

**AUDIT AND GOVERNANCE COMMITTEE**

**25 NOVEMBER 2011**

**AUDIT COMMISSION ANNUAL AUDIT LETTER 2010/11**

**Report of the Executive Director of Commercial & Corporate Services**

**1.0 Purpose of the report**

1.1 This report details the Audit Commission's (AC) Annual Audit Letter (AAL) covering the year 2010/2011. A copy is attached.

**2.0 Description of Decision**

2.1 The Audit and Governance Committee is recommended to:

- Note and comment on the contents of this report, and
- Refer the report to Cabinet and Council for their consideration

**3.0 Introduction / Background**

3.1 The Audit Commission's Code of Audit Practice requires auditors to prepare an AAL and issue it to each audited body. The purpose of preparing and issuing AALs is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from the auditors' work, which auditors consider should be brought to the attention of the audited body.

3.2 The AAL summarises the findings of the 2010/11 audit, which comprises two elements:

- An audit of the Council's financial statements
- An assessment of the Council's arrangements to achieve value for money in the use of resources

3.3 The AAL also provides an update on the position relating to the objections to the Accounts for 2007/08, 2008/09 and 2009/10.

**4.0 Overall Position**

4.1 The AAL is extremely positive overall providing a strong endorsement of the financial management and planning and governance arrangements in place across the Council.

4.2 The report provides an unqualified opinion on the financial statements and an unqualified VFM conclusion. The report confirms that the Council:

- Has robust arrangements in place to ensure its financial resilience.
- Has a history of good financial management, robust systems of corporate governance and internal control, and a strong record in the delivery of budgets.
- Had prepared for the economic challenges facing public services through the Sunderland Way of Working.
- Is committed to improvements in service delivery and outcomes, and has also identified significant savings.

### **4.3 Financial Statements and Annual Governance Statement**

4.3.1 The District Auditor (DA) issued an unqualified opinion on the Council's financial statements on 30 September 2011.

4.3.2 The DA commented that *"the financial statements presented for audit were of good quality, they complied with the new requirements of International Financial Reporting Standards (IFRS) and officers have once again been helpful in dealing with the audit and with our queries. This is a considerable achievement, as compliance with IFRS created significant problems across the country and some authorities were unable to meet the statutory deadlines."*

4.3.3 The DA also reported that financial statements have been streamlined where possible, key controls within the Council's main financial systems were operating as designed and there were no significant issues to raise with the Council. The DA will work with the Council over the next year to help address the small number of areas for improvement that were identified during the audit.

#### ***Resolution of Objections from Earlier Years***

4.3.4 Previously, the DA was unable to issue a final certificate for the 2009/10 accounts as outstanding objections to the Council's accounts for 2007/08 and 2008/09 had yet to be decided, and a legal issue had arisen which had led to further delays in issuing the final certificates for the three accounting years.

4.3.5 Following the conclusion of legal issues the DA has determined that no further action is required in response to the objections raised to the 2007/08 and 2008/09 accounts. As a result, he issued final certificates on 30 September 2011 to formally close the audits for 2007/08, 2008/09 and 2009/10, as well as that for 2010/11.

### **4.4 Value for Money**

4.4.1 The DA issued an unqualified conclusion stating that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources on 30 September 2011.

4.4.2 The DA reported that *"the Council has robust arrangements in place to ensure its financial resilience. The Council has a history of good financial management, robust systems of corporate governance and internal control, and a strong record in the delivery of budgets. The Council had prepared for the economic challenges facing public services through the Sunderland Way of Working. The Council is committed*

*to improvements in service delivery and outcomes, and has also identified significant savings.”*

4.4.3 In undertaking the value for money conclusion the DA also gave consideration to areas that had been previously identified as areas for improvement (i.e. asset management and natural resources). The DA commented upon the progress that is being made and the importance of these agendas in supporting the Council to deliver value for money.

#### **Current and Future Challenges**

4.4.4 The AAL highlights the challenges the Council faces due to the economic downturn and the subsequent pressure on the public sector; as well as the need to cut costs yet maintain and improve key services. The Letter acknowledges the Council is prioritising its resources within tighter budgets, by achieving cost reductions and by improving efficiency and productivity.

4.4.5 In highlighting the challenges the DA has identified the Council's service reviews, the “innovative” SWITCH programme, and the consideration of alternative forms of service delivery and new and innovative ways of working as being key mechanisms to help meet the challenges.

4.4.6 The DA has commented that the key challenges for the Council are to:

- Closely monitor the 2011/12 budget and take early action if budget savings are not being delivered
- Monitor service delivery and governance arrangements to ensure that standards are maintained during a period of significant change

## **5.0 Relevant Considerations / Consultations**

5.1 Government regulations require the AAL to be published. In addition to publication as part of the Cabinet, Management Scrutiny Committee and Council Agendas, and its publication on the AC website it is proposed to place the full report on the Council website.

## **6.0 Recommendations**

6.1 The Audit and Governance Committee is recommended to:

- Note and comment on the contents of this report, and
- Refer the report to Cabinet and Council for their consideration

