

Audit and Governance Committee

11 February 2011

Audited Statement of Accounts 2009/2010

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of the Report

- 1.1 To present the Letter of Representation for 2009/2010 and to receive the Annual Governance Report from the Audit Commission on the findings of the audit of the financial statements for 2009/2010 and their assessment of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.2 To approve the amended Statement of Accounts for 2009/2010, this has been revised to take into account the Auditor's findings.

2. Description of Decision

- 2.1 Members are recommended to:
 - Note the contents of the Letter of Representation (Item 7a)
 - Note the contents of the Annual Governance Report (Item 7b);
 - Approve the amended Statement of Accounts for the financial year ended 31st March 2010 after taking into account the above documents (Item 7c).

3. Background

- 3.1 Members will be aware that the Audit Commission, as the Council's external auditors, are required to report on the final accounts, and report certain matters to Members prior to an opinion being provided on the Council's accounts.
- 3.2 To conclude the audit, a Letter of Representation is required from the Executive Director of Commercial and Corporate Services, which sets out the principles used in preparing the accounts and which provides the external auditor with the necessary assurances required by regulation (this is shown as **Item 7a** on the agenda).
- 3.3 As members will recall, in September 2010 the Council 'stopped' the public inspection process in connection with the audit with the consent of the District Auditor pending the outcome of the Court of Appeal's decision in Veolia ES v Nottinghamshire County Council (2010) following a request by a member of the

public for full copies of the Council's two PFI contracts. At that time, there was substantial uncertainty in the law regarding the disclosure of contractors' commercially confidential information held by the Council during the public inspection period. The Court of Appeal's decision was subsequently handed down on 28th October 2010 and it was held that the public right of inspection under Section 15(1) of the Audit Commission Act 1998 does not provide an absolute or unrestricted right to inspect contract documents in their entirety and there is an inherent exception for any confidential / commercially sensitive information contained within such documents which is closely analogous to the established position under the Freedom of Information Act 2000. The Court of Appeal's decision was consistent with and endorsed the approach taken by the Council during the previous aborted inspection period when it had disclosed redacted copies of the contracts excluding those parts containing the contractors' valuable commercially sensitive information. .

- 3.4 In light of the Court of appeal's decision, the Council and the external auditor then agreed in November 2010 to proceed with the commencement of a new public right of inspection process in order to progress the approval of the Statement of Accounts 2009/2010 and this was reported to this Committee on 26th November 2010. The necessary notification of the audit and public inspection period was advertised in the Sunderland Echo on 18th November 2010, with the public rights of inspection period (20 working days) covering 2nd to 31st December 2010. The member of the public who had requested the contract documents and the two PFI contractors was also notified in writing of the new public inspection period. The auditor had agreed that the audit date would be 4th January 2011 and to date no objection has been received on the accounts to be approved. The Council can also confirm that it has not received any follow up PFI issues raised by the local elector.
- 3.5 The Audit Commission has audited the financial statements of the Council in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (ISA) issued by the Auditing Practices Board.
- 3.6 Once the Audit and Governance Committee has noted the contents of this communication, (the Committee noted the interim communication at its meeting in September 2010), the Audit Commission can then formally provide an opinion on the Statement of Accounts for the year ended 31st March 2010.
- 3.7 In accordance with ISA 260, the Audit Commission has produced an Annual Governance Report, in which the auditor's opinion is that the financial statements present fairly the financial position of the Authority as at 31st March 2010, and its income and expenditure for the year then ended. The Annual Governance Report 2009/2010 is included as **Item 7b** on the Agenda.
- 3.8 There are no further adjustments to the Statement of Accounts 2009/2010 to those that were presented and noted by this Committee on 30th September 2010

other than to reflect the change in the dates for the accounts to be approved and the fact that Malcolm Page is the Executive Director of Commercial and Corporate Services who has replaced George Blyth the former Director of Financial Resources as the Section 151 Officer to the Council.

- 3.8 This communication is in addition to the Annual Audit and Inspection Letter, which will continue to be presented to Cabinet, Audit and Governance Committee and Council annually.

4. KEY MESSAGES

- 4.1 The full communication is reported separately but in summary shows that at this stage (subject to change for the reasons set out above) that:

- The external auditors proposes to issue an unqualified audit opinion;
- all non-trifling misstatements have been adjusted by management;
- the external auditors have not identified any material weaknesses in the accounting and internal control systems but have highlighted an issue in relation to journal authorisation that officers have addressed;
- the external auditors have referred to a number of presentational issues they identified in relation to the qualitative aspects of the Council's financial reporting, these were addressed in the report to this committee on 30th September 2010;
- the external auditors have not identified any matters required by other auditing standards that should be communicated to Members;
- the external auditors have identified three matters relating to the audit that need to be brought to Members attention, which are set out in their Annual Governance Report – these have been agreed and will be addressed;
- the external auditors have reported that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and propose to issue an unqualified value for money conclusion in respect of 2009/2010.

- 4.2 On the basis of the amendments agreed with the external auditors, the Audit Commission can now formally provide an opinion on the amended Statement of Accounts for 2009/2010 once approved by the Committee.

