

Annual governance report

Sunderland City Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

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

I expect to issue an unqualified audit opinion on 28 September 2012.

Value for money (VFM)

I have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council has successfully met one of the most significant financial challenges that it has ever faced. The 2011/12 budget reflected a £58m cut in central Government funding and other cost pressures compared with the previous year. The outturn for 2011/12 achieved the savings required to balance the budget and also enabled further additions to reserves. However, further cuts of £28m are required in 2012/13 and more financial pressures are likely to arise in future years.

The Council continues to look for ways of improving service delivery and outcomes with less money at its disposal. Further service reviews are taking place and the Council is exploring alternative options for service delivery.

Before I give my opinion and conclusion

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

Independence

I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. There were no relationships giving rise to a threat to independence, objectivity and integrity. However, Members may wish to note that a member of my staff is married to a member of the Council's staff and that arrangements are in place to ensure that independence is maintained. In addition, another member of my staff working on the audit this year is related to members of the Council's staff, and again appropriate arrangements were put in place to manage this.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12, other than the certification of grant claims and returns.

I ask the Audit and Governance Committee to:

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

Financial statements

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

Opinion on the financial statements

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

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

Uncorrected errors

A small number of errors were identified that have not been amended in the revised financial statements. These are listed in Appendix 2.

Corrected errors

A number of amendments were identified and agreed with officers. None of the amendments identified had a net impact on the revenue outturn position, and most were to improve compliance with accounting requirements and clarify disclosures. An amendment to the Collection Fund to correct an issue with the new Civica system and make a correction for the treatment of the provision for bad debts resulted in a reduction of £1.9m in the payment due to the NNDR pool. The main amendments made to the accounts are listed in Appendix 3.

Significant risks and my findings

I reported to you in my Audit Plan (January 2012) the significant risks that I identified relevant to my audit of your financial statements. In Table 1 below I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>Potential liabilities in respect of equal pay</p> <p>The Council currently discloses a significant contingent liability in relation to equal pay. Disclosures in the 2011/12 financial statements will depend on the outcome of legal cases.</p>	<p>In the 2011/12 accounts the Council made a provision in relation to an element of equal pay liabilities following the loss of an appeal against an employment tribunal decision. In addition, a contingent liability continues to be disclosed in relation to other significant potential liabilities that are still to progress through the employment tribunal processes. I reviewed the Council's approach and concluded that the accounting treatment was reasonable and fairly stated.</p>
<p>Valuation of Newcastle International Airport</p> <p>The valuation of the airport is important in the context of the impact of the recession on air travel, and the future refinancing of Airport debt that needs to be arranged in the near future. It is important to reflect an appropriate valuation in the 2011/12 accounts.</p>	<p>For the purposes of the accounts, the Council brought forward its previous valuation for the airport. Since the accounts have been prepared the position in relation to the refinancing of airport debt has become clearer and the Council has agreed in principle to participate in the re-financing of the existing debt portfolio. The disclosure note in relation to subsequent events has been updated to reflect the latest position. I have concluded that the position reflected in the accounts is reasonable and fairly stated.</p>

Risk

Correct accounting treatment of Care and Support Sunderland

The Council has established a new company following the collapse of Choices Care Ltd. It is important that the Council accounts for the company properly, including group accounts considerations.

Finding

The Council demonstrated that its interests in companies were not material in 2011/12. However, in 2012/13, with the first full year impact of Care and Support Sunderland it seems likely that group accounts will be required. We suggest that officers consider the implications of this for the 2012/13 accounts at an early stage, as group accounts will involve a significant amount of additional work to implement.

New requirement to account for heritage assets

The 2011/12 CIPFA Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. It is important that this new requirements are met.

I discussed the management controls in place to recognise and value heritage assets. I also undertook testing to check that the Council had accounted for heritage assets in accordance with FRS 30 and the Code. I concluded that the accounting treatment adopted was appropriate and that heritage assets were fairly stated.

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have reported separately on my interim work on the system of internal control. I concluded that, in general, the key controls within the Council's main financial systems are operating as designed.

In previous years we have highlighted that journals are not checked and authorised by another officer. Officers decided not to introduce a separate authorisation process, but instead would carry out a review of all journals over £500k as part of the annual closedown of accounts process. To obtain the assurance we need to give our audit opinion on the financial statements, we substantively tested journals, and we also considered the review of all journals over £500k undertaken by officers. No issues were arising from this work.

I have tested the Council's controls only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I have no matters I wish to report.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 2: Value for money conclusion criteria and my findings

Criteria	Risk	Findings and conclusions
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12: 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>	<ul style="list-style-type: none"> ■ Delivery of the improvements through the Sunderland Way of Working and Corporate Transformation Programmes. ■ Close monitoring of the budget position to ensure the delivery of actual savings and efficiencies, given the tight financial settlement, particularly the SWITCH process. 	<p>Sunderland City Council has proper arrangements in place to secure financial resilience.</p> <p>The Council has successfully delivered one of the most significant financial challenges that it has ever faced. The 2011/12 budget included a £58m cut in central Government funding and other cost pressures. The outturn for 2011/12 delivered the savings required to balance the budget and also enabled further resources to be added to reserves in recognition of the very challenging financial context the Authority is facing.</p> <p>The budget was closely monitored during the year to ensure that savings and efficiencies were delivered effectively.</p> <p>The Council has managed to make its savings to date without the need for redundancies and has made a commitment to try to avoid mass redundancies. This approach has been successful so far, although the Council recognises that it needs to monitor its SWITCH (Staff Working in Transition and Change) programme very closely.</p> <p>Further cuts of £28m are required in 2012/13 and more are expected in future financial settlements. In addition, Government reforms, such as those in relation to business rates and the localisation of council tax benefits and potential financial pressures arising from equal pay cases are likely to add to the demands on the Council's resources in the years ahead.</p>

Criteria	Risk	Findings and conclusions
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<ul style="list-style-type: none"> ■ Maintenance of good governance during a period of major change – evidence of the maintenance and/or improvement of service delivery, despite the difficult financial position. ■ Review of any further measures to make savings required in future years. ■ The exploration of alternative models for service delivery. 	<p>Sunderland City Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>The savings delivered in 2011/12 included service efficiencies and new ways of working. Further service reviews are in hand and the Council is exploring alternative, more cost effective options for service delivery.</p> <p>The Council continues to identify ways of improving service delivery and outcomes with less resources. This includes considering new and different service delivery models and proposals for a Local Asset Backed Vehicle (LABV) to promote and accelerate economic regeneration.</p> <p>The Council recognises the risks of change, and has introduced a new integrated framework for governance, risk management and corporate assurance, including Internal Audit.</p> <p>The Council is making changes to its Executive and Committee arrangements to help it better meet the future challenges it faces. It continues to develop and enhance its arrangements for monitoring performance to ensure that cost reductions and new ways of working lead to improvement and do not impact adversely on overall service quality and outcomes.</p> <p>We followed up our previous work in relation to natural resources, and found that progress has been slower than anticipated and there remains scope for improvement.</p>

Fees

I reported my planned audit fee in the Audit Plan agreed in January 2012.

I will complete the audit within the planned fee.

Table 3: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	299,270	299,270	299,270 *
Claims and returns		38,070	38,070 **
Non-audit work		0	0
Total		337,340	337,340

* The Audit Commission has paid a rebate of £24k to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £275k for the audit

** This remains the best estimate of the fee for grant claims and returns

Appendix 1 – Draft independent auditor’s report

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

Opinion on the Council’s financial statements

I have audited the financial statements of Sunderland City Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Sunderland City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Commercial and Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Sunderland City Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Conclusion on Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Sunderland City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Signed

Date: 28 September 2012

Steve Nicklin
District Auditor

Nickalls House
The Metrocentre
Gateshead
Tyne and Wear
NE11 9NH

Appendix 2 – Uncorrected errors

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

Item of account	Nature of error	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £	Cr £	Dr £	Cr £
Short term creditors, Balance Sheet, page 32 of the financial statements	Short term creditors included £153k of debit balances, which should have been reclassified as short term debtors.			Short term debtors £153k	Short term creditors £153k
Depreciation in the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, and Balance Sheet, pages 29, 31 and 32 of the financial statements	There is an issue arising in the calculation of the depreciation on embedded lease vehicles. The calculation has been done on the depreciated value rather than the gross value. The total effect is an understatement of £431k in depreciation.	Depreciation £431k	Movement in reserves Statement – reversal of depreciation £431k	Capital adjustment account £431k	Property, Plant and Equipment £431k

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £	Cr £	Dr £	Cr £
Housing and Council Tax Benefits Grant Income, reflected in Other Housing Services Gross Expenditure and Gross Income in the Comprehensive Income and Expenditure Statement, page 32 of the financial statements	The Housing and Council Tax Benefits Grant Income has been overstated by £548k. There is a corresponding overstatement of the same amount in expenditure. This is reflected in the Other Housing Services Gross Expenditure and Gross Income in the service lines of the Comprehensive Income and Expenditure Statement. There is no impact on the Net Expenditure position.	Other Housing Services Gross Income £548k	Other Housing Services Gross Expenditure £548k		

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Short term creditors	Capital Grant Receipts in Advance were included in Short Term Creditors. The accounting requirements are to show these separately, and the financial statements were amended accordingly.			Short Term Creditors £8.301m	Grant Receipts in Advance – Capital £8.301m
Provisions	All provisions of £11.879m are shown as long term liabilities. The carbon reduction commitment provision of £0.525m and the transitional costs of early retirement provision of £1.521m (total £2.046m) are short term provisions and should have been included in current liabilities.			Provisions: Long term liabilities £2.046m	Provisions: Current liabilities £2.046m

		Collection Fund income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Business Rates Income and Expenditure, Collection Fund, page 120 of the financial statements	The NNDR3 return was amended following audit, partly to correct an issue with the new Civica system and partly to make a correction for the treatment of the provision for bad debts. The Collection Fund was amended to reflect these changes. The overall impact of the changes was to reduce the payment due to the NNDR pool by £1.9m compared to the draft accounts.	Collection Fund Income £686k Cost of Collection and Other Allowances £1,256k	Collection Fund: Payments to the Pool £1,942k		

Adjustments to the Comprehensive income and expenditure statement

The Comprehensive Income and Expenditure Statement originally included Cultural, environmental, regulatory and planning services as a single line:

	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
Cultural, environmental, regulatory and planning services	100,240	37,124	63,116

CIPFA's Service Reporting Code of Practice for 2011/12 requires the previous service line 'Cultural, environmental, regulatory and planning services' to be split into three categories:

- Cultural and related services
- Environmental and regulatory services
- Planning services.

The financial statements were amended to correct this presentation. In addition, there were further minor amendments between service lines, which meant that the net expenditure total for these three lines was £7k greater than the original disclosure. The final figures for these three lines, as reflected in the revised financial statements, are set out below:

	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
Cultural and related services	39,863	20,948	18,915
Environmental and regulatory services	30,440	4,687	25,753
Planning services	30,311	11,856	18,455

The following adjustments were made to the Comprehensive Income and Expenditure Statement arising from discrepancies between the working papers used to produce the statement and the Council's general ledger. The adjustments below correct the financial statements to show the final position (note that there is no impact on the overall net expenditure position):

		Original financial statements £000s	Revised financial statements £000s	Difference corrected £000s
Central services to the public:	Gross Expenditure	40,747	39,421	(1,326)
	Gross Income	32,884	32,362	(522)
	Net Expenditure	7,863	6,065	(1,798)
Highways and transport services:	Gross Income	16,977	16,984	7
	Net Expenditure	18,186	18,179	(7)
Corporate and democratic core:	Gross Expenditure	16,457	18,314	1,857
	Gross Income	4,090	4,562	472
	Net Expenditure	12,377	14,746	2,369
Non distributed costs:	Gross Expenditure	12,587	12,066	(521)
	Gross Income	11,608	11,658	50
	Net Expenditure	979	408	(571)

Further amendments and disclosures

- Annual Governance Statement - We suggested that the statement would benefit from a clear statement that no significant issues were identified from the review. The original statement referred to an action plan, but gave no sense of the significance of the findings. The following text was added to the statement to clarify the position: “In summary, the Council has robust and effective corporate governance arrangements in place. The views elicited during the review from Members, senior managers across the Council, and all Chief Officers, demonstrate that the principles of good governance are embedded Council-wide. The review has not identified any significant weaknesses, although an improvement plan has been developed with the aim of continuously improving the arrangements we have in place.”
- Local Enterprise Partnership Funding of £25.270m - The Council holds £25.270m of cash on behalf of the LEP. This is not included in the Council's accounts, and had been taken out of cash and creditors as a consolidation adjustment. This is the correct accounting treatment, but we suggested that given the materiality of this sum, the arrangement should be disclosed in a note to the accounts. The following text was added to Note 16 to the financial statements: “At 31st March 2012 the Council holds £25.270m of funds in relation to the North Eastern Local Enterprise Partnership. These are not funds of the Council and are not reflected in the Statement of Accounts.”
- Note 6, Events after the balance sheet date - This note was updated to reflect the Council's decision in principle to support the refinancing of loans relating to Newcastle International Airport. It was also updated to reflect the Council's decision to introduce a voluntary severance scheme with the aim of securing significant savings prior to the end of September 2012.
- Note 32, Officers Remuneration - This disclosure was corrected for two relatively minor transcription errors.
- Note 33, External Audit Costs - This disclosure was corrected to reflect the audit fees.
- A number of other notes and disclosures were amended to correct minor errors, clarify matters and improve disclosure.
- A number of amendments were made to prior year comparators resulting from other corrections.

Appendix 4 – Draft letter of management representation

To: Steve Nicklin, District Auditor

Sunderland City Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Sunderland City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit Regulations 2011 and the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

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

- Short term creditors included £153k of debit balances, which should have been reclassified as short term debtors.

- There is an issue arising in the calculation of the depreciation on embedded lease vehicles. The calculation has been done on the depreciated value rather than the gross value. The total effect is an understatement of £431k in depreciation.
- The Housing and Council Tax Benefits Grant Income has been overstated by £548k. There is a corresponding overstatement of the same amount in expenditure. This is reflected in the Other Housing Services Gross Expenditure and Gross Income in the service lines of the Comprehensive Income and Expenditure Statement. There is no impact on the Net Expenditure position.

Supporting records

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

Irregularities

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

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

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

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

In particular, I confirm that equal pay has been disclosed appropriately in the accounts. A provision of £5,237k has been made for the liabilities that are accepted and is based on a best estimate of settlement. A contingent liability has been disclosed for the remaining potential liabilities that are still being contested by the Council. There is sufficient uncertainty about this remaining potential liability and the amount of any such liability that I have concluded that a provision is not appropriate, and also that it is not possible to estimate the specific value of the potential liability in the contingent liabilities note.

Accounting estimates including fair values

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

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

Related party transactions

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

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Sunderland City Council.

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on 28 September 2012.

Signed

Name Malcolm Page

Position Executive Director of Commercial and Corporate Services

Date 28 September 2012

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

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

Significance

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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

