

**Audit and Governance Committee**

**30 September 2011**

**Audited Statement of Accounts 2010/2011**

**Report of the Executive Director of Commercial and Corporate Services**

## **1.0 PURPOSE OF REPORT**

- 1.1 To present the Letter of Representation for 2010/2011, the letters of assurance and to receive the Annual Governance Report received from the Audit Commission concerning the financial statements for 2010/2011 and which also provides their opinion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.2 To provide an audited Statement of Accounts for 2010/2011. This has been revised to take into account the auditor's findings, for approval by members of the Committee.

## **2.0 DESCRIPTION OF DECISION**

- 2.1 Members are recommended to:
  - 2.1.1 Note the contents of the Letter of Representation - Item 8 (i)
  - 2.1.2 Note the contents of the two Letters of Assurance, from those charged with governance and those charged with discharging management processes and responsibilities - Item 8 (ii)
  - 2.1.3 Note the contents of the Annual Governance Report - Item 8 (iii) from the Audit Commission.
  - 2.1.4 Approve the Amended Audited Statement of Accounts for the financial year ended 31<sup>st</sup> March 2011 - Item 8 (iv).
  - 2.1.5 Approve the slightly amended Annual Governance Statement (AGS) attached as Appendix A to this report, as some very minor amendments were required which means that the AGS is has to be re-approved.

## **3.0 BACKGROUND**

- 3.1 Members will be aware that the Audit Commission, as the Authority's external auditors, are required to report on the final accounts, and report other certain

matters to Members prior to an opinion being provided on the Authority's accounts.

- 3.2 A Letter of Representation has to be prepared by the Executive Director of Commercial and Corporate Services which sets out the principles used in preparing the accounts and provides the external auditor with the necessary assurances required by regulation (this is shown as **Item 9 i** on the agenda).
- 3.3 The Audit Commission has audited the financial statements of the Authority in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (ISA) issued by the Auditing Practices Board.
- 3.4 Once the Audit and Governance Committee has noted the contents of this communication, the Audit Commission can then formally provide an opinion on the Statement of Accounts for the year ended 31<sup>st</sup> March 2011.
- 3.5 In line with ISA 260, the Audit Commission has produced an Annual Governance Report, in which the auditor's opinion is that the financial statements present a true and fair view of the financial position of the Authority as at 31<sup>st</sup> March 2011, and its income and expenditure for the year then ended. The Annual Governance Report 2010/2011 is included as **Item 9 iii** on the Agenda.
- 3.6 The Statement of Accounts 2010/2011 has been amended to reflect a number of adjustments following the audit. The revised Statement of Accounts 2010/2011 is set out at **Item 9 iv** on the agenda for approval. At the request of this committee a summary guide to the financial statements is also included as Appendix B to this report, which sets out the key messages from the financial statements in a more easy to understand format.
- 3.7 This communication is in addition to the Annual Audit Letter, which will continue to be presented to the Cabinet, the Audit and Governance Committee and Council annually.

#### **4.0 KEY MESSAGES**

- 4.1 The full communication is included in the Annual Governance Report. The report is very positive and in summary shows that:
  - the external auditors propose to issue an unqualified audit opinion;
  - most non-trifling misstatements have been adjusted by management and those not adjusted are set out with reasons accepted by the auditor in his Annual Audit Report;
  - the external auditors have not identified any material weaknesses in the accounting and internal control systems;

- the external auditors have referred to a number of presentational issues they identified in relation to the qualitative aspects of the Council's financial reporting and reference is also made in the Letter of Representation but these are not considered to be significant;
- the external auditors have not identified any matters required by international auditing standards that should be communicated to Members;
- the external auditors have not identified any other relevant matters relating to the audit that need to be brought to Members attention;
- the external auditors have reported that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and propose to issue an unqualified value for money conclusion in respect of 2010/2011.

4.2 On the basis of the amendments agreed with the external auditors, the Audit Commission will formally provide an opinion on the amended Statement of Accounts, on the 30th September 2011, by which time the Council is required to publish its Audited Statement of Accounts for 2010/2011.



**Revised Annual Governance Statement 2010 /2011**

**SCOPE OF RESPONSIBILITY**

Sunderland City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a local Code of Corporate Governance which is consistent with the principles of the SOLACE/CIPFA Framework, Delivering Good Governance in Local Government. The Code is on the Council's website or can be obtained from the Executive Director of Commercial and Corporate Services.

This Statement explains how the Council has complied with the SOLACE/CIPFA Framework and also meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement.

**THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with, and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31<sup>st</sup> March 2011 and up to the date of approval of the Statement of Accounts.

## THE GOVERNANCE FRAMEWORK

**There is a clear vision of the authority's purpose and intended outcomes for citizens and service users that is clearly communicated, both within the organisation and to external stakeholders:**

- The [Sunderland Strategy 2008-2025](#) provides the framework for members of the [Sunderland Partnership](#), organisations, groups of people and individuals, to work together to improve the quality of life in Sunderland by 2025. It sets out a Vision for the city and its people and how everyone will work together to achieve that Vision:

*“Creating a better future for everyone in Sunderland - Sunderland will be a welcoming, internationally recognised city where people have the opportunity to fulfil their aspirations for a healthy, safe and prosperous future.”*

Delivery of the Vision is underpinned by the following Strategic Priorities:

- Prosperous City;
  - Healthy City;
  - Safe City;
  - Learning City;
  - Attractive and Inclusive City
- Underpinning the Sunderland Strategy are a comprehensive needs analysis, Sunderland Strategy Delivery Plans and a set of Local Area Plans. The Delivery Plans which have lifespans of three years, identify the short term detailed and focused targets which will help to achieve the longer term key objectives set out in the Sunderland Strategy.
  - The Revenue Budget for 2010/11 and Capital Programme for 2009/2010 to 2013/14 incorporate corporate improvement priority actions.
  - To demonstrate the council's commitment to the continuous improvement of service delivery and the use of resources, Corporate Improvement Objectives (CIOs) have been defined:  
CIO1 Customer focused services  
CIO2 One Council

CIO3 Efficient and effective council  
CIO4 Improving partnership working

The Strategic Priorities set out in the Sunderland Strategy and CIOs have been combined to create the council's Corporate Improvement Priorities, to provide an increased focus on improvement activity and to reflect the fact that internal and external improvement activities are inter-related with each resulting from, contributing to and dependant upon the other.

- Communication of objectives to staff and stakeholders takes place through wide distribution of the Revenue Budget for 2010/11 and Capital Programme for 2009/2010 to 2013/14, including on the Council's website and intranet. The Council also issues an Annual Report setting out the Council's priorities, how the Council spent money on achieving these during the last financial year, and how successful the Council has been.

**Arrangements are in place to review the authority's vision and its implications for the authority's governance arrangements:**

- Through reviews by the Audit Commission and other external inspectorates the Council constantly seeks ways of securing continuous improvement. The Council has professional and objective relationships with these external inspectorates.
- There are annual reviews of the local Sunderland Code of Corporate Governance to ensure that it is up to date and effective.

**Arrangements exist for measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources:**

- There are clear and effective performance management arrangements including staff appraisals for Directors and key staff, which address financial responsibilities.
- There is regular reporting of performance against key targets and priorities to the Council's Executive Management Team, Cabinet and Scrutiny Committees.
- Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions and person specifications.

**The roles and responsibilities of the executive, non-executive, scrutiny and officer functions are clearly defined and documented, with clear delegation arrangements and protocols for effective communication:**

- A Constitution has been adopted which sets out how the Council operates and how decisions are made, and incorporates a clear delegation scheme. The Constitution indicates responsibilities for functions and sets out how decisions are made.
- A system of scrutiny is in place which allows Scrutiny Committees to:
  - review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
  - make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
  - consider any matter affecting the area or its inhabitants; and
  - exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees; and
  - consider Local Petitions and Councillor Calls for Action for matters within their terms of reference.
- Directorates have established delegation schemes, although these will require updating in some areas to reflect recent and ongoing organisational changes.

**Codes of Conduct defining the standards of behaviour for members and staff are in place, conform with appropriate ethical standards, and are communicated and embedded across the organisation:**

- The following are in place:
  - Members' Codes of Conduct;
  - Employees' Code of Conduct;
  - Protocol on Member/Employee Relations;
  - Protocol for Members in Relation to Development Control Matters;
  - Whistleblowing Policy;
  - Protocol for the use of Civic Cars;
  - Protocol for Members in Relation to Licensing Matters;
  - Protocol for Members and Voting Co-opted Members – Use of Council Resources and Equipment;
  - Guidance for Members in Relation to the Use of Council ICT Facilities;
  - Protocol for Use of Member Website;
  - Data Protection: Guidance for Councillors;
  - Remote Intranet/Internet Access for Members;
  - Protocol in Relation to Members' Dealings with the Council;



- Registers of Interests, Gifts and Hospitality;
- Council Publicity Protocol.

**Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks:**

- The Executive Director of Commercial and Corporate Services is the designated Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972 and is responsible for ensuring lawfulness and financial prudence of decision making, and for the proper administration of the Council's financial affairs.
- The Head of Law and Governance is the Council's Monitoring Officer who has maintained an up to date version of the Constitution and has endeavoured to ensure lawfulness and fairness of decision making.
- The Council has in place up to date Procurement Procedure Rules and Financial Procedure Rules, which are subject to regular review.
- Written procedures are in place covering financial and administrative matters, as well as HR policies and procedures. These include:
  - Whistle Blowing Policy;
  - Anti Fraud and Corruption Policy;
  - Codes of Conduct;
  - Corporate Health and Safety Policy;
  - Corporate Complaints Policy;
  - Corporate Procurement Strategy;
  - Procurement Codes of Practice;
  - Code of Practice for Partnerships;
  - Treasury Management Strategy;
  - Directorate / department budget management schemes.
- There are robust and well embedded risk management processes in place, including;
  - Member Risk Champion;
  - Risk Management Policy and Strategy;
  - Nominated Head of Service lead for Risk Management;
  - Corporate Risk Profile;
  - Corporate Risk and Governance Group;
  - Risk Profiles for major projects and significant partnerships;
  - Risk Management Intranet site;
- There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts.

- Business Continuity Plans are in place, which are subject to ongoing review and development.
- There are clearly defined capital expenditure guidelines in place.
- Appropriate project management disciplines are utilised.
- The Council participates in the National Fraud Initiative.
- The Council has adopted and implemented the requirements of the Department for Work and Pensions Security Manual for the administration of Council Tax and Housing Benefit.
- Procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

**The authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).**

The Executive Director of Commercial and Corporate Services fulfils this role through the following:

- Attendance at meetings of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
- Alignment of medium term business and financial planning processes;
- Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively;
- Ensuring that the finance function is resourced to be fit for purpose;

**The core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*, are undertaken by members.**

The Council has an Audit and Governance Committee which, as well as approving the Authority's Statement of Accounts, undertakes an assurance and advisory role to:

- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- receive and consider (but not direct) internal audit's strategy, plan and monitor performance;
- receive and consider the external audit plan;
- review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
- receive and consider the annual report of internal audit;
- consider the reports of external audit and inspection agencies, including the Annual Audit Letter;
- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
- review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit; and
- make recommendations to Cabinet or Council as appropriate.

**Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All Cabinet Reports are considered for legal issues before submission to members:**

- The Head of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities.

- The Council maintains an internal audit service. An independent annual review of its effectiveness is undertaken which concluded that it operated in accordance with professional standards.

**Arrangements for whistle-blowing and for receiving and investigating complaints from the public are in place and are well publicised:**

- The Council is committed to establishing and maintaining effective reporting arrangements to ensure that, where an individual, whether an employee of the Council, a Councillor, or any member of the public, has concerns regarding the conduct of any aspect of the Council's business, they can do so through a variety of avenues, promptly and in a straight forward way.
- The framework in place to ensure the aims of this Policy are met are set out in two 'Whistle Blowing Policy Arrangements' documents, one for Council workers and one for members of the public.
- Monitoring records held by the Head of Law and Governance reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

**Arrangements exist for identifying the development needs of members and senior officers in relation to their strategic roles:**

- The Community Leadership Programme has continued to support elected Members to fulfil their community leadership role, including the introduction of Account Managers for all Members.
- The Council has a HR Strategy that identifies that the need to enable and support the organisation in managing the performance of all of its employees through effective policies, procedures and working practices is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation and includes the extent to which an employee understands and supports the values of the Council.

**Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.**

- The Council has a Community Consultation Strategy which aims to ensure that consultation activity is effectively co-ordinated across the

Council and with partner agencies, impacts on service delivery, and is delivered to a high standard.

- The strategy is complemented by the Hard to Reach Framework which outlines the council's approach to consulting with minority and vulnerable sectors of society.

**Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships, and are reflected in the authority's overall governance arrangements:**

- The Council has published a Code of Practice for Partnerships which includes a template for Partnership Agreements and a range of checklists to ensure key risk areas are considered and addressed. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and officers to review existing arrangements.
- A Register of Partnerships is maintained. The significance of partnerships is measured using the Partnerships Significance Assessment Scorecard recommended by CIPFA.

## **REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by feedback from Members and the work of all senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:

- The role of the Council:
  - Members have participated in the annual review of the Council's Corporate Governance arrangements;
  - The Leader of the Council, the Chief Executive and the Executive Director of Commercial and Corporate Services have overseen the review and signed the Annual Governance Statement.

- The role of the executive:
  - The findings of the Annual Governance Review have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.
- The role of the Audit and Governance Committee:
  - The findings of the Annual Governance Review have been reported to the Audit and Governance Committee. Under their Terms of Reference the Audit and Governance Committee have satisfied themselves that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- There is a system of scrutiny which allows Review Committees to:
  - review decisions made or actions taken in connection with the discharge of any of the Council's functions;
  - make reports and recommendations to the full Council, the executive, or any joint or area committee in connection with the discharge of any functions;
  - consider any matter affecting the area or its inhabitants; and
  - exercise the right to call-in, for reconsideration, decisions made but not yet implemented.
- The role of the Council's Standards Committee includes the following:
  - promoting and maintaining high standards of conduct by councillors, co-opted members and church and parent governor representatives;
  - monitoring the operation of the Members' Code of Conduct;
  - monitoring the operation of the Council's Anti-Fraud and Corruption Policy so far as it relates to the actions of Members of the Council;
  - considering reports and complaints relating to the conduct of Members of the Council;
  - supporting the Monitoring Officer in his role.
- The Executive Director of Commercial and Corporate Services has directed, co-ordinated and overseen the review.
- All Heads of Service have participated in the annual governance review through carrying out self-assessments relating to their areas of responsibility.
- All Chief Officers have provided Controls Assurance Statements relating to their area of responsibility, having considered the detailed self-assessments from their Heads of Service.
- Controls Assurance Statements have also been provided by senior officers responsible for relevant specialist areas.

- Internal audit planning processes include consultation with all Chief Officers, reviews of the Corporate Improvement Plan and the Corporate Risk Profile. Audit work is risk based and includes risks in relation to the achievement of service objectives. Internal Audit Services carries out regular systematic auditing of key financial and non-financial systems. The Audit Commission have conducted a review of the effectiveness of Internal Audit Services and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.
- In the Audit Commission's Annual Audit Letter for 2009/2010 the District Auditor issued an unqualified conclusion stating that the council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. The District Auditor also reported that the council continues to demonstrate well established and effective processes for good governance and internal control
- Findings of external inspectorates are collated / monitored by the Performance Improvement Team.

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an improvement plan has been agreed for the continuous improvement of the Council's corporate governance and internal control arrangements.

We propose over the coming year to take steps to implement the improvement plan to further enhance the Council's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review and will monitor their implementation and operation as part of the next annual review.

Paul Watson  
Leader of the Council

Dave Smith  
Chief Executive

Malcolm Page  
Executive Director of  
Commercial and  
Corporate Services

Dated: 30<sup>th</sup> September 2011

