

# Annual Audit Letter

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**Sunderland City Council**

**Audit 2009/10**

**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.**

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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 8).**

## **Audit opinion and financial statements**

**1** I issued an unqualified opinion on the financial statements on 11 February 2011, which was well beyond the deadline for audit completion of 30 September 2010.

**2** The reason for the delay was that during the audit, the Director of Financial Resources advised me that the Council was unable to proceed with the public inspection process because of legal uncertainty about disclosure of commercially confidential information. As a consequence, I agreed to arrange for the audit to 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 case, and the audit was re-advertised for 4 January 2011. No additional issues were raised following the public inspection period.

## **Value for money**

**3** I 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.

## **2007/08 and 2008/09 Objections**

**4** Members will be aware that there are outstanding objections to the Council's accounts for 2007/08 and 2008/09. This has meant that I have been unable to issue my certificate for those accounts and that I will be unable to issue my final certificate for the 2009/10 accounts until the objection is decided.

**5** Progress had been made on the objections and I was recently able to share my preliminary views with both the Objector and with the Council's Officers.

6 Subsequently, however, legal issues have arisen which are likely to lead to further delays. I will continue to keep officers informed of developments.

## Current and future challenges

7 The public sector is facing major operational and financial challenges. The Treasury announced £6.2 billion of in-year savings from government spending on 24 May 2010. The Communities and Local Government department made the biggest proportionate contribution of 12.5 per cent (£780 million).

8 The Government's October spending review set out further cuts in funding across all of the public sector. Central government revenue grants to local government (excluding schools) will be reduced by 28 per cent over the period 2011/12 to 2014/15 (more than 7 per cent a year in real terms, with the majority impacting in the first two years).

9 The impact of this on individual local authorities was revealed in the local government finance settlement in December 2010. In March 2011, the Council approved a budget that reflected the impact of the settlement on Sunderland. The Council had not fared well from the settlement, and the budget reflected a reduction in central government funding of £39.2 million in 2011/12, and a further reduction of £11.2 million is expected for 2012/13.

10 Strengths in the Council's governance arrangements have helped it to respond to these major operational and financial challenges in 2010/11 and 2011/12. The Council has a history of good financial management and the Council has been preparing for these challenges through its Sunderland Way of Working programme. This provides the framework for the organisation as a whole to review services and take decisions about changes as part of a structured approach.

11 However, it seems likely that the future will be extremely challenging and Members may be asked to consider some very difficult decisions.

12 In relation to future financial reporting, the Council will need to ensure the successful implementation of International Financial Reporting Standards (IFRS) for the production of its 2010/11 financial statements.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

**I issued an unqualified opinion on the financial statements on 11 February 2011.**

## **Overall conclusion from the audit**

**13** I issued an unqualified opinion on the financial statements on 11 February 2011, which was well beyond the deadline for audit completion of 30 September 2010.

**14** The reason for the delay was that during the audit, the Director of Financial Resources advised me that the Council was unable to proceed with the public inspection process because of legal uncertainty about disclosure of commercially confidential information. As a consequence, I agreed to arrange for the audit to 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 case, and the audit was re-advertised for 4 January 2011. No additional issues were raised following the public inspection period.

**15** My audit identified a number of relatively minor errors in the statements, which have been amended by officers.

**16** I have identified a need to review working papers supporting the financial statements in future years, and I have also identified the scope for the Council to streamline the financial statements that it produces. It is hoped that both of these measures will improve the quality of the financial statements and reduce overall pressure on officers and on the audit.

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## **2009/10 use of resources assessments**

**17** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**18** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**19** I report the significant findings from the work I have carried out to support the vfm conclusion.

## **VFM conclusion**

**20** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**21** My conclusions on each of the areas are set out in the following table.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	n/a
Strategic asset management	Yes
Workforce	Yes

**22** My findings are that the Council has managed its finances effectively, and has delivered efficiencies and improved outcomes.

**23** 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.

**24** There have been further improvements in the Council's arrangements. These include:

- 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.

**25** The Council has also identified scope for further improvement, including:

- extending effective commissioning and procurement arrangements;
- making efficiencies and savings through better asset management; and
- enhanced workforce management.



**26** The Council recognises that the financial pressures it faces demand more far reaching measures. It is working on transformational change through its overarching Sunderland Way of Working programme. This sets out how the Council does things now, how it is going to operate in the future and promises further significant change over the next few years.

**27** The Council is relatively well placed to meet the future challenges. However, the pressures on public spending are so great that Members will inevitably be faced with difficult choices in relation to future service provision.

**28** I 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.

## **Approach to local value for money work from 2010/11**

**29** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission has now introduced a new, more targeted and better value approach to our local VFM audit work.

**30** My work for the 2010/11 audit will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**31** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

## Current and future challenges

**32** The public sector is facing major operational and financial challenges. The Treasury announced £6.2 billion of in-year savings from government spending on 24 May 2010. The Communities and Local Government department made the biggest proportionate contribution of 12.5 per cent (£780 million).

**33** The Government's October spending review set out further cuts in funding across all of the public sector. Central government revenue grants to local government (excluding schools) will be reduced by 28 per cent over the period 2011/12 to 2014/15 (more than 7 per cent a year in real terms, with the majority impacting in the first two years).

**34** The impact of this on individual local authorities was revealed in the local government finance settlement in December 2010. In March 2011, the Council approved a budget that reflected the impact of the settlement on Sunderland. The Council had not fared well from the settlement, and the budget reflected a reduction in central government funding of £39.2 million in 2011/12, and a further reduction of £11.2 million is expected for 2012/13.

**35** Strengths in the Council's governance arrangements have helped it to respond to these major operational and financial challenges in 2010/11 and 2011/12. The Council has a history of good financial management and the Council has been preparing for these challenges through its Sunderland Way of Working programme. This provides the framework for the organisation as a whole to review services and take decisions about changes as part of a structured approach.

**36** However, it seems likely that the future will be extremely challenging and Members may be asked to consider some very difficult decisions.

**37** In relation to future financial reporting, the Council will need to ensure the successful implementation of International Financial Reporting Standards (IFRS) for the production of its 2010/11 financial statements.

## Closing remarks

**38** I have discussed and agreed this letter with the Chief Executive and the new Executive Director of Commercial and Corporate Services. I will present this letter to the Cabinet and copies will be provided to all Council members.

**39** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit fee letter	April 2009
Opinion audit plan	June 2010
Interim opinion audit	September 2010
Interim annual governance report	September 2010
Annual governance report	February 2011
Annual Audit Letter	March 2011

**40** The Council has taken a positive and helpful approach to our audit. I wish to thank the Council and its officers for their support and cooperation during the audit.

Steve Nicklin  
District Auditor

March 2011

## Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	211,760	211,760	0
Value for money	101,940	101,940	0
<b>Total audit fees</b>	<b>313,700</b>	<b>313,700</b>	<b>0</b>
Grant claims and returns	40,250 *	40,250	
Non-audit work	0	0	0
<b>Total</b>	<b>353,950</b>	<b>353,950</b>	<b>0</b>

*\* This is the best estimate of the final fee.*

## Appendix 2 Glossary

### **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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