

# Annual Audit Letter

Sunderland City Council

Audit 2010/11



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# Key messages

**This report summarises the findings from my 2010/11 audit and provides an update on the position relating to objections to the accounts for 2007/08 and 2008/09. My audit for 2010/11 comprised:**

- **the audit of the Council's financial statements; and**
- **my assessment of arrangements to achieve value for money in the use of resources.**

	<b>Our findings</b>
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

## **Audit opinion and financial statements**

I issued an unqualified opinion on the financial statements on 30 September 2011.

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. This is a considerable achievement, as compliance with IFRS created significant problems across the country and some authorities were unable to meet the statutory deadlines

## **Value for money**

I also issued an unqualified conclusion stating that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources on 30 September 2011.

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 savings.

## **Resolution of objections from earlier years**

Following the completion of legal cases in the Courts, I have now determined the objections to the 2007/08 and 2008/09 accounts. I concluded that I did not need to take any formal audit action and I issued final certificates on 30 September 2011 to formally close the audits for 2007/08, 2008/09 and 2009/10 as well as that for 2010/11.

# Current and future challenges

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## Challenges

Economic downturn and pressure on the public sector  
Cutting costs but maintaining and improving key services

## Key Issues

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 is committed to improving service delivery and outcomes, and 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 £26.2m) and beyond.

The Council has established its innovative SWITCH programme (Staff Working in Transition and Change). This aims to support the delivery of the Council's business operating model and support the associated restructuring issues by finding displaced workers alternative employment in the Council as part of a wider set of measures in place to manage the position. The Council has made a commitment to seek to avoid mass redundancies.

The key challenges for the Council are to:

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

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 key stakeholders about where alternative service delivery models can demonstrate significant community and organisational benefits.

# Financial statements and annual governance statement

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

## **Overall conclusion from the audit**

The financial statements were approved by the Audit and Governance Committee on 30 September 2011. I issued an unqualified audit opinion on that date.

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. This is a considerable achievement, as compliance with IFRS created significant problems across the country and some authorities were unable to meet the statutory deadlines.

Some amendments to the draft accounts were agreed with officers as a result of our audit work.

I am pleased to report that despite the significant challenge 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 further improve working papers, and we will work with officers to secure further improvement for next year's audit.

I considered aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. There were no significant issues to raise with the Council.

I concluded that, in general, the key controls within the Council's main financial systems were operating as designed.

## Resolution of objections

Objections were made 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 objections, which related to income and expenditure in respect of car parking, sharing 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; and
- not to make a report in the public interest under section 8 of the Audit Commission Act 1998.

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

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; and
- when introducing new car parking regulations and arranging signage, care must be taken to ensure that this is done properly.

# Value for money

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**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

My overall conclusion was that the Council has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources. I issued an unqualified value for money conclusion on 30 September 2011.

I reviewed the two criteria specified by the Audit Commission and undertook follow up work in two other areas where I had previously identified scope for improvement. My key findings and conclusions on each of these areas are set out on the following pages:

- financial resilience;
- securing economy efficiency and effectiveness;
- asset management follow up work; and
- natural resources follow up work.

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## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>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.</p>	<p><b>Criteria met</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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:</p> <p>The key challenges for the Council are to:</p> <ul style="list-style-type: none"><li>■ closely monitor the 2011/12 budget, and take early action if budget savings are not being delivered; and</li><li>■ monitor service delivery and governance arrangements to ensure that standards are maintained during a period of significant change.</li></ul>

## 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.

## Key messages

### 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 of 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); and
- 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 £26.2m) and beyond.

The Council has established its innovative SWITCH programme (Staff Working in Transition and Change). This aims to support the delivery of the Council's business operating model and support the associated restructuring issues by finding displaced workers alternative employment in the Council as part of a wider set of measures in place to manage the position. The Council has made a commitment to seek 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 outturn.

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.

### **Asset management follow up**

A key area for potential Council efficiencies is property rationalisation.

The Smarter Working project was set up with 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 12 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.

### **Natural resources follow up**

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.

# Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Executive Director of Commercial and Corporate Services. The letter will be presented to a number of key committees and a copy will be provided to all Members. Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Fee Letter	April 2010
Opinion Audit Plan	March 2011
Review of Internal Audit	May 2011
IT Risk Assessment	June 2011
Interim Opinion Report	July 2011
Annual Governance Report	September 2011
Opinion on the financial statements	September 2011
Value for Money conclusion	September 2011
Annual Audit Letter	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council and its staff for their support and co-operation during the audit.

Steve Nicklin  
District Auditor

November 2011

# Appendix 1 – Fees

	Actual	Proposed	Variance
Audit fee	339,858 <sup>i</sup>	332,522	7,336
Grant claims and returns	43,960 <sup>ii</sup>	43,960	0
Non-audit work	0	0	0
<b>Total</b>	<b>383,818</b>	<b>376,482</b>	<b>7,336</b>

<sup>i</sup> The actual fee includes an additional fee of £7,336, which reflects the cost of additional work undertaken to resolve the objection. These figures do not reflect the fee rebates that have been paid back to the Council, following savings made by the Audit Commission, and rebated to audited bodies on a national basis.

<sup>ii</sup> This remains our best estimate for grant claims and returns. This work is not likely to be completed until the end of December 2011.

# Appendix 2 – Glossary

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## **Annual governance statement**

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

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

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

## **Audit opinion**

On completion of the audit of the 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.

## **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.

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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