

Annual Governance Report

Sunderland City Council

Audit 2007/08

September 2008



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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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Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit. It identifies the key issues to consider before we issue our opinion, and includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 2 We expect to issue an unqualified opinion on the financial statements. Arrangements for producing the financial statements were good and only the following amendments are proposed as a result of our work.
 - Various minor amendments in relation to presentation, disclosure and consistency within the accounts.
 - Additional capital commitments disclosures (narrative note only).
- 3 None of these adjustments have any impact on the financial position of the Council as previously reported to you.
- 4 The financial statements include a prior period adjustment in respect of new financial instruments disclosures required by Financial Reporting Standards 25, 26 and 29. This adjustment was not required by CIPFA's 'Statement of Recommended Practice', but in the Council's opinion gives a more complete picture of the impact of these changes. The financial value of the adjustment in net terms is not significant although it does affect a number of disclosures in the accounts.

Value for Money

- 5 We are proposing to issue an unqualified value for money conclusion for the Council in 2007/08.

Formal audit powers

- 6 We have recently received a formal objection to the 2007/08 accounts in relation to car parking issues. Until this matter has been resolved we cannot issue our formal certificate to confirm that the audit has been completed. However we are satisfied that the issues raised do not have a material impact on the financial statements already presented to you.

Next steps

- 7 The Council is required to:
 - consider the matters raised in the report before approving the financial statements;
 - agree to adjust the financial statements as set out in our recommendations;
 - approve the representation letter on behalf of those charged with governance before we issue our audit opinion.

Financial statements and Annual Governance Statement

- 8 The financial statements and Annual Governance Statement are important components of governance, internal control and financial management. As those charged with governance, you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 9 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 10 In addition, auditing standards require us to report to you:
- Suggested contents of the letter of representation which we are asking management and you to sign;
 - our views about accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 11 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Fixed assets – this is a technically complex area which comprises 80 per cent of the total asset value. SORP changes have also taken place this year.	Testing identified that additional disclosures were required in respect of capital commitments, but confirmed that in other respects fixed assets are fairly stated.
Equal pay and single status – the Council is facing a significant number of claims	Testing confirmed that the accounts realistically reflect the current position in terms of both the claims made and their probability of success

Financial statements and Annual Governance Statement

Issue or risk	Finding
Debtors and creditors – these assertions vary significantly from year to year and are in many cases one-off transactions which do not flow from established systems or processes.	No errors identified by sample testing.
Loans and investments – SORP changes have taken place this year, in particular with respect to financial instruments. There is also an ongoing issue with respect to the valuation of Newcastle Airport.	The accounts include a prior period adjustment not required by SORP, although the net financial impact of this is not significant. No matters arising from other audit work.
Reserves and provisions – the Council has a large number of earmarked provisions and reserves, this has been an issue in previous years.	The Council has reviewed its accounting arrangements for reserves and provisions and we are satisfied that the accounts now fully comply with FRS 12.
Income and expenditure account – presentation required by SORP is not consistent with the Council's general ledger coding structure or in-year financial reporting	No errors identified.
Other statements –national guidance suggests that these have been given a low profile in the past and may not be SORP compliant.	No errors identified.

Accounting policies and financial reporting

- 12** We consider the qualitative aspects of your financial reporting. The financial statements include a prior period adjustment in respect of new financial instruments disclosures required by Financial Reporting Standards 25, 26 and 29. This adjustment was not required by CIPFA's 'Statement of Recommended Practice', but in the Council's opinion gives a more complete picture of the impact of these changes. The financial value of the adjustment in net terms is not significant although it does affect a number of disclosures in the accounts.
- 13** We have not identified any other significant issues to raise with you.

Errors and uncertainties

- 14** We identified no significant errors in the financial statements other than those reported above. Items of a trivial nature, which have not been adjusted in the accounts, are set out in Appendix 3 for completeness.
- 15** The Council has also agreed to amend the accounts in respect of various presentational, disclosure and consistency issues identified during the course of our work.

Draft representation letter

- 16** Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
 - you have approved the financial statements;
 - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
 - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
 - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
 - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
 - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures;
 - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate; and
 - you are satisfied that all of the errors identified during the course of the audit have been corrected, other than those which are of a trivial nature.
- 17** The letter covers areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities. We also need specific representations from you as follows, to confirm that:
- you are satisfied that the prior period adjustment in respect of financial instruments, 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; and
 - the current position with respect of equal pay and single status claims, and the current value of long term investments (including the Council's shareholdings in Newcastle Airport) have been properly reflected in the accounts.
- 18** Appendix 1 contains the suggested content of the letter of representation we seek from you. The final letter of representation is to be drafted by officers and considered with the amended accounts on 30 September 2008.

Financial statements and Annual Governance Statement

Material weaknesses in internal control

- 19 We have not identified any significant weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware. Items of a trivial nature, which have not been adjusted in the accounts, are set out in Appendix 3 for action next year.
- 20 We have not identified any other weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 21 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

- 22 There are no other matters that auditing standards require me to report to you.

The audit report

- 23 Management have agreed to make appropriate adjustments to the financial statements as follows.

Recommendations	
R1	Include additional capital commitments in disclosure note 23.
R2	Correct various presentation, disclosure and consistency errors identified during the course of the audit.

- 24 We therefore plan to issue an unqualified opinion on the financial statements. Appendix 2 contains a copy of our draft report.

Value for money

- 25** We are required to conclude on whether the Council has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against criteria specified by the Commission.
- 26** We have assessed your arrangements as adequate or better in all the relevant areas and we therefore propose to issue an unqualified conclusion. Our annual audit letter for members, which is due to be published later in the year, will include the outcomes from:
- work on performance management, equality and diversity;
 - our annual Direction of Travel and Use of Resources assessment; and
 - other detailed recommendations to help support improvement.

Formal audit powers

27 We have:

- a power to issue a public interest report. We do so where we 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 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; and
- a power to seek judicial review of a decision made by the Authority.

28 We have recently received a formal objection to the 2007/08 accounts in relation to car parking issues. Until this matter has been resolved we cannot issue our formal certificate to confirm that the audit has been completed. However we are satisfied that the issues raised do not have a material impact on the financial statements already presented to you.

Independence

- 29** The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 30** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 31** We communicate to you:
- any relationships between ourselves and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Council

- 32** We have identified no relationships that might affect objectivity and independence.

Audit fees

- 33** We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 2 Audit fees

	Plan 2007/08	Actual 2007/08
Total audit fee	£288,200	£288,200
Inspection fee, net of DCLG grant	21,800	21,800
Total fee	£310,000	£310,000
Other work	0	0

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- 34** The analysis above shows that we contained our audit fee within the totals you have already agreed.
- 35** Under the Audit Commission's advice and assistance power it may provide non-audit services. No such services have been provided to the Council during 2007/08.

Independence

Our arrangements to ensure independence and objectivity

36 We have comprehensive procedures to ensure independence and objectivity. These are outlined below.

Table 3 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none">• do not hold a financial interest in any of our audit clients;• may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and• may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none">• the general requirement to carry out work independently and objectively;• safeguarding against potential conflicts of interest;• acceptance of additional (non-audit) work;• rotation of key staff;• other links with audited bodies;• secondments;• membership of audited bodies;• employment by audited bodies;• political activity; and• gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 - Letter of representation - suggested contents

Sunderland City Council - Audit for the year ended 31 March 2008

Confirmation that to the best of your knowledge and belief, having made appropriate enquiries of other officers and members of Sunderland City Council, the following representations in connection with the audit of the Council's financial statements for the year ended 31 March 2008.

Compliance with the statutory authorities

Acknowledgement of 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 the Authority, and for making accurate representations to us.

Misstatements in the accounts

Confirmation that the accounts have been amended as follows.

- To include additional capital commitments.
- To correct various minor disclosure, presentation and consistency issues identified during the course of the audit.

Confirmation that having reviewed current guidance you are satisfied that the prior period adjustment in respect of financial instruments, 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.

Supporting records

Confirmation that all the accounting records have been made available for the purpose of the audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. Confirmation that all other records and related information, including minutes of all committee meetings, have been made available.

Going Concern

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

Appendix 1 - Letter of representation - suggested contents

Irregularities

Acknowledgement of responsibility for the design and implementation of internal control systems to prevent and detect fraud or error. Confirmation that 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.

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
- any 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 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 Authority. Confirmation that the Authority 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 pensions disclosures under FRS17, fixed asset valuations and financial instruments.

Group entities

Confirmation that the requirement for group accounting does not apply in respect of transactions during 2007/08.

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 and options to buy back assets previously sold; and
- assets pledged as collateral.

Appendix 1 - Letter of representation - suggested contents

Compensating arrangements

Confirmation that there are no formal or informal compensating balancing arrangements with any cash and investment accounts and that there are 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, including capital commitments, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

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, no additional significant post balance sheet events that 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, other than those already disclosed.

Specific representations:

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 the Audit and Governance Committee on 30 September 2008.

Appendix 2 - Draft audit opinion and certificate

Independent auditor's report to the Members of Sunderland City Council

Opinion on the financial statements

I have audited the Authority financial statements and related notes of Sunderland City Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority financial statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Collection Fund and the related notes. These financial 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the City Treasurer and auditor

The City Treasurer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 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 Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, 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.

Appendix 2 - Draft audit opinion and certificate

I read other information published with the Authority financial statements, and consider whether it is consistent with the audited Authority financial statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority financial 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 Authority financial statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority financial 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 Authority financial 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 Authority financial statements and related notes.

Opinion

In my opinion, the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 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.

Appendix 2 - Draft audit opinion and certificate

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 December 2006, 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 2008.

Best Value Performance Plan

We have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 21 September 2007. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

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

September 2008

Appendix 3 - Items of a trivial nature

- 1 Income, expenditure and net costs relating to the Connexions service have been shown in the accounts as a discontinued operation, although a small element of this (£120,000) relates to ongoing service provision. Since this item is of a trivial nature in the total context of the Council's accounts, the financial statements have not been amended.
- 2 Review of the financial statements identified a current small deficit (£17,000) on the Council's Building Regulations Charging Account. As statutory regulations require this account to balance over time we recommend that appropriate steps as taken to ensure a break even position in 2008/09.

Recommendation
R3 Take appropriate action to ensure that the Council's Building Regulations Charging Account achieves break even in 2008/09.

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, covering the £180 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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