Dear Members

Hartlepool Borough Council Annual Audit Letter 2015

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 2014/15 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 as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

2014/2015 has been another challenging year for the Council and like most other authorities in the North East Hartlepool made some tough decisions on its spending priorities and plans for the future. 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
Mazars LLP
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 Key messages</td>
<td>2</td>
</tr>
<tr>
<td>02 Financial statements</td>
<td>3</td>
</tr>
<tr>
<td>03 VFM conclusion</td>
<td>4</td>
</tr>
<tr>
<td>04 Future challenges</td>
<td>5</td>
</tr>
<tr>
<td>05 Fees</td>
<td>6</td>
</tr>
</tbody>
</table>

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 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 2014/15 audit period for Members and other interested parties.

In 2014/15 our audit of the Council included the following main elements:

- auditing your financial statements; and
- assessing arrangements for achieving value for money (VFM) in your use of resources.

We reported the detailed findings from our audit work to the Audit and Governance Committee in our Audit Completion Report on 24 September 2015. 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 29 September 2015.

**Our VFM conclusion**
We carried out sufficient, relevant work, in line with the Audit Commission’s guidance, so that we could conclude on whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We were required to consider two specified criteria:

- the Council has proper arrangements in place for securing financial resilience; and
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified VFM conclusion on 29 September 2015.

**Whole of Government Accounts**
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 to consideration of property, plant and equipment and pensions entries. 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 Audit Commission Act 1998. 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 or objections in relation to your 2014/15 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 25 September 2015. We issued an audit report, including an unqualified opinion, on the statement of accounts on 29 September 2015.

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.

Issues arising from the audit of the accounts
We highlight the following key points:
- good quality draft statements and working papers;
- few errors in the financial statements, either adjusted or unadjusted and no errors impacting on the Council’s general fund balance or earmarked reserves;
- no significant deficiencies in internal control (noting our work is not intended to express an opinion on the effectiveness of the system of internal control); and
- the positive outcome of the audit and in particular the continued constructive and responsive approach 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

We performed our work in line with the Audit Commission’s Code of Audit Practice for Local Government bodies and the Commission’s guidance on the VFM conclusion for 2014/15. Our audit report included a conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Our work in this area focused on the two criteria specified by the Audit Commission namely:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Focus of the criteria</th>
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<tr>
<td>The Council has proper arrangements in place for securing financial resilience.</td>
<td>Systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</td>
</tr>
<tr>
<td>The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</td>
<td>Prioritising resources within tighter budgets, for example, by achieving cost reductions and by improving efficiency and productivity.</td>
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As part of our work, we also:

- review your Annual Governance Statement (AGS);
- review the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities (none in 2014/15); and
- carry out any risk-based work we determined to be appropriate.

Like other public sector bodies, the Council faces a number of challenges and in light of these we reviewed the Council’s arrangements for managing financial risks and securing a stable financial position. We included the results of our review of arrangements for securing VFM in a separate report to the Audit and Governance Committee on the 25 September 2015.

Risk based work
In our view, the funding gap in your medium term financial plan presented a significant audit risk in respect of the financial resilience criterion. In response to this risk assessed a range of evidence including:

- your AGS;
- your medium term financial strategy; and
- regular performance reports to Members measuring achievement against budget and targets.

As reported in our Audit Completion Report, we were able to gain sufficient assurance from our work to mitigate the audit risk but we note the financial challenge facing the Council remains a source of concern.

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 2015 and we issued an unqualified VFM conclusion.
04 Future challenges

Financial challenges
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 under spent on its 2014/15 budget, ending the year with general fund balances of £5.25 million and earmarked revenue and capital reserves of £56.64 million. Levels of reserves are subject to annual review which helps focus attention on the risk facing the Council and the reasons for holding specific reserves.

The Council addressed a budget shortfall of £7.2 million in year and good progress is being made in achieving departmental and corporate savings of £6 million in 2015/16.

The updated medium term financial strategy was approved in June 2015 and shows a total forecast budget deficit £13.997 million for 2016/17 to 2018/19. The added budget pressure caused by the revaluation of the power station has been considered and a short term solution agreed alongside representations to the Government seeking additional support.

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 take account of in our audit plans. These challenges include:

- fair value accounting;
- the ongoing impact of the Welfare Reform Act;
- better care funding and associated pooled budgets; and
- joint working with health and others.

With a financial outlook that is increasingly challenging, to develop locally responsive services that maintain standards of access and quality, the Council will need to continue to:

- carefully forecast and effectively monitor budgets;
- identify and address financial pressures as they emerge;
- deliver a long term financial strategy that addresses immediate pressure while allowing scope for strategic service change;
- maintain effective arrangements for public engagement; and
- use constructive relationships with care providers and social care commissioners to safeguard quality.
05 Fees

As outlined in our Audit Strategy Memorandum presented to the Audit and Governance Committee on 30 April 2015, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2014/15 are summarised below.

<table>
<thead>
<tr>
<th>Element of work</th>
<th>2013/14 Final Fee</th>
<th>2014/15 As previously reported</th>
<th>2014/15 Final Fee</th>
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<tr>
<td>Code audit work</td>
<td>£144,720</td>
<td>£145,250</td>
<td>£145,250</td>
</tr>
<tr>
<td>Certification work</td>
<td>£13,729</td>
<td>£18,480</td>
<td>£18,480</td>
</tr>
<tr>
<td>Teachers’ Pensions</td>
<td>£2,000</td>
<td>n/a</td>
<td>£2,500</td>
</tr>
<tr>
<td>Total</td>
<td>£160,449</td>
<td>£163,730</td>
<td>£166,230</td>
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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 on the Teachers’ Pensions return which was agreed separately with officers and is nearing completion.
Should you require any further information on this letter or on any other aspects of our work, please contact:

**Mark Kirkham**

Partner

T: 0191 383 6300

E: mark.kirkham@mazars.co.uk

Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS