

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on TUESDAY 29 SEPTEMBER 2009 at 1.30 p.m.**

**Present:-**

Mr G N Cook in the Chair

Councillors Allan, M Forbes and Mr J P Paterson

**Declarations of Interest**

The following Councillor declared a personal interest in the report listed below as a Member of the body indicated:-

Item 4 – Summary of the Sunderland Strategy and the Council's Corporate Improvement Plan	Councillor M. Forbes	Member of Tyne and Wear Fire and Rescue Authority
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**Apologies for Absence**

Apologies for absence were received from Councillors Arnott, Wares and T Wright.

**Minutes**

11. RESOLVED that the minutes of the meeting of the Committee held on 30 June 2009 be confirmed and signed as a correct record.

**Summary of the Sunderland Strategy and the Council's Corporate Improvement Plan**

The Chief Executive and Director of Financial Resources submitted a joint report to raise the awareness of the Committee of the key priorities and plans for the City and the Council outlined in the Sunderland Strategy and the Corporate Improvement Plan (CIP).

Lee Cranston, Assistant Head of Corporate Policy provided an overview of the report and the context in which the Committee considers reports in relation to governance, risk, audit and the performance of the Council. The vision for the City is an integral part of the Sunderland Strategy and the CIP.

The Sunderland Strategy sets out the vision for the next 17 years and was drawn up with key partners and local people to be long term, ambitious and aspirational. The Strategy identifies five priorities and the CIP gives an overview of what the Council is doing to achieve them. The strategic priorities are:-

- Prosperous City
- Healthy City
- Safe City
- Learning City
- Attractive and Inclusive City

There were also four cross-cutting priorities for Sunderland and its partner organisations:-

- Sustainability
- Creating Inclusive Communities
- Housing
- Culture

As well as dealing with these priorities, the CIP sets out how the Council will deliver services and work towards achieving the vision for Sunderland – ‘Creating a better future for everyone in the City’.

The Chairman asked how the Council was doing in respect of its Corporate Improvement Objectives and the Assistant Head of Corporate Policy stated that things were going well in the circumstances although some anticipated trajectories were not as had been hoped. However, the Council was strong, operated effectively and had a good record of delivery and partnership working. The Council does deliver effectively what it sets out to do but realises that more needs to be done in a number of areas, for example, in addressing health inequalities in the City.

The Chairman thanked the Officers for the report and commented that it was very informative. He requested that an annual update be provided on the vision in order to keep the Committee in touch with the process.

12. RESOLVED that the summary of the Sunderland Strategy and the Council's Corporate Improvement Plan be noted.

### **International Financial Reporting Standards (IFRS)**

The Director of Financial Resources submitted a report providing details of the implications of the convergence of financial reporting to comply with International Financial Reporting Standards (IFRS).

The accounts are currently reported in line with the Statement of Recommended Practice (SORP) but the Government has directed that public sector accounts should be prepared using IFRS from 2009/2010. The rationale for this was:-

- To harmonise financial reporting in a world of cross-border trade and investment and increased globalisation, so that they are comparable and follow the same standards; and
- To reflect the fact that to date, over 100 countries have adopted or intend to adopt IFRS, and that the International Accounting Standards Board (IASB) expects that to increase to 150 countries by 2011.

An action plan had been developed to set out the implications of adopting IFRS and the actions that need to be taken. The changes were highly complex and technical in nature and are likely to double the volume of the Statement of Accounts, particularly the level of disclosure notes required. At the present time, Officers were raising awareness of the new reporting arrangements with the Members of the Committee, other elected Members and Senior Officers with a view to providing training in due course, as appropriate.

Councillor Allan commented that he could appreciate the reasons for making this change but questioned how this was going to make life better for the citizens of Sunderland. The changes would lead to more work, more paper and more staff and there was an issue about value for money. The Chairman agreed with this point and added that the changes would not aid the understanding of the accounts for local people.

The Assistant Chief Accountant (Technical) advised that the steps outlined in the action plan were being worked through and a more detailed plan would be produced which set out key areas of change, those officers responsible and the key milestones in achieving IFRS implementation. There were particular issues still to be resolved but the main concern, at this stage was that legislative changes were required from Central Government to ensure that IFRS implementation did not affect the level of Council Tax.

Steve Nicklin, District Auditor, advised that this process was happening all over the public sector and the health service was a year ahead with this. The Audit Commission were holding a series of workshops for Local Authority accountants which would give advice and guidance. It was recognised that there was a lot of work to achieve conversion. The Audit Commission would be looking at how well the information was communicated to partners as part of the Use of Resources assessment.

Mr Paterson enquired about the cost to introduce the new system. The Director of Financial Resources stated that it was very early in the process but as the Local Authority knew the grant settlement for this year, the expectation would be for the Council to manage the process within existing resources.

Mr Paterson queried what value the Authority would get from the new arrangements and the Director of Financial Resources advised that this would mainly be from uniformity of accounting across the globe.

Councillor Forbes referred to the expected publication of mitigation regulations by the Department for Communities and Local Government and asked what the scope for these would be. The Director of Financial Resources stated that there were

certain requirements associated with compliance with IFRS which had not previously been required such as the need to account for the value of untaken leave at the end of the year. Mitigation regulations would usually be made for issues such as this and the Director indicated he would be surprised if they did not come into effect and leave Authorities with costs not budgeted for.

Having considered the report, it was:-

13. RESOLVED that the report and project outline be noted.

### **Audited Statement of Accounts 2008/2009**

The Director of Financial Resources submitted a report which presented the Letter of Representation, Annual Governance Report and the amended Statement of Accounts for financial year ended 31 March 2009.

#### **(a) Letter of Representation**

The Council's Letter of Representation to the Council's External Auditor was submitted, advising that the representations given in connection with the audit of financial statements for the year ended 31 March 2009 were accurate.

The Director of Financial Resources advised that the letter covered a range of issues which were largely dictated by audit policies and was a comprehensive set of undertakings and disclosures to confirm that all transactions undertaken by the Council had been properly reflected and recorded.

14. RESOLVED that the Authority's Letter of Representation be received and noted.

#### **(b) Annual Governance Report**

Steve Nicklin, the District Auditor introduced the Council's External Annual Governance report and advised that the Audit Commission proposed to issue an unqualified opinion on the Authority's financial statements and an unqualified value for money conclusion for 2008/2009.

He advised that there were objections from a local elector in respect of both the 2007/2008 and 2008/2009 financial statements and formal certificates could not be issued until these were resolved. However the District Auditor was satisfied that the matters raised did not have a material impact on the financial statements.

The report identifies the key messages which the Committee should consider before the District Auditor issues his financial statements opinion. The Audit and Governance Committee was required 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 the 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 the District Auditor issues his opinion on the financial statements.

The District Auditor reported that the 2008/09 financial statements and supporting papers were prepared to a good standard and highlighted actions which had been taken since the draft statements were approved in June 2009 which related to revising NNDR bad debt provisions and technical changes to the accounting for Newcastle Airport.

The District Auditor confirmed that he had not exercised any of his formal audit powers but could not issue his formal certificate until the objections to the accounts had been resolved.

Councillor Allan welcomed the report of the Audit Commission and was pleased to note the unqualified opinion. However, he expressed disappointment at the delay in being able to issue a formal certificate due to ongoing objections to the accounts.

15. RESOLVED that the Authority's Annual Governance Report be received and noted.

**(c) Audited Statement of Accounts 2008/2009**

The Director of Financial Resources submitted the amended Audited Statement of Accounts 2008/2009 for approval by the Committee.

The amended accounts reflect presentational changes made following the audit and are set out in Appendix A to the report.

The Director of Financial Resources commented that as a result of the economic downturn it had been necessary to increase the NNDR provision.

Having considered the report, it was:-

16. RESOLVED that the amended Audited Statement of Accounts for the financial year ended 31 March 2009 be approved.

## **Assessment of the Remit and Effectiveness of the Audit and Governance Committee**

The Director of Financial Resources submitted a report presenting the outcome of the workshop held on 20 July 2009 to assess the remit and effectiveness of the Audit and Governance Committee.

The Workshop included an assessment of the current terms of reference for the Committee against guidance issued by CIPFA and there was detailed discussion by Committee Members in relation to each area of operation of the Committee.

The Chairman commented that the Committee had felt that, as a whole, it was working well but a number of recommendations had come out of the workshop which would require amendments to the current terms of reference of the Committee.

The proposed additional features of the Committee were as follows:-

- The Committee Members will have the opportunity to meet privately and informally with the Head of Audit and Procurement and the external auditor, at a meeting following a normal Committee meeting and otherwise as necessary, throughout the year;
- The Committee will assess its effectiveness, including its Terms of Reference, every three years; and
- An Annual Report will be presented to Council regarding the work of the Committee throughout the year.

Another recommendation was that a forward plan of reports be presented to the Committee and this had been provided for Members as an Appendix to the report. Action would be taken to address the remaining recommendations from the self assessment throughout the rest of the financial year.

17. RESOLVED:-

- (i) that the completed self assessment was an accurate reflection of the discussions held at the workshop;
- (ii) that the recommendations documented within the self assessment be agreed;
- (iii) that the proposed updated Terms of Reference be submitted for agreement by Cabinet and, subject to the Cabinet's agreement, Council at the next opportunity; and
- (iv) that the proposed schedule of reports be agreed.

(Signed) G N COOK  
Chairman