

Annual governance report

Item No. 9(iii)

Sunderland City Council

September 2011



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Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

Audit opinion and financial statements

The financial statements presented for audit were of good quality, they complied with the new requirements of International Financial Reporting Standards (IFRS) and officers have once again been helpful in dealing with the audit and with our queries. Some amendments to the accounts have been agreed with officers as a result of our audit work.

Our audit work is substantially complete and I expect to issue an unqualified opinion on the financial statements on the 30 September 2011, subject to satisfactory clearance of residual issues.

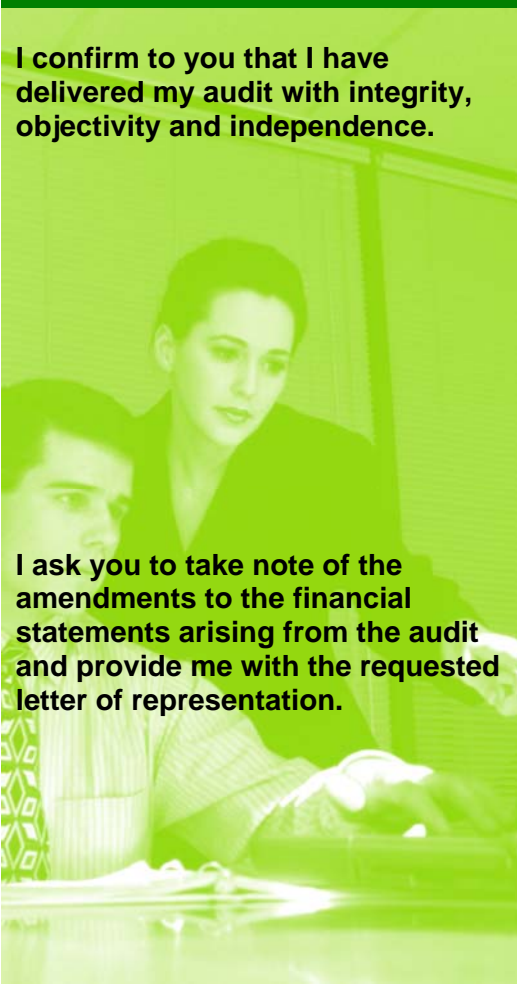
Following the completion of legal cases in the Courts, I have now determined the objections to the 2007/08 and 2008/09 accounts. I have concluded that I do not need to take any formal audit action and that I am now able to issue final certificates for audits for 2007/08, 2008/09 and 2009/10.

Value for money

The Council has robust arrangements in place to ensure its financial resilience. The Council has a history of good financial management, robust systems of corporate governance and internal control, and a strong record in the delivery of budgets. The Council had prepared for the economic challenges facing public services through the Sunderland Way of Working. The Council is committed to improvements in service delivery and outcomes, and has also identified significant budget savings.

I plan to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Before I complete my audit



I confirm to you that I have delivered my audit with integrity, objectivity and independence.

I ask you to take note of the amendments to the financial statements arising from the audit and provide me with the requested letter of representation.

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. There were no relationships giving rise to a threat to independence, objectivity and integrity. However, Members may wish to note that a member of my staff is married to a member of the Council's staff and that arrangements are in place to ensure that independence is maintained.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11, other than the certification of grant claims and returns.

I ask the Audit and Governance Committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- note the unadjusted errors and the reasons provided for not adjusting them (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4).

Financial statements

Opinion

Our audit work is substantially complete and I expect to issue an unqualified opinion on the financial statements on the 30 September 2011, subject to satisfactory clearance of residual issues

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Summary

The financial statements presented for audit were of good quality, they complied with the new requirements of International Financial Reporting Standards (IFRS) and officers have once again been helpful in dealing with the audit and with our queries. Some amendments to the accounts have been agreed with officers as a result of our audit work:

- amendments are listed in Appendix 2;
- errors that have not been corrected, and the reasons provided for this, are listed in Appendix 3.

Last year, I recommended that the accounts be streamlined and that working papers should be improved.

I am pleased to report that despite the challenges of implementing IFRS accounts which require more disclosures, the financial statements have been streamlined where possible, meaning that the length of the accounts has reduced overall and the disclosures are more focused than previously.

There is still scope to improve working papers, and we will work with officers to secure further improvements for next year's audit.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key Audit Risk

1. Implementation of IFRS

This is the first year for full implementation of International Financial Reporting Standards (IFRS). Key risk areas are the restatement of opening balances and general disclosures, including holiday pay accrual, ongoing PFI treatment, the treatment of property, plant and equipment, and accounting for leases.

2. Property, plant and equipment

Revaluations, impairments, calculation of depreciation estimates of asset lives involve a high degree of estimation uncertainty.

Findings and conclusions

We carried out early work to review the Council's IFRS preparations and supplemented this with substantive testing of the financial statements.

This included reviewing restated balances, and considering the appropriateness of key judgements and assumptions used in the production of IFRS-compliant accounts.

No significant issues arose from this work.

We carried out specific tests in relation to property, plant and equipment. We sought to rely on the work of the Council's valuer, giving appropriate consideration to their objectivity and competence, and the outcome of their work.

No significant issues arose from this work.

Financial statements

Key audit risks and our findings *continued*

Key Audit Risks

3. Pensions disclosures

The pensions asset and liability, and income and expenditure accounts transactions are significant, involve a high degree of estimation uncertainty and are reliant on third party information.

4. Potential liabilities in respect of equal pay

The Council currently discloses a significant contingent liability in relation to equal pay. Disclosures in the 2010/11 financial statements will depend on the outcome of legal cases, which may mean that the correct accounting treatment will need to be reconsidered.

5. Valuation of Newcastle International Airport

It is important to use an appropriate valuation method. In the 2009/10 accounts, there were some issues in relation to the valuation method used and the advice of the valuer.

Findings and conclusions

We have relied on the work of the actuary of Tyne and Wear Pension Fund. We considered the objectivity, competence and capability of the actuary and the outcomes of their work. We also sought assurance from the Pension Fund auditor in relation to the assets of the fund.

No significant issues arose from this work.

We monitor developments in relation to equal pay on an ongoing basis. Officers have included an appropriate disclosure in the financial statements.

No significant issues arose from this work.

We were informed that the latest valuation of the airport was that used in the 2009/10 accounts. A justification to include this figure was provided, which we agreed was reasonable.

No significant issues arose from this work.

Financial statements

Significant weaknesses in internal control

I concluded that, in general, the key controls within the Council's main financial systems were operating as designed, with a small number of areas for improvement.

Not all journal entries are subject to independent authorisation. We have reviewed the measures taken to mitigate this risk and have substantively tested journal entries. No issues were arising from this work.

I have reported separately on my interim work on the system of internal control.

I concluded that, in general, the key controls within the Council's main financial systems were operating as designed, with a small number of areas for improvement.

One of the issues in that report, and which was also identified and reported in the previous year, relates to journal authorisation.

We discussed with officers last year whether there should be independent authorisation of all journal entries, including online journals and all high value journals. Instead, a new process was agreed to carry out a review of all journals over £500k as part of the annual closedown of accounts process.

To obtain the assurance we need to give our audit opinion on the financial statements, we substantively tested journals, and we also considered the review of all journals over £500k undertaken by officers.

No issues were arising from this work.

The other issues identified in the interim report were either relatively minor matters or have been followed up and addressed appropriately through our post statements work.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Financial statements

Quality of your financial statements

I am pleased to report that despite the challenges of implementing IFRS accounts which require more disclosures, the financial statements have been streamlined where possible, meaning that the length of the accounts has reduced overall and the disclosures are more focused than previously.

I have no significant issues to raise in relation to your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

I am pleased to report that despite the challenges of implementing IFRS accounts which require more disclosures, the financial statements have been streamlined where possible, meaning that the length of the accounts has reduced overall and the disclosures are more focused than previously.

There is still scope to improve working papers, and we will work with officers to secure further improvements for next year's audit.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

There are no significant issues I want to raise with you.

Matters that were discussed or subject to correspondence with management

Some relatively minor issues and areas where we have identified potential improvements in processes have been discussed separately with officers and appropriate action agreed.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Objections from earlier years

I have now reached a decision on the objections to the Council's accounts for 2007/08 and 2008/09, which related to the enforcement of car parking regulations.

I have decided that I do not need to take any formal audit action.

I plan to close the 2007/08, 2008/09 and 2009/10 audits on 30 September 2011.

Members will recall the outstanding objections to the Council's accounts for 2007/08 and 2008/09. This meant that I was unable to issue my certificate for those accounts and also that I was unable to issue my final certificate for the 2009/10 accounts until the objection was decided.

I have now reached a decision on the objection, which related to income and expenditure in respect of the enforcement of car parking regulations, and I shared my decision and statement of reasons with the Council and the objector on 18 August 2011.

My decision is:

- not to make an application to the court for a declaration that there is an unlawful item of account in the Council's accounts under section 17 of the Audit Commission Act 1998
- not to make a report in the public interest under section 8 of the Audit Commission Act 1998.

The objector has a right of appeal against my decision not to issue a report in the public interest through the High Court. Providing the objector does not seek judicial review, I plan to close the 2007/08, 2008/09 and 2009/10 audits on 30 September 2011. My draft reports are included in Appendix 5.

Although not requiring formal audit action, there were three areas where Council processes could have been improved. I have suggested the following actions to avoid challenge in the future, which have been agreed by officers:

- the formal novation of contracts should be carried out promptly
- records need to be kept to demonstrate decisions made under delegated powers
- when introducing new car parking regulations and arranging signage, care must be taken to ensure that this is done properly.

Value for money

Value for money conclusion

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council has robust arrangements in place to ensure its financial resilience. The Council has a history of good financial management, robust systems of corporate governance and internal control, and a strong record in the delivery of budgets.

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

Value for money criteria and our findings

Criterion

1. Financial resilience

The organisation has proper arrangements in place to secure financial resilience.

Focus for 2010/11:

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Findings:

Criteria met

The Council has robust arrangements in place to ensure its financial resilience. The Council has a history of good financial management, robust systems of corporate governance and internal control, and a strong record in the delivery of budgets. During 2008/09 and 2009/10, the Council delivered £22.9m of efficiency savings for reinvestment in service priorities.

In 2010, the new Government signalled its intention to address the growing national budget deficit with significant reductions in public spending. An Emergency Budget required savings of over £9m to be made by the Council during 2010/11.

The 2010/11 outturn shows that the Council not only made these savings, but only drew on £2.3m of its general reserve, rather than the £7.2m that had been originally planned, without impacting adversely on front line services. The Council was also able to set aside some £8m of resources for future commitments.

Value for money

Value for money conclusion

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council needs to closely monitor the 2011/12 budget, and take early action if budget savings are not being delivered.

The Council needs to monitor service delivery and governance arrangements to ensure that standards are maintained during a period of significant change.

Criterion

1. Financial resilience (continued)

The organisation has proper arrangements in place to secure financial resilience.

Focus for 2010/11:

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Findings (continued):

At 31 March 2011, the Council's general reserve which is available to meet unforeseen circumstances stood at £12m, whereas total usable reserves were £169m. Although the majority of these are earmarked for specific purposes, they do provide the Council with enhanced flexibility to manage its financial position in the current difficult economic environment.

The 2011/12 budget was one of the most difficult the Council has faced. The outcome of the comprehensive spending review in the autumn of 2010 was that there would be significant cuts in central government funding. In Sunderland's case, this meant an overall reduction of £58m, with further cuts to follow in 2012/13.

The Council had prepared for the challenges it faced through the Sunderland Way of Working (SWOW) and its business transformation programme. This helped the Council balance its 2011/12 budget.

Although there has been a focus on the immediate priority of making savings for 2011/12, the Council has already refreshed (in draft form) its medium term financial plan, particularly in light of the proposed review of local government finance.

The key challenges for the Council are to:

- closely monitor the 2011/12 budget, and take early action if budget savings are not being delivered
- monitor service delivery and governance arrangements to ensure that standards are maintained during a period of significant change.

Value for money

Value for money conclusion

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council had prepared for the economic challenges facing public services through the Sunderland Way of Working. The Council is committed to improvements in service delivery and outcomes, and has also identified significant budget savings.

Value for money criteria and our findings *continued*

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings:

Criteria met

The Council had prepared for the economic challenges facing public services through the SWOW. SWOW is the umbrella term covering Authority Improvement Programmes including the areas Business Transformation, Community Leadership, Economic Regeneration, Reputation and Influencing as well as Directorate Improvement Programmes. This has helped the Council identify the £58m savings required in the 2011/12 budget round:

- £19m area based and specific grant cuts passported to relevant activities; including major cuts, such as £9.9m loss of working neighbourhood funding previously used to strengthen the local economy
- Business Transformation Programme savings - £26m (£8m from strategic and shared services, £2.5m from customer services, IT and property, £5m from procurement, and the remainder from a programme of service reviews)
- Remainder of savings found from one off use of surpluses and reserves (£5.5m), increased income (£2.8m) and other savings.

The Council is committed to improving service delivery and outcomes, but needs to make savings. Further activity is underway through several tranches of service reviews; recognising that further savings will be required in 2012/13 (estimated at £11.2m) and beyond.

Value for money

Value for money conclusion

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council needs to closely monitor the SWITCH process to ensure that it is achieving its objectives.

The Council needs to be open to exploring alternative forms of service delivery where they are demonstrably in the community's best interests.

Value for money criteria and our findings *continued*

Criterion

2. Securing economy efficiency and effectiveness (continued)

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings (continued):

The Council has established its innovative SWITCH programme (Staff Working in Transition and Change). This aims to address restructuring issues by finding displaced workers alternative employment in the Council, or supporting a managed departure from the Council. The Council has made a commitment to avoid mass redundancies. The Council stopped external recruitment some time ago, created an Internal Jobs Market and has some flexibility in moving from agency staffing in some areas.

A key priority for the Council is to closely monitor the overall implementation of savings plans and impact of SWITCH. Robust monitoring arrangements are in place as reflected in the budget monitoring reports to Cabinet. Officers are closely monitoring the position and taking actions to mitigate any shortfall in order to achieve a positive outcome.

The Council's service assessments approach has delivered a range of new approaches to service provision. The Council is also actively developing a range of alternative forms of service delivery and new and innovative ways of working. As this is a key focus for Community Leadership, decisions on delivery models will be based on grounds of service improvement and value for money. The Council is engaging with Members and other key stakeholders about where alternative service delivery models can demonstrate significant community and organisational benefits.

Value for money

Value for money conclusion

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council needs to see through its plans for improved asset management.

Value for money criteria and our findings *continued*

Follow up in other areas

Asset management follow up

I followed up asset management because this is an area where I have identified scope for improvement in the past.

Findings:

A key area for potential Council efficiencies is property rationalisation. The Smarter Working project was set up with the aim of delivering £7m in efficiencies. A focus on space utilisation targets and desk density ratios combined with increased home and mobile working is enabling increased efficiency in building use. Some buildings have already been vacated and a total of ten buildings are anticipated to have been taken out of use by the end of 2011. The current anticipated savings of the project are £3.3m by the end of 2013/14.

The Council is considering the means by which to increase developments and investment in Sunderland through the use of its own assets.

Value for money

Value for money conclusion

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council needs to refresh its approach to sustainability, establish a forum to promote and drive the agenda, and ensure sustainability is a focus in the service review programme.

Value for money criteria and our findings *continued*

Follow up in other areas

Natural resources follow up

I followed up natural resources because this is an area where I have identified scope for improvement in the past.

Findings:

The Council has adopted a Sustainability Policy and is progressing plans to improve sustainability, however, some momentum has been lost due to restructuring.

The Council had originally intended to develop a Sustainability Board to oversee delivery of the Sustainability Policy, however, the streamlined Council and governance structure has led the Council to reconsider whether this is the most appropriate mechanism to take the agenda forward.

Whilst the creation of a Board is under review, the Council is looking to establish a Communities of Interest Group to promote and drive the sustainability agenda across the Council's directorates, building on the work currently ongoing at a delivery level. This group would then feed into the Council's existing governance arrangements via the Deputy Chief Executive.

It is important that service reviews come up with sustainable solutions, and sustainability should consequently be reflected more prominently in the service review process.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SUNDERLAND CITY COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Sunderland City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. These accounting 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Commercial and Corporate Services and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Commercial and Corporate Services is responsible for the preparation of the Authority’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice’s Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the

accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Sunderland City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Sunderland City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Sunderland City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signed

Date: 30 September 2011

Steve Nicklin
District Auditor

Nickalls House
The Metrocentre
Gateshead
Tyne and Wear
NE11 9NH

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
£135m credit for negative past service costs has been amended to appear as an Exceptional Item	Includes £135m credit relating to negative past service costs arising from change in future pensions increases from RPI to CPI.				
	Debit: non distributed costs (gross expenditure)	135,000			
	Credit: exceptional item – negative past service costs (gross expenditure)		135,000		
The collection fund precepts for Northumbria Police Authority and Tyne and Wear Fire and Rescue Authority were initially the wrong way around; the amendment corrects this error	The figures for Police and Fire are the wrong way round - Fire should be £5.875m and Police should be £6.720m, but are shown visa versa.				
	Debit: Collection Fund – NPA Precept	Collection Fund 845		Collection Fund	
	Credit: Collection Fund – TWFRA Precept			845	

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
The available for sale (Newcastle airport) reserve has been amended to be shown as an Unusable Reserve	This has been included in Usable Reserves, but the CIPFA Code requires it to be included in Unusable Reserves.				
	Debit – Usable Reserves			795	
	Credit – Unusable Reserves				795
An element of Corporate and Democratic Core expenditure and income has been correctly reclassified as Central Services	Some expenditure and income has been included in CDC that should have been included in central services to the public.				
	Debit – Central Services (gross expenditure)	4,334			
	Credit – Corporate and Democratic Core (gross expenditure)		4,334		
	Debit – Corporate and Democratic Core (gross income)	3,973			
	Credit – Central Services (gross income)		3,973		

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
An element of Corporate and Democratic Core expenditure and income has been double counted; it has been amended to remove the double counting	Expenditure relating to the establishment of two new provisions has been included twice, with a credit to income once; this means that the net position is correct, but internal transfers to the value of the provisions need to be removed from CDC gross expenditure and CDC gross income (provisions are £2.929m and £1.037m; total £3.966m)				
	Debit – Corporate and Democratic Core (gross income)	3,966			
	Credit – Corporate and Democratic Core (gross expenditure)		3,966		

Amendments to disclosure notes

- Long term debtors have been incorrectly split in Note 16 between loans and receivables (£26,985k) and financial assets carried at contract amount (£757k). All should be classed as loans and receivables. Amendment made.
- There were errors in the disclosures in relation to Tyne and Wear Development Company in note 36 to the accounts. Amendments made.

- The shares allocated to the Council when Newcastle International Airport Ltd (NIAL) was set up in 1986 were £6.161m (the Council originally used £3.306m). Amendment made to note 36 to the accounts.
- The table 'Fair Value of Assets and Liabilities carried at Amortised Cost' forms part of Note 46 Financial Instruments. This was updated to reflect the correct figures.
- A number of amendments were made to officers remuneration in note 32 of the financial statements.
- The post balance sheet notes were updated to reflect changes to academy schools arising after 31 March 2011. These were non-adjusting events that only required disclosure in note 7 to the accounts.
- A number of other notes and disclosures were amended to correct minor errors, clarify matters and improve disclosure.
- A number of amendments were made to prior year comparators.

Appendix 3 – Unadjusted misstatements in the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. Officers do not want to make these amendments as the sum is not material, and an amendment would have ramifications throughout the accounts and there is a danger of other errors being made when trying to correct for these errors. I accept this as a reasonable explanation. I bring them to your attention to help you in fulfilling your governance responsibilities and I have asked for these to be explained in the letter of representation (Appendix 4).

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
£1.037m has been accounted for incorrectly as a provision	£1.037m included as a provision for procurement efficiencies to support the 2011/12 budget; this should have been categorised as an earmarked reserve; this will be corrected in 2011/12.				
	Debit - Provisions			1,037	
	Credit – Earmarked Reserves				1,037
	Debit – Movement in Reserves Statement	1,037			
	Credit – Cost of Services		1,037		

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
£251k owed by HMRC not included in the accounts, but disclosed as a contingent asset	£251k of the sports tuition fees element of contingent assets should be a debtor as HMRC had already settled some sports tuition claims. This view is reinforced by the fact that it has been paid to the Council by HMRC in 2011/12.				
	Debit – Debtors			251	
	Credit – Income		251		

Appendix 4 – Draft letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. This is the draft letter of representation that I have requested from the Council.

To:

Steve Nicklin

District Auditor

Sunderland City Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Sunderland City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011

Compliance with the statutory authorities

I have fulfilled my 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 which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised below are not material to the financial statements, either individually or in aggregate, and have therefore not been corrected.

- £1.037m included as a provision for procurement efficiencies to support the 2011/12 budget; this should have been categorised as an earmarked reserve; this will be corrected in 2011/12; and,
- £251k included as a contingent asset in relation to VAT claims for sports tuition fees; this should have been included in the accounts as a debtor; this amount has now been received in 2011/12.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my 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;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

In particular, I confirm that equal pay has been disclosed appropriately as a contingent liability. There is sufficient uncertainty about the Council's liability for these costs and the amount of any such liability that I have concluded that a provision is not appropriate, and also that it is not possible to estimate the specific value of the potential liability in the contingent liabilities note.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

I confirm that the Council's long term investment in Newcastle International Airport, which is included in the Balance Sheet, reflects the latest available valuation of the airport.

Related party transactions

I confirm that I have disclosed the identity of Sunderland City Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Sunderland City Council.

I confirm that this letter has been discussed and agreed by the Audit and Governance Committee on 30 September 2011.

Signed

Name Malcolm Page

Position Executive Director of Commercial and Corporate Services

Date 30 September 2011

Appendix 5 – Draft reports relating to earlier years

Sunderland City Council 2007/08 Audit of Accounts

Independent Auditor's Report to Members of Sunderland City Council

Issue of audit opinion on the financial statements

In my audit report for the year ended 31 March 2008 issued on 30 September 2008, I reported that, in my opinion, the financial statements presented 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.

Issue of value for money conclusion

In my audit report for the year ended 31 March 2008 issued on 30 September 2008, I reported that in my opinion, in all significant respects, Sunderland City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Certificate

In my report dated 30 September 2008, I explained that the audit could not be formally concluded on that date until consideration of matters brought to my attention by local authority electors had been completed. These matters have now been dealt with. No other matters have come to my attention since that date that would have a material impact on the financial statements on which I gave an unqualified opinion and value for money conclusion.

I certify that I have completed the audit of the accounts of Sunderland City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signed

Name: Steve Nicklin
District Auditor

Address: Nickalls House
Metro Centre
Gateshead
NE11 9NH

Date: 30 September 2011

Sunderland City Council
2008/09 Audit of Accounts

Independent Auditor's Report to Members of Sunderland City Council

Issue of audit opinion on the financial statements

In my audit report for the year ended 31 March 2009 issued on 29 September 2009, I reported that, in my opinion, the financial statements presented fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Issue of value for money conclusion

In my audit report for the year ended 31 March 2009 issued on 29 September 2009, I reported that in my opinion, in all significant respects, Sunderland City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009.

Certificate

In my report dated 29 September 2009, I explained that the audit could not be formally concluded on that date until consideration of matters brought to my attention by local authority electors had been completed. These matters have now been dealt with. No other matters have come to my attention since that date that would have a material impact on the financial statements on which I gave an unqualified opinion and value for money conclusion.

I certify that I have completed the audit of the accounts of Sunderland City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signed

Name: Steve Nicklin
District Auditor

Sunderland City Council
2009/10 Audit of Accounts

Independent Auditor's Report to Members of Sunderland City Council

Issue of audit opinion on the accounting statements

In my audit report for the year ended 31 March 2010 issued on 11 February 2011, I reported that, in my opinion, the accounting statements gave a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

Issue of value for money conclusion

In my audit report for the year ended 31 March 2010 issued on 11 February 2011, I reported that in my opinion, in all significant respects, Sunderland City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

In my report dated 11 February 2011, I explained that the audit could not be formally concluded on that date until consideration of matters brought to my attention by local authority electors had been completed. These matters have now been dealt with. No other matters have come to my attention since that date that would have a material impact on the financial statements on which I gave an unqualified opinion and value for money conclusion.

I certify that I have completed the audit of the accounts of Sunderland City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signed
Name: Steve Nicklin
District Auditor

Appendix 6 – Glossary



Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.



Materiality and significance

The Auditing Practices Board (APB) defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.



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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. **These** comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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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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September 2011