

AUDIT AND GOVERNANCE COMMITTEE

27 May 2011

ANNUAL AUDIT LETTER 2009/10

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of the report

- 1.1 This report details the Audit Commission's (AC) Annual Audit Letter (AAL) covering the year 2009/2010. A copy of the full Letter is attached. The letter includes issues arising from the audit of the Council's financial statements and the results of the AC's work undertaken as part of the assessment of the Council's arrangements to securing value for money.
- 1.2 Gavin Barker, Audit Manager, will attend the Committee to present a summary of the AC's findings and address any questions Members may have.
- 1.3 The report is also presented to Cabinet and Council.

2. Introduction / Background

- 2.1 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.
- 2.2 Despite the abolition of Comprehensive Area Assessment (CAA) and its use of resources assessment in May 2010, the Code of Audit Practice still requires the District Auditor (DA) to issue a value for money conclusion. For the AAL 2009/10, it was agreed that the work undertaken to date on the use of resources assessment would be used to inform the value for money conclusion.
- 2.3 The AAL summarises the findings of the 2009/10 audit, which therefore comprises two elements:
 - An audit of the council's financial statements; and
 - An assessment of the council's arrangements to achieve value for money.

3. Current position

- 3.1 The Council did not receive the AAL for 2009/10 until March 2011. The reason for the delay was that during the audit, the former Director of Financial Resources advised the DA that the Council was unable to proceed with the public inspection process because of legal uncertainty about disclosure of

commercially sensitive information. As a consequence, it was agreed that the audit would be 'called' again when the Council was able to meet the requirements of the public inspection period. The position was clarified following the Court of Appeal decision in the Veolia ES v Nottinghamshire County Council case, and the audit was re-advertised for 4 January 2011. No additional issues were raised following the public inspection period. The DA was therefore able to issue an opinion on the financial statements and provide their value for money conclusion on 11 February 2011.

3.2 The DA has been 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 have yet to be decided. Progress had been made on the objections, however a legal issue has arisen recently which is likely to lead to further delays in issuing the final certificates for the three accounting years. The DA will provide an update on the position at the meeting.

3.3 The AAL is very positive overall and the key issues identified in the AAL are set out below.

3.4 Financial Statements and Annual Governance Statement

3.4.1 The DA issued an unqualified opinion on the council's financial statements on 11 February 2011.

3.4.2 The audit identified a number of relatively minor errors in the statements, which have been amended by officers. The DA has made recommendations which should enable further streamlining of the financial statements and reduce overall time pressures on the audit.

3.5 Value for Money

3.5.1 The DA issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources on 11 February 2011.

3.5.2 The DA reported that the Council continues to demonstrate particular strengths, including:

- The successful integration of service and financial planning which has secured significant efficiency savings in recent years, whilst at the same time investing in corporate priorities and improvements for local people; and
- Well established and effective processes for good governance and internal control.

3.5.3 The DA found that there had been further improvements in the Council's arrangements, highlighting the following examples:

- The development of a single investment plan with the Local Strategic Partnership;

- Delivery of major projects but also improved outcomes at an area level in reduced crime, increased youth provision, and improvements in local environmental services; and
- Better procurement arrangements that saved money.

3.5.4 The DA has also reported areas that the Council has identified as having scope for further improvement, as follows:

- Extending effective commissioning and procurement arrangements;
- Making efficiencies and savings through better asset management; and
- Enhanced workforce management.

3.6 Current and future challenges

3.6.1 Within the AAL the DA has highlighted the challenges the Council faces due to the significant front loading of government grant reductions confirmed within the local government finance settlements for 2011/12 and 2012/13. However he considers that strengths in the Council's governance arrangements, its history of good financial management and the ongoing preparations through the Sunderland Way of Working will help the Council to respond to these challenges.

3.6.2 He also states that the Council will need to ensure the successful adoption and compliance with International Financial Reporting Standards (IFRS) in producing the 2010/11 financial statements.

4. Recommendation

4.1 Members are asked to note this report.

