

# **Annual governance report**

**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.**

Ladies and Gentlemen

## **2009/10 Annual Governance Report**

I am pleased to present the results of my audit work for 2009/10.

I presented an Interim Annual Governance Report to the Audit and Governance Committee on 30 September 2010. At that time, I was unable to issue a final report because the public inspection period needed to be re-scheduled. This has now been done and no additional issues have arisen from this process.

My report sets out the key issues that you should consider before I give my audit opinion.

It asks you to:

- consider the matters raised in the report before approving changes to the financial statements (pages 5 to 11);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 3); and
- note my findings in relation to the value for money conclusion (pages 12 to 13);
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Steve Nicklin  
District Auditor

February 2011

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# Key messages

**This report summarises the findings from the 2009/10 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.**

Financial statements	Results	Page
Unqualified audit opinion	Yes	5
Financial statements free from material error	Yes	5
Adequate internal control environment	Yes	6
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	12

## Audit opinion

**1** 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.

**2** No additional issues have been raised following the public inspection period.

**3** I expect to issue an unqualified opinion on the financial statements when they have been re-approved by Members.

## Financial statements

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

**5** 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.

## **Objections to the Council's accounts**

**6** 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.

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

## **Value for money**

**8** I have concluded that the Council has adequate arrangements in place to secure value for money, and improvements have been made since my last review.

## **Independence**

**9** 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.

## Next steps

**This report identifies the key messages that you should consider. It 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.**

**10** I ask the Audit and Governance Committee to:

- consider the matters raised in the report before approving changes to the financial statements (pages 5 to 11);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 3); and
- note my findings in relation to the value for money conclusion (pages 12 to 13);
- agree your response to the proposed action plan (Appendix 5).

# 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.**

## Opinion on the financial statements

**11** 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.

**12** No additional issues have been raised following the public inspection period.

**13** I expect to issue an unqualified opinion on the financial statements when they have been re-approved by Members. Appendix 1 contains a copy of my draft audit report.

## Errors in the financial statements

**14** The draft statements were approved before the end of June, allowing us to start our audit as planned.

**15** It is recognised that competing demands on officer time, for example, in year government grant reductions, which could not have been anticipated when the closing of accounts work programme and timetable were produced, had an adverse effect on the production of working papers in respect of the accounts in advance of the audit. However, we have good working relationships with officers, who were always very helpful and ensured that key issues were identified and addressed. Our view is that officers were always able to provide us with information and detailed explanations.



- 16** To help to eliminate errors in the accounts, assist in the Council's own quality assurance process and to ensure an efficient audit, the working papers supporting the accounts need to be comprehensive.
- 17** A number of amendments were made to the draft statements. None of the amendments were material.
- 18** One set of amendments were made to address issues identified by officers which they had intended to be reflected in the draft statements presented to Members at the June Audit Committee, but which were omitted in error.
- 19** In addition, a number of amendments were identified as a result of the audit.
- 20** All amendments have been discussed and agreed with officers, and are reflected in the revised statements presented for re-approval by officers. We have listed the most significant amendments in Appendix 2, including an amendment that arose in relation to a non-adjusting post balance sheet event.

## Recommendation

- R1** Arrangements need to be reviewed to ensure that the accounts are fully supported by comprehensive working papers in future years.

## Important weaknesses in internal control

- 21** I have reported separately on my interim work on the system of internal control.
- 22** One of the issues raised in that report is worthy of repetition in this report, and is in relation to controls over journal authorisation.
- 23** There are two types of journal entry: online; and mass generated. We found that online journals do not require authorisation for each new journal entry. In addition, there are no higher-level authorisation procedures required for high value journals for both types of journal entry. There is a risk that inappropriate or inaccurate journal entries could be processed without scrutiny, resulting in a potential for material misstatement in the financial statements.
- 24** We discussed with officers whether there should be independent authorisation of all journal entries, including online journals and all high value journals. The view expressed by officers was that this would not be an efficient use of officer time, and that there were compensating controls in place, such as the limitation on who can raise journals and in what circumstances, and the wider check of budgetary control. However, officers have agreed to carry out a review of all journals over £500,000 as part of the annual closedown of accounts process. This exercise was carried out for 2009/10 and no issues were arising.

**25** To obtain the assurance we needed to give our audit opinion on the financial statements, our response to this control weakness was that we substantively tested journals as part of our post statements work. There were no issues arising from our work.

**Key areas of judgement and audit risk**

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

Table 1: **Key areas of judgement and audit risk**

Issue or risk	Finding
Equal pay Equal pay cases pose a significant financial risk to the Council and represent a large potential financial liability. The liabilities are still not clear, due to legal cases and national issues that need to be resolved.	We have maintained a dialogue with officers in relation to this issue, to ensure that the disclosure made in the financial statements is up-to-date and accurate.  I have concluded that it remains appropriate for these potential liabilities to be disclosed as a Contingent Liability, and this is appropriately reflected in the financial statements.

Issue or risk	Finding
<p>Changes in the SORP, including IFRS issues</p> <p>There are changes in the SORP, most notably the implementation of IFRS requirements in relation to IFRIC 12. There are also changes in accounting for elements of council tax and NNDR, and other issues.</p>	<p>Officers have kept us up-to-date with their plans and proposals. Consultants have assisted in relation to IFRIC 12, in respect of bringing PFI assets on to the balance sheet.</p> <p>We substantively tested the accounting entries in relation to PFI. Some amendments were agreed to the statements as a result of our review, although the amendments required were not material in nature.</p> <p>We also tested the other areas of change in this year's accounts, and found that some adjustments needed to be made to NNDR and cash flows to reflect new SORP requirements. In addition, the new disclosures for officers emoluments were initially only included for 2009/10, and comparative figures needed to be added for 2008/09.</p> <p>We have continued our dialogue with officers in relation to full IFRS implementation in the 2010/11 accounts.</p>

Issue or risk	Finding
<p>Accounting for Newcastle International Airport</p> <p>The Council's share of Newcastle International Airport should be included in the balance sheet at fair value. There is a need for a full valuation to be carried out at 31 March 2010.</p>	<p>We reviewed the latest valuation of the airport as part of our post statements work.</p> <p>We noted that there are several appropriate methods for valuing the airport and these were provided by the valuer.</p> <p>We also noted that although the valuer's view was that the lower valuation results were in his view most appropriate, that the Council has reflected the value at the highest end of the valuation.</p> <p>Officers provided us with a rationale for adopting the high end valuation. I have accepted the explanations provided by officers.</p> <p>Given the current economic uncertainties, I recommend that a valuation is once again carried out next year, and that the Council's rationale for the most appropriate valuation method is discussed with the valuer so that the valuer and the Council's view can be rationalised and hopefully a consistent view will emerge.</p> <p>Officers will need to discuss this with other partner authorities to ensure consistency among all shareholders in the airport.</p>
<p>Other issues including previous findings and issues arising from interim work</p>	<p>We have discussed progress on issues raised in previous audits and matters arising from our interim work with officers and we followed up improvements made during the post statements audit.</p> <p>I am satisfied with the improvements that have been made.</p>

## Recommendation

**R2** A valuation for Newcastle International Airport should be carried out again next year, and the Council's rationale for the most appropriate valuation method should be discussed with the valuer so that the valuer and the Council's view can be rationalised and hopefully a consistent view will emerge. Officers should again discuss this with other partner authorities to ensure consistency among all shareholders in the airport.

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## Accounting practice and financial reporting

**27** I consider other aspects of your financial reporting, and there is one issue I wish to report to Members.

**28** The financial statements are a necessarily complex and detailed document in order to comply with the requirements of the CIPFA SORP 2009. They will become even more complex from 2010/11 with the implementation of International Financial Reporting Standards.

**29** It is for the Council to determine the content of its financial statements, but my view is that there is scope to streamline the existing document to improve its readability and reduce the effort needed by officers to produce them, whilst maintaining compliance with accounting standards. My observation is that in general the statements go beyond the minimum level of disclosure required by the SORP.

**30** The financial statements are extremely comprehensive and detailed, but they are very long at 142 pages, and they also use a particularly small font size. There are some relatively simple measures that could be taken:

- show figure in £000's, not to the nearest £;
- summarise some tables to be more focused and show less detail;
- shorten some notes to be more focused and show less detail; and
- remove the existing duplication of information within the statements by streamlining disclosures.

**31** This is an area worthy of consideration for future years. More streamlined, focused statements that meet the minimum requirements may deliver efficiencies for officers, enable the tight deadlines to be met more easily and make for a smoother audit process.

## Recommendation

**R3** A review should be undertaken to identify the scope for producing a more streamlined and focused set of financial statements for 2010/11.

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## Letter of representation

**32** 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 3 contains the draft letter of representation.

# Value for money

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

## Value for money conclusion

**33** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. My conclusions on each of the areas are in Appendix 4.

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

**35** 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.
- Well established and effective processes for good governance and internal control.

**36** 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.

**37** 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.

**38** 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.

**39** 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. Future audit work will focus on financial resilience and the way in which the Council balances the delivery of cuts in public spending with the maintenance of effective service provision.

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



# Glossary

## Annual governance statement

**41** 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.

**42** It comprises the systems and processes, and 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.

**43** 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 closure certificate

**44** 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 certificate.

## Audit opinion

**45** 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.

## Qualified

**46** The auditor has some reservations or concerns.

## Unqualified

**47** The auditor does not have any reservations.

## Value for money conclusion

**48** 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.

# Appendix 1 Independent auditor's report to Members of Sunderland City Council

## **Opinion on the accounting statements**

I have audited the Council's accounting statements and related notes of Sunderland City Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

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

The Executive Director of Commercial and Corporate Services responsibilities for preparing the accounting statements 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 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting 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 accounting statements give 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 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 accounting 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

Council's corporate governance procedures or its risk and control procedures.

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

### **Opinion**

In my opinion the Council's accounting statements give 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.

### **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Council's Responsibilities**

The Council 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.

## **Auditor's Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council 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 for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council'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 May 2008 and updated in October 2009, and the supporting guidance, 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 ended 31 March 2010.

## **Audit 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  
Officer of the Audit Commission

Audit Commission  
Nickalls House  
Metro Centre  
Gateshead NE11 9NH

February 2011

## Appendix 2 Amendments to the draft accounts

**I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.**

Table 2: **Amendments to accounts**

The following amendments were made

		Collection Fund		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Collection Fund	The adjustment for write-offs had been included twice in the Costs of Collection figure. This has a direct effect on the Payment to the Pool figure	944	944	Nil	Nil
Cash Flow Statement	The Increase in Other Liquid Deposits in respect of NNDR had been calculated on an accruals basis instead of a cash basis. There was a difference of £4,843k.	Nil	Nil	Nil	Nil

**49** A number of other adjustments were agreed relating to prior year comparative figures and to notes. These included the following.

- The online version of the draft accounts contained differences to those approved by the Audit and Governance Committee. Restated 2008/09 Balance Sheet Infrastructure assets and the corresponding figure in Note 1 had been increased by £491k, which balanced the restated 2008/09 Balance Sheet. An amendment of £491k was also made to Note 1 restated 2008/09 Debtors figure.
- The restated 2008/09 Cash Flow Statement Increase in Other Liquid Deposits figure in respect of NNDR had been calculated on an accruals basis instead of a cash basis. An adjustment of £1,004k was required.

- The following restated 2008/09 figures in Note 1 did not agree to the statements:
  - Net Cash Flows from Revenue Activities (Cash Flow Statement) differed by £6,862k;
  - Interest Paid (Cash Flow Statement) differed by £3,388k; and
  - General Fund balance carried forward (SMGFB) differed by £285k;
- The restated 2008/09 Capital Financing Requirement required a reclassification within the statement of £1,160k to reflect the prior year MRP adjustment.
- Note 7a did not include the prior year comparative figures for senior officers' remuneration.
- Note 7a did not include all pay bandings and included some incorrect numbers in the details disclosed.
- Note 10 Highways Maintenance agency costs were understated by £5,100k.
- Note 10 Other Payments for agency costs were overstated by £1,000k.
- Note 2 Building Regulations expenditure was overstated by £300k.
- the Certificate of the Director of Financial Resources was amended from 'presents fairly' to presenting a 'true and fair view'.
- the Annual Governance Statement needed to be amended to clarify some issues.
- A number of other minor amendments were required.

### **Non-adjusting post balance sheet event**

**50** An additional note has been added to the financial statements to reflect a material non-adjusting post balance sheet event.

**51** In its budget on 22 June 2010 the Government announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI), effective from April 2011. Increases are currently determined by reference to the Retail Price Index (RPI). The impact of this is to reduce future pension liabilities as CPI has consistently increased at a slower rate than RPI.

**52** Officers obtained an estimate of the impact on future pensions liabilities from the actuary and this is now disclosed in the revised financial statements.

## Appendix 3 Letter of representation

To: Steve Nicklin  
District Auditor  
Nickalls House  
Metro Centre  
Gateshead  
NE11 9NH

### **Sunderland City Council - Audit for the year ended 31 March 2010**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors 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 2010.

#### **Compliance with the statutory authorities**

I acknowledge 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: A Statement of Recommended Practice 2009 which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

#### **Supporting records**

All the accounting records have 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 accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

#### **Irregularities**

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

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.

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; and
- 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.

#### **Law, regulations, contractual arrangements and codes of practice**

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 Council.

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. 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**

I confirm the reasonableness of the significant assumptions within the financial statements.

#### **Assets**

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

#### **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in the notes to the financial statements we have no other lines of credit arrangements.

#### **Contingent liabilities**

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, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.



### **Related party transactions**

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Signed on behalf of Sunderland City Council

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on 11 February 2011

Signed

Name            Mr Malcolm Page

Position        Executive Director of Commercial and Corporate Services

Date            11 February 2011

## Appendix 4 Value for money criteria

VFM criteria	Met	Summary of conclusions to date
Managing finances		
Planning for financial health	Yes	<p>There is a comprehensive medium term financial plan. Service plans, corporate strategies, improvement targets and financial budgets are integrated and set out required staffing resources. There have been no significant overspends in recent years and the Council is well placed in terms of balances and reserves.</p> <p>Improvements last year include: a Single Investment Plan, agreed with the Local Strategic Partnership; revenue budgets and the capital programme reported for each portfolio to improve the robustness of planning; and longer term efficiency planning is in place.</p> <p>The Council recognises that the financial pressures it faces demand more far reaching measures, and it is working towards transformational change through its overarching Sunderland Way of Working (SWOW) programme. This sets out how the Council does things and how it is going to operate in the future. It comprises three corporate programmes (i.e. Business Transformation, Community Leadership and Economic Regeneration) as well as Directorate improvement programmes and promises further significant change over the next few years.</p>

VFM criteria	Met	Summary of conclusions to date
Understanding costs and achieving efficiencies	Yes	<p>The Council has a sound understanding of its costs and performance and has continued to achieve efficiencies. Efficiencies of £9.44 million have been reinvested in priority and lower performing areas to deliver improved outcomes. Cumulative efficiency savings of £22.9 million have been achieved in 2008/2009 and 2009/2010.</p> <p>Overall, costs are mid range and performance is generally good, but some areas perform poorly in comparison with other metropolitan district councils and there are areas of high cost. These are understood by the Council and reflect investment in priority areas. For example, relatively high leisure costs reflect long term investment and improvement to facilities, linked to a number of strategic priorities including reducing health inequalities.</p> <p>Long term plans are in place with partners in the South of Tyne &amp; Wear Waste Partnership. Resources are being earmarked to support the ongoing requirements and local actions implemented to improve both recycling rates and reduce landfill. Short term savings have been achieved on ancillary contracts following a joint approach to procurement and one-off investment in recycling.</p> <p>Resources have been redirected to services for young people not in employment, education or training (NEETs) which has reduced their number. Increased mainstream investment in the Safer Sunderland Partnership has also assisted Sunderland to become one of the safest cities in the North, with overall crime continuing to fall and remaining below the national average, as well as sustained reduction in all major categories.</p>
Financial reporting	Yes	<p>The Council has an integrated approach to collecting and producing both financial and non-financial performance data and it considers financial information alongside related performance information relating to strategic objectives. It promptly identifies variations in financial performance and forecasts financial outturn and takes corrective action where appropriate.</p> <p>The Council's accounts meet statutory requirements and relevant reporting standards. Its website and other information is available in a wide range of formats including foreign languages, and voicetape. The Council used its citizens panel and MORI polls to seek the views of stakeholders about what information is required in its external reporting and tailors it accordingly.</p>

VFM criteria	Met	Summary of conclusions to date
Governing the business		
Commissioning and procurement	Yes	<p>Procurement arrangements continued to improve. Better procurement delivered £863k savings in 2009/10, well ahead of the target of £750k for the year.</p> <p>This has been achieved through a wide range of corporate procurement activity achieving savings such as e-auctions £65k and business travel and accommodation a 10% saving. The Category Manager corporate team has expanded in the last year to include service expertise and the use of e-catalogues is now council wide. Following trials the innovative 'Buy Sunderland First' procurement software is live from April 2010, this improved electronic procurement also assists increased use of local suppliers in the recession.</p> <p>There are examples of good commissioning work with partners such as youth commissioning work and specifically the XL Youth Village that increased youth engagement, reduced ASB and criminal behaviour and improved community cohesion. The Council is seeking to improve consistency in commissioning across its services.</p>
Use of information	Yes	<p>The Council produces relevant and reliable data and works with partners on the quality of data which is relevant to shared priorities. There is a clear corporate statement on the importance of high data quality standards and guidance on the Council's approach to achieving them, against which directorates are required to demonstrate progress. Members recognise the importance of good data quality and a Cabinet member acts as data quality 'champion'.</p> <p>Good progress to improve quality of data and information includes strengthening area arrangements, building key data sets with partners and improved Scrutiny involvement with their recommendations now part of corporate reports. However, it is too early for new Performance Plus software benefits to be realised, as this only went live across all of the Council from April 2010.</p> <p>The Council has developed a consistent corporate framework across all partnership arrangements. This has enabled the Council to assess the performance of its partnerships, and address areas which need to be improved.</p>

VFM criteria	Met	Summary of conclusions to date
Good governance	Yes	<p>The Sunderland Community Strategy sets out a clear vision for the City for 2025. This and the Local Area Agreement (LAA) demonstrated a good understanding of the key issues which needed to be addressed. There is a comprehensive code of practice for partnership working which is subject to annual review.</p> <p>The Council's constitution is regularly updated and clearly describes roles and responsibilities. The Council has adopted codes of conduct for its members and staff that are widely publicised. Policies for whistleblowing and "comments, compliments and complaints" are also up to date and well publicised. The Standards Committee has met regularly throughout the year and has considered a number of Council policies on governance issues as well as receiving and assessing complaints and scrutiny has been strengthened.</p> <p>The Sunderland Community Leadership Programme has included a review of area governance arrangements. The Area Committee Constitution has been changed to provide a clearer focus on implementing local area plans, managing performance and engaging residents. As a result Area Committees are now more responsive and able to target local services. For example, closer ties were made with the police to help to reduce crime and improvements have been made in graffiti removal, refuse collection, litter, dog fouling and grass cutting services, cycle paths and tackling of fly tipping.</p>
Risk management and internal control	Yes	<p>Risk management is fully embedded in corporate processes.</p> <p>The Partnership Code of Practice requires all significant partnerships to have their own risk registers. Demonstrating effective risk management has enabled the Council to reduce insurance premiums, increase insurance cover at no extra cost and extend self insurance schemes.</p> <p>Counter fraud arrangements have been assessed against the newly issued 'red book' from CIPFA. There have been no cases of proven fraud or corruption in recent years, except for Benefits claims. The partnership code of practice clearly sets out expected counter fraud and corruption arrangements for partnerships. The Council has participated in the National Fraud Initiative (NFI) since its inception, and can demonstrate that it is creating a strong deterrent effect through publicity material.</p> <p>The Council has an Audit and Governance Committee which is independently chaired and politically balanced. It includes co-opted members and is proactive. Internal Audit and Audit Commission work has not identified any significant weaknesses in internal controls in recent years. Internal Audit is properly resourced and meeting CIPFA standards. Standing orders, standing financial instructions and a scheme of delegation are in place, well publicised and kept up to date.</p>

VFM criteria	Met	Summary of conclusions to date
		<p>The Council regularly reviews the effectiveness of its partnership working and the financial performance of key partnerships using a scorecard approach, summarised in an annual report to Cabinet. The Council can identify clear examples of where good partnership governance has helped to deliver improved outcomes.</p>
Managing resources		
Natural resources	n/a	Not specified as part of the VFM conclusion this year.
Strategic asset management	Yes	<p>The Council has made progress against its action plan arising from the Audit Commission work undertaken in 2008/09. However although significant progress has been made there is an inevitable time lag between making plans and delivering improved outcomes.</p> <p>There are excellent examples of outcomes from partnership working (eg Primary Care centres at Washington and Bunny Hill), purpose built one stop shops across the City and successful delivery of major projects such as the Aquatic Centre and the BSF programme. Appraisal processes to prioritise capital investment are good, and the Council is successful at securing external sources of capital funding. The estate meets relevant health and safety standards. The Council has not significantly reduced backlog maintenance on buildings, but additional finance has been allocated to address this, and overall backlog levels compare well with similar authorities. The Smarter Working Project will provide an integrated approach to asset, ICT and workforce planning and will implement a corporate policy on modern working arrangements and space utilisation targets. The Council has also started a five year rolling programme of property inspections with some buildings already being identified as surplus.</p> <p>Areas where the Council recognises that further attention is required include market testing of property related services; monitoring project delivery against original cost and time; delivery of a programme to give a 70% planned maintenance spend; and improving coverage of diverse users satisfaction with assets.</p>

VFM criteria	Met	Summary of conclusions to date
Workforce	Yes	<p>The Council's workforce planning is integrated with annual service planning. The introduction of the Sunderland Way of Working has provided the opportunity to further consolidate the corporate, strategic and long term approach to workforce planning. The Council is aiming for transformational change and recognises the importance of its workforce in making a success of this.</p> <p>The Council has a productive and skilled workforce, with a clear commitment to training and development, and there are some innovative examples, including partnership working, such as the Sunderland Leadership Development Programme and investment in apprenticeships. The whole Council has been IIP accredited for 10 years. Corporate IIP status was achieved in 2004.</p> <p>Council policies cover a range of issues pertaining to diversity and good people management. The Council completed Phase I of its job evaluation scheme in 2006, which has been the subject of various legal challenges and resulted in the delay of Phase II.</p>

## Appendix 5 Action plan

Recommendations	
Recommendation 1	
Arrangements need to be reviewed to ensure that the accounts are fully supported by comprehensive working papers in future years.	
<b>Responsibility</b>	Head of Financial Management and Assistant Chief Accountant
<b>Priority</b>	High
<b>Date</b>	For completion of 2010/11 accounts
<b>Comments</b>	
Recommendation 2	
A valuation for Newcastle International Airport should be carried out again next year, and the Council's rationale for the most appropriate valuation method should be discussed with the valuer so that the valuer and the Council's view can be rationalised and hopefully a consistent view will emerge. Officers should again discuss this with other partner authorities to ensure consistency among all shareholders in the airport.	
<b>Responsibility</b>	Head of Financial Management and Assistant Chief Accountant
<b>Priority</b>	High
<b>Date</b>	For completion of 2010/11 accounts
<b>Comments</b>	All working practices in the finance function are currently under review through the Business Transformation Programme to ensure that efficiency savings are maximised whilst ensuring that processes are fit for purpose.
Recommendation 3	
A review should be undertaken to identify the scope for producing a more streamlined and focused set of financial statements for 2010/11.	
<b>Responsibility</b>	Head of Financial Management and Assistant Chief Accountant
<b>Priority</b>	High
<b>Date</b>	For completion of 2010/11 accounts
<b>Comments</b>	All working practices in the finance function are currently under review through the Business Transformation Programme to ensure that efficiency savings are maximised whilst ensuring that processes are fit for purpose.



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