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Appendix C

Date: 28th June 2013
Our ref:
Your ref:

Dear Gavin,

Audit of Sunderland City Council - Financial Statements for the year end 31 March 2013 - Understanding your management processes and arrangements

I refer to your letter dated 24th April 2013 in respect of the above management arrangements and processes in place within the council in order to provide you with the necessary assurances from management which you require under International Auditing Standards. The assurances are provided below, representing Sunderland City Council's formal response from management in this respect.

As in previous years, I as section 151 officer of the council, on behalf of management, have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the council which might have had an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where myself and other senior officers with yourselves have identified and discussed key risks faced by the council) and, to the extent that it is necessary, in the production of the financial statements. The processes and arrangements in place and adhered to by senior management in the production of the Annual Governance Statement also shows that all key risks which would relate to the financial statements have been fully and appropriately considered. In response to your letter dated 24th April 2013 please therefore find responses to your specific questions and I have also attached the completed Appendix 1, as requested.

Specific assurances:

1) I can confirm the areas set out below show that appropriate management processes are in place:

- ***undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error;***

A risk management assessment is carried out and updated regularly (but at least annually) and this helps to ensure that all risks are identified and then addressed appropriately. The review of risks is also reported formally to the Audit and Governance Committee throughout the year.

I along with the senior executive management team ensure that arrangements are in place within the council that achieve the effective and efficient use of resources, have policies and procedures in place so that the council is effectively managed and that internal control mechanisms are put in place and operating effectively within the council to help mitigate against all identified risks and therefore that the financial statements are therefore not materially misstated each year.

I, as the Executive Director of Commercial and Corporate Services and Section 151 officer and the Head of Corporate Assurance and Procurement (HCAP) attend all meetings of the Audit and Governance Committee to discuss and review findings of all Internal and External Audit reviews and ensure members are kept informed through the regular reporting mechanisms in place. The committee receives and approves the accounts on behalf of the council and as such is kept informed of all issues and risks that could impact upon the financial statements and operates within the guidelines recommended by CIPFA. Management also considers and informs the Annual Governance Statement and the actions set out in order to further improve governance arrangements, the achievement of value for money in its use of resources and to improve the internal control environment.

Management also receives the independent Internal Audit Strategy and Annual Internal Audit Plan and is able to comment on areas proposed for review. The council's Corporate Risks are regularly reported and reviewed by the Management within the council and the council's Internal Audit Plan ensures that fraud risk or related concerns are escalated through to the appropriate level as appropriate. Ad-hoc meetings between the Chair and the HCAP and/or myself also take place where necessary to discuss matters as they arise. Roles and responsibilities of members and officers are clearly set out in Codes of Conduct, the Scheme of Delegation, Anti Fraud and Corruption Policy (including the Fraud Response Plan) and in the Risk Management Policy and Strategy which also describe the relevant registers, declarations and escalation processes to be complied with.

I would declare on behalf of management that I have no knowledge of any actual, suspected or alleged fraud that could affect the council in relation to the 2012/13 financial statements.

- ***identifying and responding to risks of fraud in the Council;***

The council has an Anti Fraud and Corruption Policy which is regularly updated and is also approved by the Audit and Governance (A&G) Committee. Regular reviews and achievement of the annually reviewed audit plan is discussed with me but importantly is reported separately to the A&G committee. It is important that the Internal Audit Strategy and Annual Internal Audit Plan, which includes the Counter Fraud Work Programme for the year is established independently by the HCAP in accordance with best practice. The Counter Fraud Work Programme is based on a Fraud Risk Assessment for the effective deployment of resources and includes both reactive and proactive work. I receive regular updates on progress against the Counter Fraud Work Programme with any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud. Updates are also presented on the implementation of the control improvements and all findings are reported to members as appropriate.

The system of internal control is a significant part of the Governance framework within the Council and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Internal management control arrangements are in place which should identify and prevent fraud risks from occurring and detect them if they do occur. The Council engages in numerous fraud prevention and identification activity including corporate processes such as participating in the National Fraud Initiative as well as specific service based fraud identification activity. Should a fraud risk occur then the Council's Fraud Response Plan is followed to ensure concerns are raised at the appropriate level and investigated thoroughly.

- ***communicating to employees its view on business practice and ethical behaviour and communicating to you the processes for identifying and responding to fraud and error;***

Written procedures are in place covering financial and administrative matters which are communicated to staff through the induction process, through management and are available on the Council's intranet site. These documents are regularly updated and set out the standards of conduct that are expected, the policies and procedures which should be followed and what to do if staff have concerns that these arrangements are not being complied with. Internal Audit carry out a programme of work which includes assessing the level of compliance against the Council's key policies and procedures. Key procedures include:

- Codes of conduct;
- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy (including the Fraud Response Plan);
- Corporate Health and Safety Policy;
- Corporate Complaints Policy;
- Corporate Procurement Strategy;
- Code of Practice for Partnerships;
- Treasury Management Strategy;
- Directorate / department budget management schemes.

The Counter Fraud Strategy which supports the delivery of the aims of the Council's Anti Fraud and Corruption Policy was presented to the Audit and Governance Committee in December 2012. This set out in detail a new approach to be adopted by the council in tackling fraud across the broad spectrum of the council and council funded services.

The key elements of the revised Strategy include:

In order to effectively tackle fraud it is important that a holistic approach is adopted, focused on preventing fraud occurring in the first place, seeking it out and correcting it where it does exist, and delivering swift and effective punishments to those who attack the Council, whilst deterring others from considering the same course of action.

Under the Integrated Assurance Framework established within the Council, managers are clearly responsible for establishing appropriate controls and for ensuring they are working in practice. The Framework also aims to co-ordinate all assurance activity, including that in relation to fraud and to ensure arrangements are working effectively across the Council. This includes the co-ordination of fraud prevention, detection and investigation arrangements.

The Audit, Risk and Assurance service has the expertise in relation to the design of control systems that aim to manage the risk of fraud. The Risk and Assurance team has been created to provide advice and guidance in relation governance and control matters, including fraud, at the earliest stage to ensure appropriate controls are designed into arrangements as they are being established. This team also undertakes investigations of suspected fraud and corruption.

The Internal Audit team maintains the fraud risk assessment for the Council and undertakes compliance work aimed at detecting fraud and providing assurance on the effectiveness of the controls in place. Internal Audit will also review the effectiveness of management in establishing fraud prevention controls and monitoring compliance with them.

The service aims to embed a collaborative approach to tackling fraud with an agreed approach to be adopted across the whole Council and its activities and includes counter fraud work undertaken in any service of the Council, schools, partnerships within which the Council is involved, third parties providing services to or on behalf of the Council and other organisations receiving or holding Council funds.

The Audit and Governance Committee met five times during 2012/13 with a quarterly Corporate Assurance Map Update report being submitted as part of the Integrated Assurance Framework. The Update reports set out the work done to identify fraud and the results of this work and the updated position regarding each risk area identified in the Corporate Assurance Map.

Private meetings are held between the head of internal audit, the External Auditor and members of the Audit and Governance Committee to discuss the detail of any significant investigations into suspected cases of fraud and corruption.

2) I am aware of management processes for identifying and responding to the risk of fraud and possible breaches of internal control through receiving internal audit reports and discussions with key officers.

I am aware that arrangements are set out in the Council's Fraud Response Plan, part of the Council's Anti Fraud and Corruption Policy. This sets out how concerns should be reported and who to, what people who suspect fraud should and should not do and what the person who receives the concerns should and should not do. The Fraud Investigation Plan sets out how investigations of concerns should be carried out.

During 2012/13, I was made aware of two breaches of control, neither of which were material in nature. The details of these cases have been discussed in detail with the External Auditor.

3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2012-13? If so, please provide details

I am not aware of any actual, suspected or alleged frauds other than those reported to management and members as part of the regular updates on the Counter Fraud Work Programme. I am aware that all council matters are reviewed for their legality to ensure council expenditure, services and actions are within the law. As such we have as senior management appropriate legal arrangements in place headed by the monitoring officer who reports to me directly and which gives reassurance that legal advice is sought where appropriate and that all reports to council and members must be reviewed by the legal services section and that legal representation is made at all council meetings.

Further that Cabinet reports are vetted by or on behalf of the monitoring officer to ensure compliance with legal requirements and there is legal representation at Cabinet meetings. In addition, the monitoring officer and senior members of Legal Services also have access to reports which are considered by the Executive Management Team. As part of their job description, solicitors are required to keep up to date with new and emerging legislation which affects local government. To assist in this role, the team subscribe to an electronic legal update service and various legal publications and regularly attend relevant training courses. As a member of the Association of Council Secretaries and Solicitors and Northern Secretaries Group, information is shared with other local authorities both regarding new legislation and case law and the approach and application of existing legal requirements.

In respect of new legislation or developments in case law, briefing notes or reports are prepared as appropriate and policies and procedures developed in conjunction with officers from the relevant Council departments.

Regular team meetings are held within Legal Services both at "service area" level and senior management team level, at which any concerns regarding the Council's compliance with legal requirements could be raised and addressed.

I am further reassured by the fact that the Council's internal audit team carried out an audit of corporate legality arrangements last year, with the objective of providing assurance that the Council has arrangements in place to ensure that it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. There were no issues or concerns raised and the audit gave full assurance regarding the Council's arrangements to ensure legality. The audit concluded that the controls evaluated were well designed, appropriate in scope and applied consistently and effectively.

4) Are you aware of any actual or potential litigation or claims that would affect the financial statements? If so, please provide details.

On behalf of Management I declare that I have no knowledge of and the council is not on notice of any non-compliance with laws and regulations that could impact on the 2012/13 financial statements. All contingent liabilities are discussed and identified and or updated and reviewed annually and in order to reflect the known position as at the balance sheet date.

5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern? If so, please provide details.

I have a responsibility to ensure that the council continues as a going concern as Section 151 officer to the council and I have no reason to believe that any events would adversely impact on this position. The fact the council is currently showing a net worth of £341m, owns assets worth over £1,117m and in addition has cash backed reserves of over £166m in the current set of audited financial statements would support this view. The council is also extremely well managed and prudent in its approach to all financial matters (an opinion shared by yourselves and documented in your Annual Audit Letter) which is reflected in the strong Balance Sheet which forms part of the Statement of Accounts for 2012/13. The council has an excellent record of effectively managing its resources and also has effective financial management arrangements in place. I can therefore confirm that the council is a going concern and will continue to be a going concern.

Yours sincerely,

Malcolm Page

Executive Director of Commercial and corporate Services

No.	Questions for management	Those charged with governance response
1	<p>Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2012 – 31 March 2013?</p>	<p>Two breaches of control, neither of which were material in nature occurred. The details of these cases have been discussed in detail with the External Auditor.</p> <p>Neither are material to the Accounts</p>
2	<p>Do you suspect fraud may be occurring within the Council?</p> <p>Have you identified any specific fraud risks within the Council?</p> <p>Do you have any concerns that there are areas within your Council that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>A fraud risk assessment is in place and is regularly updated which covers all appropriate parts of the Council. This covers areas of fraud risks, sets out the individual risks, a score for the risks and tests that are carried out to identify potential fraud taking place. A programme of proactive counter fraud work is undertaken every year by Internal Audit which did not identify any areas of concern.</p> <p>The Council also takes part in the Audit Commission's NFI programme which also has not identified any areas of concern.</p>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <p>If not where are the risk areas?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p>	<p>Internal controls regarding segregation of duties are in place and the results of Internal Audit work have not highlighted any material concerns. An adequate opinion on the system of internal control has been reported to the Audit and Governance Committee for the year.</p> <p>The Council has an Anti Fraud and Corruption policy and supporting documents in place which is available to all staff on the Council intranet and is included in the induction process.</p> <p>Other controls in place include a robust budget management framework which includes detailed support for Financial Resources, verification checks in key systems such as payroll, BACS payments, Accounts Payable which are aimed at identifying fraud or errors, the</p>

		majority of Council payments are through the Supplier Relationship Management system which ensures authorisation of payments by an approved authorised officer. There has been a significant amount of work undertaken across the Council to raise awareness of Information Governance issues and encourage staff to keep information secure.
4	<p>How do you encourage staff to report their concerns about fraud? What concerns about fraud are staff expected to report?</p>	<p>This is undertaken by officers of the Council. A Whistle Blowing policy is in place and is on the Council's intranet which gives details of how staff can raise concerns. Publicity campaigns have also taken place where posters have been placed around Council buildings encouraging staff to act on any concerns they may have. Staff are encouraged to raise concerns about any areas where controls are not being complied with, where there is significant non-compliance with policies and procedures or where there are concerns regarding corruption or potential financial loss.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your Council? How are the risks relating to these posts identified, assessed and managed?</p>	<p>The Internal Audit Fraud Risk Assessments identifies potential fraud risks in specific areas which would cover any specific risks in relation to individual posts. Counter fraud checks would be designed to test these risks to identify any potential fraudulent activity.</p>
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>The council has robust procedures in place to ensure all related party transactions are identified and then where appropriate are fully disclosed in the Statement of Accounts. The council has an established Code of Practice for Partnerships and maintains and updates its Partnership Register regularly. Internal practices and processes carried out as part of the closing of accounts timetable also has specific tasks and detailed analysis of all member and chief</p>

		<p>officer interests and related party transactions which are reviewed and collated to form notes in the statement of accounts. All member interests are also documented and held by democratic services for scrutiny and also help to inform the process. The procedures for the identification and assessment of group accounts process also helps to inform this area in addition to the other processes and policies in place. Reviews by senior management also help inform the control process.</p>
No.	Questions for management	Those charged with governance response
7	<p>Are you aware of any entries made in the accounting records of the Council that you believe or suspect are false or intentionally misleading?</p> <p>Are there particular balances where fraud is more likely to occur?</p> <p>Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Council?</p> <p>Could a false accounting entry escape detection? If so, how?</p> <p>Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud?</p>	<p>No</p> <p>Internal controls and internal check mitigate the risk as does appropriately qualified and experienced staff involved in compiling the accounts.</p> <p>All areas are subject to a risk review and reports from internal and external audit help identify and report their findings in areas where risk is high. The SAP system makes false accounting unlikely because of the way it is designed and is fed by the bank reconciliation and feeder systems and that have separate controls and reconciliation processes in place to maintain the integrity of the financial system. Monthly bank reconciliations are carried out and reviewed by senior management along with balance sheet and suspense account reviews.</p> <p>Strong and robust budgetary control and financial practices are in place across the council</p> <p>Areas that are identified as high risk are reviewed more regularly by internal audit as part of their risk based approach to auditing.</p> <p>Legal and financial review is carried out across the whole council spectrum of activity.</p>

8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <p>Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?</p>	<p>No – The Medium Term Financial Plan, the budget planning process and the Annual budget along with agreed cash limits approach is reviewed and monitored during the year to review achievement and adherence to agreed budget levels agreed by members and executive directors within the council. Actual performance and any actions necessary are reviewed by management and reported to members who receive formal Cabinet quarterly reports during the year.</p> <p>As a consequence there are no inappropriate pressures or incentives being applied.</p>
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