

Annual Governance Report

Sunderland City Council
Audit 2008/09
September 2009

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present my report on the results of my audit work for 2008/09.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to consider the matters raised in the report before approving the financial statements, and to approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion.

Yours faithfully

Steve Nicklin
District Auditor
21 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from error	Yes	6
Adequate internal control environment	Yes	6
Use of resources	Results	Page
Adequate arrangements to secure value for money	Yes	7

Audit opinion

- 1 The audit is now substantially complete and I expect to issue an unqualified audit opinion on the Authority's financial statements for the 2008/09 financial year.

Financial statements

- 2 Management has taken action since the draft financial statements were approved in June 2009 to revise NNDR bad debt provisions and the accounting treatment adopted in respect of Newcastle Airport. Officers have also made a number of minor presentational and disclosure changes to the accounts, which are not material and do not have an impact on the Authority's financial position as previously reported to you.
- 3 We identified that the prior period adjustment made to the accounts in respect of FRS17 pension liabilities was not required as the sums involved are not material. In the Council's opinion however the adjustment gives a more complete picture of the impact of the changes which affect a number of disclosures in the accounts.

Formal audit powers

- 4 I have received formal objections from a local elector in respect of both the 2007/08 and 2008/09 financial statements. Until these have been resolved I cannot issue my formal certificates to confirm that the audits have been completed. However I am satisfied that the matters raised do not have a material impact on the financial statements.

Key messages

Value for money

5 I intend to issue an unqualified Value for Money conclusion.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion and value for money conclusion. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

6 I ask the Audit and Governance Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements which are set out in this report;
- take note of my value for money conclusion;
- provide specific assurances as requested, to explain how the Committee discharges its role as Those Charged with Governance; and
- approve the letter of representation on behalf of the Authority before I issue my opinion on the financial statements.

Financial statements

The financial statements are an important means by which the Authority accounts for its stewardship of public funds. As elected members you have final responsibility for these statements. It is important that you consider my findings before you approve the financial statements.

Opinion on the financial statements

- 7 The Authority's 2008/09 financial statements and supporting working papers were prepared to a good standard. The audit is now substantially complete and I plan to issue an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 8 Management has taken the following actions since the draft financial statements were approved in June 2009:
 - Revised NNDR bad debt provisions in the light of subsequent events which have arisen since the balance sheet date, namely the current economic climate and write offs to date in 2009/10. As a result the provision has been increased by £0.6m
 - Reviewed the accounting treatment adopted in respect of Newcastle Airport. Although technical guidance on this issue is not clear and permits a number of possible interpretations, the reduction in value during 2008/09 seems to relate to changes in market prices generally, which are expected to improve again over time, rather than any matters specific to the airport itself. Therefore the Authority has decided to establish an "available for sale" reserve on the Balance Sheet rather than charge an impairment to the Income and Expenditure account.
- 9 Officers have also made a number of minor presentational and disclosure changes to the accounts, the most significant of which are:
 - Additional post balance sheet event disclosures in respect of "Building Schools for the Future"
 - £0.2m airport dividend reclassified as investment income in the Income and Expenditure Account
 - Additional disclosures in respect of financial instruments
- 10 None of these changes have any impact on the Authority's underlying financial position or financial performance as previously reported.
- 11 We identified that the prior period adjustment made to the financial statements in respect of FRS17 pension liabilities was not required by CIPFA's 'Statement of Recommended Practice' as the sums involved are not material. In the Council's opinion however the prior period adjustment gives a more complete picture of the impact of the changes which do affect a number of disclosures in the accounts.

Letter of representation and specific assurances from management and those charged with governance

- 12** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 2 contains the draft letter of representation I seek to obtain from you.
- 13** In order to comply with International Standard on Auditing (UK&I)240 we are required to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control. A second International Standard on Auditing (ISA(UK&I)250) requires that auditors also understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.
- 14** I should therefore be grateful if you would confirm to us how the Audit and Governance Committee oversees management processes to identify and respond to such risks, and whether the Committee has knowledge of any actual, suspected or alleged frauds or failure to comply with laws and regulations. A brief response by letter (or email), before close of play on 30 September 2009 will suffice.
- 15** In order to comply with a number of International Standards on Auditing (ISA (UK&I) 240, 250 and 501) we are also required to obtain an understanding from management of their processes with regard to fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. We have requested that the Director of Financial Resources provides us with a brief statement confirming the processes in place by 29 September 2009.

Key areas of judgement and audit risk

- 16** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out below.

Table 1 Key areas of judgement and audit risk

Risk Area	Findings and conclusions
Fixed Assets - there has been a significant impairment of fixed assets.	We have confirmed that an impairment review was undertaken by a qualified valuer in accordance with relevant guidance and has been accurately reflected in the Council's accounts.
Fixed Assets - there has been a significant revaluation of assets.	We confirmed that the revaluation has been carried out by a qualified valuer in line with relevant guidance, and has been correctly reflected in the accounts.
Long term investments - the airport has	We have reviewed evidence to support the

Financial statements

Risk Area	Findings and conclusions
been impaired by £11m.	new valuation, and considered the accounting treatment of the identified reduction in value in the accounts. The Council have amended the accounts to treat the reduction in value as a change in market prices rather than an impairment.
Group Accounts - there is a risk that these may need to be prepared in accordance with SORP guidance.	We confirmed that the process adopted to identify whether or not Group Accounts were required is appropriate. We also confirmed that significant related entities have been appropriately disclosed.
Provisions, contingent liabilities and post balance sheet events relating to equal pay and single status claims.	We have assessed the current position in terms of claims made to date and any further claims expected. We confirmed that the requirements of FRS12 have been met, and obtained specific representations from management.

Formal audit powers

17 I have:

- a power to issue a public interest report. I do so when I believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the accounts is contrary to law;
- a power to seek judicial review of a decision made by the Authority.

18 I also have a power to issue an advisory notice. An advisory notice requires the Authority to meet and consider the notice before:

- making a decision that might give rise to unlawful expenditure;
- taking an unlawful course of action that would give rise to a loss; or
- making unlawful entry in the accounts.

19 I received a formal objection to the 2007/08 financial statements in relation to car parking enforcement. Similar objections have been received at other authorities which means we are obliged to consider them together and co-ordinate a consistent response. Therefore, although this matter is being progressed it remains unresolved. Also, I have recently received correspondence from the same objector indicating that he also wishes to object to the 2008/09 accounts.

20 Until these two objections have been resolved I cannot issue my formal certificate to confirm that the audit has been completed for 2007/08 and 2008/09. However I am

satisfied that the issues raised do not have a material impact on the financial statements already presented to you.

Use of resources

I am required to consider how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude whether the Authority has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 21** In forming my scored use of resources judgements, I use the methodology set out in the [use of resources framework](#). Judgements are made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2. In forming these judgements I take into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 22** The Authority's use of resources scores are under embargo as the Audit Commission's national quality assurance and review process is still to be completed. Once this process has been completed I intend to issue a separate report detailing my findings, conclusions and recommendations. This will be discussed with officers and then presented to members.
-

Value for Money conclusion

- 23** I assess your arrangements to secure economy, efficiency and effectiveness in the use of resources against criteria specified by the Audit Commission. From 2008/09, the criteria have been aligned to use of resources judgements and the Audit Commission will specify each year which of the use of resources KLOEs are the relevant criteria at each type of audited body. My conclusions on each criteria are set out in Appendix 3 below.
- 24** I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.
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Appendix 1 - Independent auditor's report to the Members of Sunderland City Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Sunderland City Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Sunderland City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Financial Resources and auditor

The Director of Financial Resources' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and

disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Sunderland City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Steve Nicklin, District Auditor
Nickalls House, Metro Centre, Gateshead NE11 9NH

Appendix 2 – Draft letter of representation

To:

Steve Nicklin, Appointed Auditor

Nickalls House, Metro Centre, Gateshead NE11 9NH

Sunderland City Council - Audit for the year ended 31 March 2009

Confirmation that to the best of your knowledge and belief, having made appropriate enquiries of other directors and officers of the Council, the following representations in connection with our audit of the financial statements for the year ended 31 March 2009.

Compliance with the statutory authorities

Acknowledgement of your responsibility under the relevant statutory authorities for preparing the financial statements in accordance with "*The Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice*" which present fairly the financial position and financial performance of Sunderland City Council, and for making accurate representations to us.

Uncorrected misstatements

Confirmation that having reviewed current guidance you are satisfied that the prior period adjustment in respect of FRS17 liabilities, although not required by CIPFA 'Statement of Recommended Practice' should remain in the financial statements as it provides the reader with a more complete picture of the impact of the new requirements.

Confirmation that there are no other identified errors in the financial statements which remain uncorrected, other than those of a trivial nature, so far as you are aware.

Supporting records

Confirmation that:

- all the accounting records have been made available to us for the purpose of our audit and that so far as you are aware

- all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records
- all other records and related information, including minutes of all Council and Committee meetings, have been made available to us.

Going Concern

Confirmation that you are satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements.

Irregularities

Acknowledgement of your responsibilities for the design and implementation of internal control systems to prevent and detect fraud or error.

Confirmation that so far as you are aware there have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Also confirmation that you have disclosed:

- any knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

Confirmation that so far as you are aware:

- there are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.
- the Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance
- there has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

Confirmation of the reasonableness of the significant assumptions within the financial statements. For assertions in the financial statements relating to fixed assets and long term investments, including the Council's shareholding in Newcastle Airport, confirmation of:

- the appropriateness of the measurement method and basis of valuation used;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- the consideration of subsequent events relevant to the fair value measurement.

Group entities

Confirmation that you are satisfied that group accounts are not required.

Assets

Confirmation that the following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

Confirmation that there are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in the financial statements you have no other lines of credit arrangements.

Contingent liabilities

Confirmation that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements. and
- no financial guarantees have been given to third parties.

Confirmation you are satisfied that the position with respect to equal pay and single status claims has been properly reflected in the accounts.

Related party transactions

Confirmation of the completeness of the information disclosed regarding the identification of related parties.

Confirmation that the identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Confirmation that since the date of approval of the financial statements by the Audit and Governance Committee on behalf of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Confirmation that the Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

Confirmation you are satisfied that the shared costs, and loans and investments administered by the Council on behalf of Tyne and Wear FRA and the North of England Open Air Museum Joint Committee have been correctly allocated between the three sets of financial statements.

Confirmation that the following have been properly reflected in the financial statements:

- The current position with respect of equal pay and single status claims.
- The current value of long term investments, including the Authority's shareholdings in Newcastle Airport.

Confirmation that this letter has been discussed and agreed by those charged with governance on 29 September 2009

Signed on behalf of Sunderland City Council

Signed

Name

Position

Date

Appendix 3 – Value for money conclusion

The following tables summarise the key findings and conclusions for each of the Audit Commission criteria.

Appendix 3 – Value for money criteria

Code Criteria	Description	Met
1	Does the organisation: <ul style="list-style-type: none"> • integrate financial planning with strategic and service planning processes on a medium- to long-term basis; • engage local communities and other stakeholders in the financial planning process; • manage spending within available resources and is financially sound over the medium term; and • recognise individual and collective responsibilities for financial management and values and develops financial skills. 	Yes
2	Does the organisation: <ul style="list-style-type: none"> • understand its costs, including whole life, transaction and unit costs, the main factors that influence these and how they link to performance; • take account of this understanding of its costs and performance in decision making and commissioning; and • identify the scope for making efficiencies and is on track to achieve planned efficiencies. 	Yes
3	Does the organisation: <ul style="list-style-type: none"> • produce relevant, timely and reliable financial monitoring and forecasting 	Yes

Code Criteria	Description	Met
	<p>information;</p> <ul style="list-style-type: none"> • use financial and related performance information to monitor performance during the year; • produce financial reports that are clear, relevant and concise to support strategic decision making; • prepare accounts that meet statutory requirements, financial reporting standards and present fairly, or give a true and fair view of, the financial performance and position; and • publish reports that provide an objective, balanced and understandable assessment of the organisation's performance in the year. 	
4	<p>Does the organisation</p> <ul style="list-style-type: none"> • have a clear vision of intended outcomes for local people which shapes its commissioning and procurement, and is based on an ongoing analysis and understanding of needs; <ul style="list-style-type: none"> • involve local people, partners, staff and suppliers in commissioning services; • seek to improve the customer experience, quality and value for money of services through service redesign, making effective use of IT; • understand the supply market and seeks to influence and develop that market; <ul style="list-style-type: none"> • evaluate different options (internal, external and jointly with partners) for procuring services and supplies; and 	Yes

Code Criteria	Description	Met
	<ul style="list-style-type: none"> review the competitiveness of services and achieves value for money, while meeting wider social, economic and environmental objectives. 	
5	<p>Does the organisation:</p> <ul style="list-style-type: none"> produce relevant and reliable data and works with partners to ensure the quality of partnership data; understand the needs of its decision makers and provides them with information that is fit for purpose and is used to support decision making; ensure data security and compliance with relevant statutory requirements; and monitor performance against its priorities and targets, and addresses underperformance. 	Yes
6	<p>Does the organisation:</p> <ul style="list-style-type: none"> adopt, promote and demonstrate, the principles of good governance; maintain focus on its purpose and vision; demonstrate a strong ethical framework and culture; and apply the principles and values of good governance to its partnership working. 	Yes
7	<p>Does the organisation:</p> <ul style="list-style-type: none"> have effective risk management which covers partnership working; 	Yes

Code Criteria	Description	Met
	<ul style="list-style-type: none"> • have a clear strategy and effective arrangements, including allocation of appropriate resources, to manage the risk of fraud and corruption; and • have a sound system of internal control including internal audit. 	
8	<p>Does the organisation:</p> <ul style="list-style-type: none"> • understand and quantify its use of natural resources and identify the main influencing factors; • manage performance to reduce its impact on the environment; and • manage the environmental risks it faces, working effectively with partners. 	Yes
9	<p>Does the organisation:</p> <ul style="list-style-type: none"> • have a strategic approach to asset management based on an analysis of need to deliver strategic priorities, service needs and intended outcomes; • manage its asset base to ensure that assets are fit for purpose and provide value for money; and • work with partners and community groups to maximise the use of its assets for the benefit of the local community. 	Yes

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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