

20 April 2010

Mr D Smith
 Chief Executive
 Sunderland City Council
 Civic Centre
 Burdon Road
 Sunderland
 SR2 7DN

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Dear Mr Smith

Sunderland City Council Annual audit fee 2010/11

I am writing to outline the audit work that we propose to undertake for the 2010/11 financial year at Sunderland City Council and the associated fee for that work. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Commission for 2010/11; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Audit Commission Comprehensive Area Assessment Lead will write to you separately on these fees.

I have not yet completed my audit for 2009/10 so the audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2010/11 is for £332,522 (exclusive of VAT) which compares to the planned fee of £313,700 for 2009/10. A summary of this is shown in the table below.

Audit fee

Audit area	Planned fee 2010/11	Planned fee 2009/10
Financial statements	241,438	209,506
Use of Resources / VFM Conclusion	88,326	101,944
WGA	2,758	2,250
Total audit fee	332,522	313,700
Certification of claims and returns	43,960	40,250

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The Audit Commission has published its work programme and scales of fees 2010/11. The scale fee for Sunderland City Council is £344,153. The scale fee is determined by the Audit Commission and represents the fee the Commission would expect to be charged for the audit. The fee proposed for 2010/11 has been set at 3.4% below the scale fee. We are seeking to move the fee to the scale fee, but have agreed to do this on a phased basis over time.

The increase in fee for the financial statements element of the audit reflects the cost of additional audit work arising from the introduction of International Financial Reporting Standards. Changes in international auditing standards will increase the audit procedures I need to carry out. However, the Audit Commission will absorb the cost of the additional requirements within the fee.

The published fee scale for 2010/11 included a 6% increase to cover the costs of additional audit work arising from the introduction of International Reporting Standards. In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities and police and fire and rescue authorities from 2010/11. You will therefore receive a refund from the Audit Commission of £20,922 in April 2010.

In setting the fee, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10. A separate opinion plan for the audit of the financial statements will be issued at a later date following the completion of 2009/10 audit work. This will detail the risks identified, planned audit procedures and any changes in fee. The quoted fee for grant certification work is an estimate only and will be charged at published daily rates. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Director of Financial Resources and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Governance Committee.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. My work on use of resources informs my 2010/11 value for money conclusion. However, I have identified a number of significant risks in relation to my value for money conclusion. For each risk, I consider the arrangements put in place by Sunderland City Council to mitigate the risk, and plan my work accordingly.

My initial risk assessment for value for money audit work is as follows:

Risk	Planned work
The job evaluation and single statuses process has not been completed due to equal pay claims, and the Council faces significant potential liabilities in equal pay cases.	We will continue to monitor the position closely, particularly around potential equal pay liabilities.
The risk that the Council does not develop and implement appropriate plans to respond to expected cuts in public spending - Sunderland are undertaking a major improvement programme (the Sunderland Way of Working) which aims to transform working practices and deliver £50m of savings over the next 4 years.	We will assess the Council's delivery of this programme, and comment on its implementation.
Human resources, natural resources, asset management and other use of resources work – risk of not implementing the improvements identified in previous audit work	We will follow up the implementation of actions following our previous reviews of use of resources.
International Financial Reporting Standards (IFRS) – risk of not making adequate preparations to implementing IFRS.	We will maintain a dialogue with officers as the IFRS project is developed and implemented.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2010/11 audit are:

Audit Manager – Gavin Barker 0844 798 1654

Team Leader – Ian Rutter 0844 798 1643

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the North East, Yorkshire and Humberside Head of Operations, (d-allsop@audit-commission.gov.uk).

Yours sincerely

Steve Nicklin
District Auditor

cc: Mr G Blyth, Director of Financial Resources
Members of the Audit and Governance Committee

Appendix 1: Planned outputs

Our reports will be discussed and agreed with appropriate officers before being issued to the Audit and Governance Committee.

Table 1

Planned output	Indicative date
Audit plan	April 2010
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Use of resources report	September 2011
Final accounts memorandum (to the Director of Financial Resources)	October 2011
Annual audit letter	October 2011

