

Annual Governance Report

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# **Annual Governance Report**

**Sunderland City Council**

**Audit 2006/07**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

#### Document Control

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### **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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## Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the Council's Audit and Governance Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged with Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
  - where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 1.
- 4 This report has been prepared for presentation to the Audit and Governance Committee on 28 September 2007. Members are invited to:
  - consider the matters raised in the report before the financial statements are approved;
  - approve the representation letter on behalf of the Council and those charged with governance before we issue our opinion; and
  - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement.
- 5 Our work during the year was performed in line with the plan that we presented to you in April 2006 and updated in May 2007. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2.

## Key messages and audit status

- 6 Our work on the financial statements is now substantially complete and we propose issuing an unqualified audit opinion by 30 September 2007. Our draft report is attached at Appendix 3.
- 7 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 8 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is also now complete. We propose issuing an unqualified conclusion on the use of resources by 30 September 2007, and our draft report is attached at Appendix 3.
- 9 The Council has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for this assistance and co-operation.

## Accounts and Statement on Internal Control

- 10 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as:
- acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework; and
  - responsibility for the design and implementation of internal control to prevent and detect error
  - matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 11 The draft letter of representation has been attached as Appendix 4.

### Unadjusted misstatements

- 12 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no such misstatements for us to bring to the attention of members.

### Adjustments to the financial statements

- 13 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. We have the following items to report to you.
- 14 Officers had initially valued the Council's shareholding in Newcastle Airport at cost. Although this is an acceptable accounting treatment, the balance sheet value has been increased by £6.5m at our request, in order to:
- reflect the expansion of the airport over recent years; and
  - ensure consistency with the accounting treatment adopted by other local authority shareholders.
- 15 Fixed assets in respect of land and buildings at Bunny Hill have been reduced by £0.6m to reflect the correct valuation as required by CIPFA SORP.
- 16 Presentational adjustments have also been made to:
- the Income and expenditure account, in respect of the dividend received from Newcastle Airport; and
  - disclosure notes showing movements on provisions and reserves.

- 17 None of these adjustments have any material impact on the Council's overall financial position as previously reported.

## Accounting practices

- 18 We are required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting. Good quality accounts and working papers were provided by the Authority, and there are no specific matters arising to report to you.

## Systems of internal control

- 19 As part of our audit, we consider the systems of accounting and financial control. We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed. There are no material weaknesses to bring to your attention.
- 20 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising from this aspect of our work.



## Use of resources

### Work performed

- 21** The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. In forming our conclusion we draw on other aspects of our audit work, including:
- last year's use of resources assessment;
  - data quality work; and
  - our compliance audit of the best value performance plan.
- 22** Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 5. All of the specified criteria were met and there are no matters arising to report to you.

### Best value performance plan and data quality

- 23** Under the Local Government Act 1999 (the Act) the Council is required to prepare and publish a best value performance plan (BVPP) summarising its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 24** We are required by section 7 of the Local Government Act 1999 and the Audit Commission's statutory Code of Audit Practice to carry out an audit of the best value performance plan, to certify that we have done so, and to report:
- any matters that prevent us from concluding that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance
  - where appropriate, any recommendations under section 7 of the Local Government Act 1999.
- 25** We audited the Council's 2006/07 BVPP as required and issued an unqualified report with no statutory recommendations on 19 September 2006. Work on the 2007/2008 Best Value Performance Plan (incorporated this year into the annual report) is now well under way. The following issues have arisen to date.

- 26 The published plan did not include a statement on workforce contracts, as required by statutory guidance. Nor did the title page to the document, and the introduction, clearly signpost the fact that the document is meeting best value requirements under the Local Government Act 1999. This has now been addressed by publishing an addendum to the plan.
- 27 In order to incorporate the most up to date financial information, the plan was not formally published and approved by members until 25 July 2007, slightly later than the due date of 30 June 2007.

## **Use of resources assessment**

- 28 The Council performed well in last year's use of resources assessment, scoring the maximum 4 out of 4 overall. Work on the 2007 use of resources assessment will commence in October 2007 in line with the Audit Commission's national timetable. Outcomes will be reported to members in the Annual Audit and Inspection Letter later in the year.

## Audit fee update

- 29 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan:

	<b>Plan 2006/07</b> £	<b>Actual 2006/07</b> £
Financial statements and Statement on Internal Control	198,000	198,000
Use of Resources	70,000	70,000
Total Audit Fees	268,000	268,000
Grants certification work	80,000	80,000
Other work - whole of government accounts	3,000	2,275

- 30 The analysis above shows that our audit fee has been contained within the totals you have already agreed. The outturn on inspection fees will be reported in the annual audit and inspection letter.

## Use of auditors' statutory powers

- 31 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 1 below.

**Table 1 Use of statutory powers**

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2006/2007
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.

## Appendix 1 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
  - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are aware of two relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards. These are set out below.
- 3 One member of the audit team is married to a librarian employed by Sunderland City Council. We have taken the following safeguards to ensure our independence and objectivity:
  - His work is closely supervised by the Audit Manager
  - He is not given any assignments directly related to the Council's libraries service.
- 4 One of our performance specialists undertakes a small amount of external consultancy work for other public sector organisations. He is not permitted to carry out audit or inspection work in any areas of the Council's activities where he has also been engaged as a consultant.

## Appendix 2 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	April 2006	April 2006	City Treasurer
Use of resources assessment	November 2006	November 2006	Chief Executive
Data quality	December 2006	December 2006	Head of Performance and Improvement
Audit plan (updated)	May 2007	May 2007	City Treasurer
Review of Internal Audit	March 2007	March 2007	Assistant City Treasurer (audit and procurement)
Annual governance report	September 2007	September 2007	Audit and Governance committee
2006/07 Audit opinion <ul style="list-style-type: none"> <li>• Opinion on financial statements</li> <li>• Use of resources conclusion</li> </ul>	September 2007	September 2007	All members of the council
BVPP certificate	September 2007	September 2007	Chief Executive
Performance reports <ul style="list-style-type: none"> <li>• Procurement follow up</li> <li>• IT Service management</li> </ul>	<ul style="list-style-type: none"> <li>• February 2007</li> <li>• June 2007</li> </ul>	<ul style="list-style-type: none"> <li>• February 2007</li> <li>• June 2007</li> </ul>	<ul style="list-style-type: none"> <li>• Assistant City Treasurer (audit and procurement)</li> <li>• Head of ICT</li> </ul>

- 5 Our report on data quality, and 2007 use of resources judgements, will be issued in November following completion of work currently in progress.

## **Appendix 3 – Proposed auditor’s report to the Members of Sunderland City Council**

### **Opinion on the financial statements**

I have audited the financial statements of Sunderland City Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the 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 financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Sunderland City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### **Respective responsibilities of the Chief Finance Officer and auditors**

The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial 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 financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the statement on internal control reflects compliance with CIPFA’s guidance ‘The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003’ issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority’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 financial statements 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 financial statements.

## **Opinion**

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

L Snowball  
Nickalls House  
Metro Centre  
Gateshead NE11 9NH  
September 2007



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

### **Authority’s Responsibilities**

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority 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 specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### **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 December 2006, 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 ending 31 March 2007.

## **Best Value Performance Plan**

I issued my statutory report on the audit of the authority’s best value performance plan for the financial year 2006/07 on 19 September 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

## **Certificate**

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

L Snowball  
Nickalls House  
Metro Centre  
Gateshead NE11 9NH  
September 2007

## Appendix 4 – Management representation letter

Mrs Lynn Hunt Audit Commission Nickalls House Metro Centre Gateshead Tyne and Wear NE11 9NH		
Date:	21ST September 2007	
Our ref:	CFA/DDN	
Dear Lynn,		
<b>ANNUAL ACCOUNTS 2006/2007 – LETTER OF REPRESENTATION</b>		

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officials of Sunderland City Council (the Council), the following representations given to you in connection with your audit of our financial statements for the year ended 31 March 2007 are accurate and are as set out below.

### Statutory Responsibilities and Supporting records

We acknowledge, as the designated member and officers responsible for the Council's financial affairs, our responsibility for ensuring the preparation of financial statements which present fairly the position of the Council and for making accurate representations to you. To the best of our knowledge, 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 financial records. To the best of our knowledge all other records and related information, including minutes of all committees and management meetings have been made available to you.

### Law and Regulations

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.

In all material respects, the expenditure and income disclosed in the financial statements has been applied to purposes intended by parliament and the financial transactions conform to the authorities which govern them. 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.

#### **Irregularities**

We acknowledge our responsibilities for the design and implementation of internal control systems to prevent fraud and error. There have been no:

Irregularities involving management or employees who have significant roles in the system of internal accounting control;

Irregularities involving employees that could have a material effect on the financial statements; or

Communications from regulatory bodies concerning non-compliance with, or deficiencies in, financial reporting practices which could have a material effect on the financial statements.

#### **Compensating arrangements**

There are no formal compensating balancing arrangements with any cash and investment accounts.

#### **Amendments to the Statement of Accounts 2006/2007**

We acknowledge that the audit has required some amendments to the Statement of Accounts 2006/2007 (subject to audit) and that these have been agreed and amended as necessary for presentation to members of the Audit and Governance Committee in order that they can approve the amended accounts.

The detailed changes are set out in Appendix 1 to this letter.

#### **Accounting estimates**

We acknowledge our responsibilities for making accounting estimates included in the financial statements. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are based on our assumptions about conditions that we expect to exist and courses of action we expect to take. In that regard, the financial statements present fairly the financial position of the Council. We have complied with all aspects of contractual agreements that would require adjustments to, or disclosure in, the financial statements.

## **ASSETS**

### **Fixed Assets**

The net book values at which the fixed assets are stated in the balance sheet are arrived at:

- after providing for depreciation on bases and at rates calculated to reduce the cost of each asset to its estimated residual value by the end of its estimated useful life, the Council has fully depreciated all assets in accordance with the SORP;
- after taking into account all capital expenditure in additions thereto, but no expenditure properly chargeable to revenue.

All assets continue to be re-valued under our five year rolling programme.

None of the following occurrences have arisen during the year:

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

### **Capital Expenditure**

At 31 March 2007 there were no outstanding authorisations for the purchase of fixed assets.

### **Long Term Investments**

We confirm that all long term investments disclosed in the balance sheet have been correctly valued with regards to market quotations and other information. We confirm that we have no plans to dispose of these assets in the foreseeable future.

### **Current Assets**

Current assets in the balance sheet are expected to produce at least the amounts at which they are stated. Adequate provision has been made for all amounts owing to the Authority, which are known to be irrecoverable.

### **General**

All liabilities have been taken up in the accounting records, including the liability for the purchases to which title had passed prior to the stated date, and for all items included in stocks.

## **COMMITMENTS**

Other than already disclosed in the financial statements and set out below, we are not aware of any pending or threatened claims or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements.

There were no purchase commitments in excess of normal requirements with the exception of the impact of two PFI schemes one of which commenced in 2002/2003 (Sandhill View School) and the other (Street Lighting and Highway Signs) which commenced in 2003/2004, which I detail below:

- The Council entered into a contract on 17th August 2001 for the replacement of Sandhill View School plus a range of community and educational support facilities. The impact of this scheme is included in the accounts in Note 14 to the Consolidated Revenue Account (CRA) which provides the necessary details of the contract and the extent of the commitments for the Authority into future years.

The Council also entered into a PFI contract with Balfour Beatty Power Networks Ltd on 12th August 2003 for the replacement and provision of Street Lighting and Highway Signs which commenced on 1st September 2003. The accounting entries have been fully incorporated into the accounts within Note 14 to the Income and Expenditure Account (I&E) which provides details of the contract and the extent of the commitments for the Authority into future years.

It should be noted that PFI credits were originally ongoing and were to be received after the duration of the contract, which meant that Revenue Support Grant would continue to be received after the life of the contract although this benefit could not be quantified. This position has, however, been reviewed by the government and a revised allocation of PFI credits was introduced from 1st April 2005 which has impacted upon the PFI schemes of the Council.

It is thus important to note that the Authority took the opportunity offered as part of these reforms of the Local Authority PFI Grant announced by DCLG to move to the annuity method of calculation of grant entitlement. This change continues to be fully reflected within Note 14 to the Income and Expenditure Account.

## **CONTINGENT LIABILITIES**

Other than already disclosed in the financial statements and set out below, we are not aware of any material commitments or contractual issues which require contingent gains/losses to be disclosed or accrued in the accounts.

Like most other local authorities there are a number of part-time pension cases which have been pending for some time. A number of test cases have now been decided and the process of applying the principles determined in the test cases to claims commenced against the Council is now underway. Potential payments are anticipated not to exceed £0.250 million however this is only an estimate at this point as the process of assessing the claims in the light of the Tribunal decisions is at a relatively early stage.

During 1992/93 the Council's insurers, Municipal Mutual Insurance, ceased accepting new business. The Council has a number of outstanding claims with MMI and arrangements are in place to try to ensure an orderly settlement of the sums due. Potential losses on insurance settlements, are estimated at £0.662m.

The City Council, together with the other Tyne and Wear Districts, are guarantors to the Tyne and Wear Pension Fund in respect of employees of Northern Informatics Applications Agency Limited and The North East Regional Assembly.

The City Council acts as a guarantor to Back On The Map Limited and the No Limits Theatre Company to the Tyne and Wear Pension Fund in respect of pensions for transferring employees.

Future possible payments may be required to the Sunderland Housing Group (now Gentoo) under the terms of the Transfer Agreement established between the Council and the Housing Group for claims relating to environmental pollution. This agreement was drawn up as part of the Large Scale Voluntary Transfer which took place on 26th March 2001 which transferred all Council Housing and related assets to Sunderland Housing Group. The amount included in the Agreement under Warranty 13 stipulates that the Council's maximum liability to the Group under this deed in respect of all claims howsoever made shall not exceed in aggregate the sum of £240,000,000 and as yet no claims have been made.

The Council acts as a guarantor for those employees that were originally employed by the Council but transferred to the Sunderland Housing Group (now Gentoo), on the basis that basic pension would only be funded (no added years). This is a diminishing potential liability, however, as staff turnover occurs and transferred staff retire.

A revised claim was received from Pyeroy of approximately £395,000, (previously £260,000), in respect of the Wearmouth Bridge Works. The dispute has already been considered by an Adjudicator who dismissed Pyeroy's claim, however they have referred the dispute to formal arbitration. The Council continues to resist Pyeroy's claim and has already sought advice from Queen's Counsel on this matter. The Council is reasonably confident Pyeroy will not succeed but it is still however considered prudent to disclose a contingent liability in the accounts in case the Council loses the action. A claim was also received from Mowlem PLC of approximately £1 million in respect of the Queen Alexandra Bridge works. This dispute has also been considered and rejected by an Adjudicator and referred to arbitration.

The Council continues to reject the claim in respect of the works being required to meet the contracted standard but has made provision in respect of the increase in steel work. Both of these claims have now been held in abeyance for over 12 months and in the light of this position the council's best estimate of the assessed combined potential liability should the Council lose these actions is £0.800m plus potential costs in total.

The Council has a number of outstanding equal pay claims which are seeking financial redress in respect of periods when unequal pay is alleged to have been applied by the Council. The Council has settled a large number of claims by making compensation payments, and has also made compensation payments to non claimants who have the same circumstances as those claimants to whom compensation payments have been made. There is the possibility that the Council will have to meet other claims already made but not yet settled. The Council has very prudently set up a provision and a reserve to meet these future potential liabilities. The Council continues to mount a strenuous defence of the claims made and has taken advice from leading Counsel. However, if the Council were to lose future claims from workers not already included then there could still be scope for these future cases having a significant financial impact on the Council. These claims can not be assessed or quantified at this time.

In June 2005, the Council, via Government Office North East (GONE), received a European Court of Auditors (ECA) report which indicated some technical issues had been found in respect of the Sunderland ARC feasibility study project grant claim. The Council responded to these issues and has now had confirmation that the maximum possible loss of grant will now not exceed £107,000. The Council, however, is still in discussions with GONE about reducing this loss further and therefore can only speculate on the likely outcome at this point in time. The Council has also responded by putting in place corrective action so as to prevent a re-occurrence of the issues raised by the ECA and is currently awaiting a final decision from GONE on the grant position.

## **GENERAL**

We consider that there is adequate insurance cover for all major risks, this is further supported by the recent independent actuarial review of the insurance provision as at 31st March 2007.

We consider that the Authority will have sufficient cash resources available to finance its operation at least for the following twelve months.

Authority Members interests, present or future, in any contract with the Authority during the year ended 31 March 2007, have been disclosed.

In respect of the 2006/2007 financial year a number of Council Members had a controlling interest in a company, partnership, trust or entity which generated a related party transaction with the Authority. The controlling interest was by way of ownership, or as a director, trustee, or partner. These transactions amounted to payments of £8.113 million made by the Authority in 2006/2007 (£7.290 million for 2005/2006), of which £0.245 million (£0.397 million for 2005/2006) relates to Cabinet Delegation Scheme approved grants in support of the arts, sport, promotions and tourism, £2.904 million (£2.842 million for 2005/2006) payments to companies and £4.964 million (£4.051 million for 2005/2006) to voluntary organisations.



It should be noted that all Council members pecuniary and non financial interests which could conflict with those of the Council are open to public inspection as required by the Local Authority (Members Interests) Regulations (SI 1992/618) laid under section 19 of the Local Government and Housing Act 1989. In addition, the awarding of any contracts by the Authority to individual companies is governed by the Authority's Contract Procedure Rules as approved by the Council. The relevant members must therefore declare an interest (which is minuted) and they do not take part in any discussion or decision relating to the transactions concerned.

Save as disclosed to you above, the Council has not had, or entered into, at any time during the period, any arrangement, transaction, or agreement, to provide credit facilities (including loans, quasi loans or credit transactions) for councillors and officers or any person connected to them, to guarantee or provide security for such matters. To the best of our knowledge there are no other material transactions between related parties other than those which have been properly recorded and disclosed in line with FRS 8 above. We therefore confirm that we have disclosed to you all the information of which we are aware.

### **Airport Loan Notes**

The third and final tranche of receipts relating to the sale of 49% of the shares in Newcastle Airport took the form of a repayment of £25 million worth of loan notes over a 10 year period. As agreed with Copenhagen Airports Limited the repayment of these loan notes, to the constituent authorities, commenced in 2003/2004 and the amount of principal repaid to date totals £1,365,534 for this Authority. This amount is included in Capital Receipts. The interest earned on the remaining loans outstanding was accounted for in the Consolidated Revenue Account. This accounting treatment will continue until the loan notes have been fully repaid. See Note 28 to the Balance Sheet.

### **FRS17**

The Council continues to fully comply with the requirements of Financial Reporting Standard 17 (Accounting for Retirement Benefits) and the Statement of Accounts fully discloses all of the necessary accounting entries required. The accounting policies reflect the necessary details and disclosure notes to the Statement of Accounts for 2006/2007. The Accounting Policies are set out in Section 13, pages 26 and 27 of the Statement of Accounts and Notes 8c to the I&E and Note 42 to the Balance Sheet show disclosures in compliance with the SORP. The I&E fully incorporates the FRS17 accounting entry requirements.

It must be stressed, however, that the figures included within the accounts for pensions assets and liabilities have been provided by Hewitt, Bacon and Woodrow Limited, actuaries to the Local Government Pension Fund (administered by South Tyneside Council) using information provided by the scheme and assumptions determined by the Council in conjunction with the Actuary. Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

## **Pooled Budgets**

The Statement of Accounts incorporated the accounting requirements in respect of Pooled budget arrangements for the first time in 2003/2004. Section 31 of the Health Act 1999 allows partnership arrangements between National Health Service (NHS) bodies, local authorities and other agencies in order to improve and co-ordinate services. The aim of the partnerships is to provide a service to a target client group and allow organisations to work in a more unified way. Included within the Council's consolidated accounts are now three such partnership schemes, as the Intermediate Care Pooled arrangements commenced from 1st April 2004, with the Sunderland Teaching Primary Care Trust (STPCT). Note 15 to the I&E provides further details of the three pooled arrangements the Council is involved in with the STPCT.

## **Audit Costs**

The Council continues to include a note to the Consolidated Revenue Account which provides details of the Audit fees incurred in respect of the various professional audit activities carried out on behalf of the Council. Note 16 to the I&E gives more details of the costs involved in accordance with the SORP.

## **The Housing Revenue Account – closure**

The Council received the consent from the Secretary of State to close the Housing Revenue Account because of our Large Scale Voluntary Transfer which took place on 26th March 2001 which meant that Council Housing is no longer provided by the Council. This is the reason the Housing Revenue Account is not included in the financial statements.

## **SORP 2006 and the Requirements for the 2006/2007 Accounts**

The Council's financial statements have been provided in accordance with all applicable accounting standards and CIPFA's Code of Audit Practice on Local Authority Accounting (Statement of Recommended Practice).

Note 1 to the financial statements provides details of the necessary prior year adjustments to ensure the accounts for 2005/2006 were comparable to the new format of accounts required by the SORP 2006.

The Statement of Accounts and Accounting Policies of the Authority for 2006/2007 comply with the Statement of Recommended Practice 2006 and any departures from the SORP are fully documented with reasons for the departure where appropriate. The position regarding Group Accounts is set out below.

## **Group Accounts**

The Council has carried out fully the processes as recommended by the SORP in determining whether group accounts need to be prepared and the Council has found that it does not have any material financial relationships where the requirements of Group Accounts applies. Group Accounts have therefore not been produced for 2006/2007.

## **INCOME AND EXPENDITURE ACCOUNT**

Except as disclosed in the accounts, the results for the period were not materially affected by:

- any change in the basis of accounting;
- circumstances of an exceptional or non-recurrent nature;
- charges or credits relating to prior years.

## **EVENTS SUBSEQUENT TO THE DATE OF THE BALANCE SHEET**

All events taking place between 22 June 2007 (the issuing date) and the date of this letter which has assisted in accurately determining the Authority's position at 31 March 2007, and its results for the year ended on that date, have been duly taken into account. Since the date of the balance sheet, the following post balance sheet event was reported:

The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities will be considered by the Actuary in his next full actuarial review of the pension fund, due to be carried out as at 31st March 2007. The Actuary's advice on whether or not there is any anticipated shortfall in the funding of the scheme at that time will determine the future level of pension contributions. The results of the actuarial review will become available in the autumn when the Actuary has completed and released his evaluation report.

We can confirm that there have been no further material events since the balance sheet date which would require revision of the amounts included in the financial statements or disclosure in a note thereto. In particular, we have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, other than those already disclosed in the financial statements.

We can also specifically state that the Actuary's valuation report as at 31st March 2007 has not yet been received and will not be received by 30th September 2007.

Should you have any queries about anything contained in this letter, please do not hesitate to contact Dennis Napier on 0191 553 1841 or email [dennis.napier@sunderland.gov.uk](mailto:dennis.napier@sunderland.gov.uk)

Yours sincerely,  
Signed on behalf of Sunderland City Council

Councillor Bob Symonds, Leader of the council  
Ged Fitzgerald, Chief Executive

Bob Rayner, City Solicitor  
Keith Beardmore, City Treasurer

## Appendix 1 - Amendments to the 2006/07 Accounts

Airport shares to be revalued as at 2001 to reflect the increased nominal value at that time (9.41% of £134.0 million) with a consequent amendment to the long term investment of the NIAL shares and a revaluation of the NIAL reserve of an increase of £6,447,353 now totalling £12,608,730. The STRGL also had to reflect this change and Note 22 to the STRGL was also amended accordingly as was Notes 26a and Note 52.

Insurance Provision - Note 43 – premia excluded from expenditure & charges to the service Committees to better reflect the SORP requirements.

Note 44 – movement on Equal Pay probable payments amended to tie into exceptional item disclosed in I&E Account.

Note 44 – movement on school based redundancies amended to show payments made in year.

Note 44 – movements on provisions amended for maintenance of amenity areas, play equipment etc. to show total expenditure incurred in year.

Note 44 – amend description of provision for Back on the Map, and other descriptions of provisions over £1 million to demonstrate compliance with FRS12.

Note 9a officer's emoluments – banding disclosure amended.

Note 52 – related companies disclosure –expanded to include profits after tax and the value of net assets for Newcastle Airport Holdings Ltd and Tyne and /Wear Development Company.

Note 7 – subjective summary - £200k amendment required between transfer to reserves and transfer to provisions.

Note 53 – contingent liabilities –was expanded to include ARC grant loss exposure of maximum of £107k (latest known position) and that the Council has as with other Tyne and Wear authorities acted as guarantor to the pension fund for the employees of North East Regional Assembly.

Foreword was amended to include actual figures, not estimates, for two capital schemes / commitments, to be consistent with the accounts.

Opening balance on Note 54 was amended to be consistent with the 2005/2006 accounts.

Transfers to / from earmarked reserves in Note 19 needed a minor adjustment between General Capital & General Revenue reserves of £7,144 – there was no impact on the Income and Expenditure account balance.

The exceptional item for the airport needed to reflect the fact that £738,000 related to the dividend for 2006 and the balance was the exceptional item of £14,474,500. There was no impact on the I&E account.

The accounts have been adjusted by £660,000 to reflect the revised valuation of Bunnyhill as this was not available at the time the accounts were prepared. The fixed assets / fixed asset restatement reserve and the STRGL have been amended as necessary along with Notes 23 and 45.

## Appendix 5 – Value for money conclusion

- 6 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body’s arrangements for economy, efficiency and effectiveness in its use of resources.
- 7 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are shown in the table below.

Code Criteria	Description	Associated UoR KLoE	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	Adequate

6	The body has put in place arrangements to manage its significant business risks.	4.1	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	Adequate