consider in planning our audit for 2016/17. These challenges are reflected in the vision in the Council Plan:

- be a place people want to live, study, work, visit and play;
- have a reputation as a place to come to because of the quality of our education, housing, leisure, employment and skills offers;
- be an active part of the Tees Valley offer for skills, employment, housing and leisure; and
- be a place where people feel included and safe; able to live active, healthy and happy lives.

With a financial outlook that is increasingly challenging the Council will need to agree an operating and financial plan that balances the needs and expectations of citizens and service users and the statutory framework with available resources.

Next year's audit

We will focus our 2016/17 audit on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

We will also share with you relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key area in this respect includes working with officers as they make preparations for transport infrastructure on a fair value accounting basis as required by the accounting Code. This will require significant changes in the 2016/17 statements and we are already working with officers to ensure the required systems are in place.

05 Fees

As outlined in our Audit Strategy Memoranda for the Council presented to the Governance Committee on 26 April 2016, Public Sector Audit Appointments Ltd (PSAA) sets a scale fee for our audit and certification work. The fees applicable to our work in 2015/16 are summarised below.

Element of work	2014/15 Final Fee	2015/16 As previously reported	2015/16 Final Fee
Hartlepool Borough Council			
Code audit work	£145,250	£108,938	£108,938
Certification work	£18,480	£10,297	£10,297
Non-audit work for certification of grants outside the PSAA regime	£5,000	£2,500	£2,500
Total	£168,730	£121,735	£121,735

The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim.

Non-audit work during the year relates to our work certifying the Teachers' Pensions return for which fees were agreed separately with officers. In 2014/15 we also completed non-audit fee work relating to Skills Funding Agency grant.

Should you require any further information on this letter or on any other aspects of our work, please contact:

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