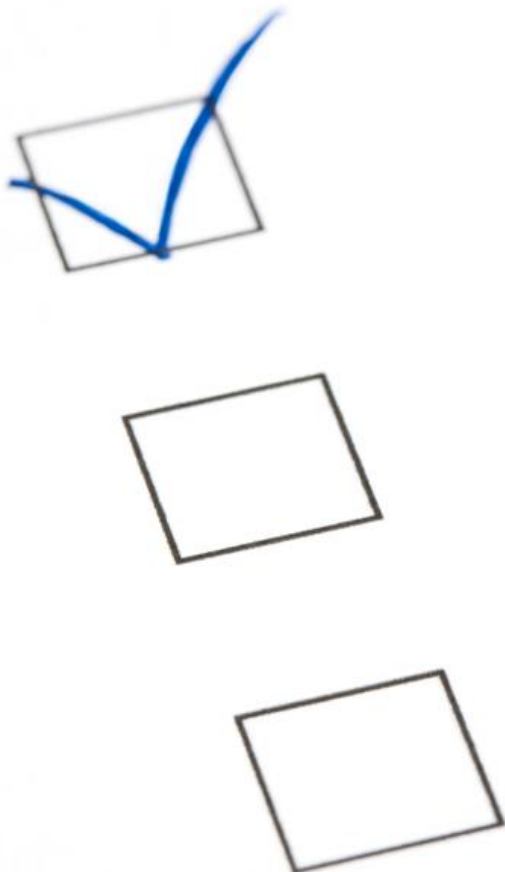


Sunderland City Council

Audit Progress Report

December 2014



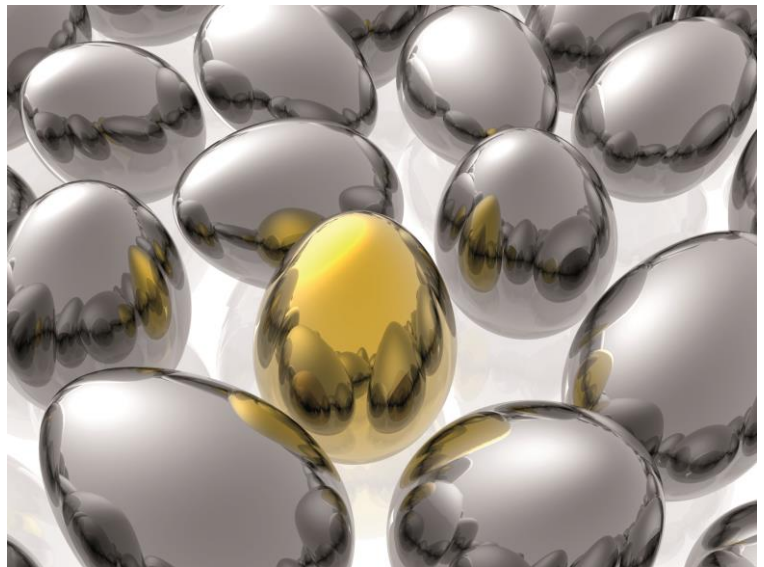
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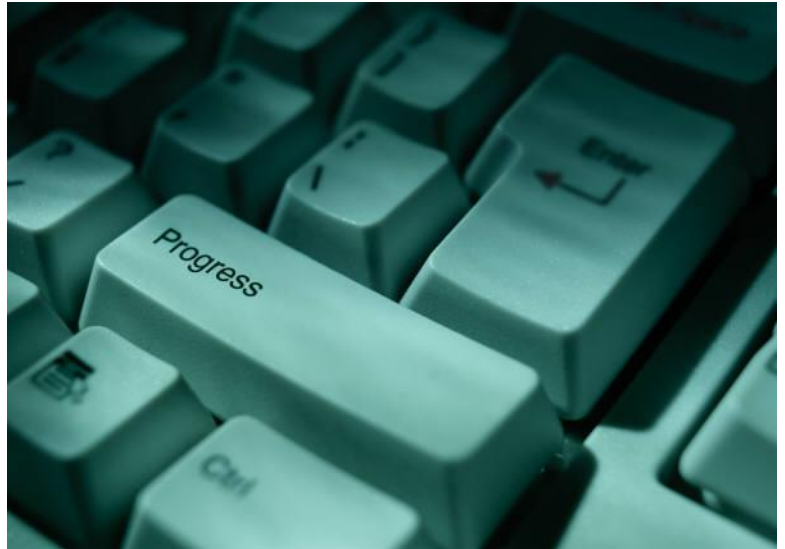
Purpose of this paper

This paper updates the Audit and Governance Committee on our progress in meeting our responsibilities as your external auditor. It also highlights key emerging national issues and developments which may be of interest to you.

If you require any further information please contact your Engagement Lead or Senior Manager using the contact details at the end of this update.

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Summary of audit progress



Audit of the 2013/14 financial statements

Following the Committee meeting on 26 September 2014, we issued an audit report including an unqualified opinion on the Council's financial statements on 30 September 2014. Our audit report included a conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

We reported to the National Audit Office (NAO) on 30 September 2014 that the Council's 2013/14 Whole of Government Accounts consolidation pack was consistent with the audited financial statements.

This enabled us to certify completion of the 2013/14 audit in our report. Our Annual Audit Letter for 2013/14 has been issued. This was presented to the Cabinet on 5 November 2014 and to Scrutiny Committee on 6 November 2014, and is considered separately on the agenda for this Committee meeting.

Audit of the 2014/15 financial statements

We have begun the early planning stages of the 2014/15 audit, updating our knowledge of the key financial systems that underpin the production of the annual financial statements.

Certification of claims and returns

Work on the 2013/14 Housing Benefits Subsidy Claim is complete, and we certified the claim before the Department of Work and Pensions deadline of 30 November 2014.

Additional schemes outside the Audit Commission arrangements

The Council is required by funding bodies to arrange independent certification of a range of grant claims and returns that are now outside the Audit Commission regime. We included details of such schemes in our Certification Plan, which was presented to the Committee in June 2014.

In recent weeks we have discussed and agreed engagement terms with the Council, including the procedures to be undertaken and the form of our report, for certification of the following funding claims and returns:

- Ten schemes under s256 agreements with NHS England and Sunderland CCG, the fee for our work being agreed as £6,310 plus VAT; and
- The Teachers Pension Return, the fee for our work being agreed as £2,750 plus VAT.

The work on the Teachers' Pensions return has been completed and reported ahead of the deadline of 28 November 2014.

The work on the s256 agreements is scheduled to be completed by the end of December 2014, in accordance with the requirements of the timetable for this work.

As the 2013/14 audit has now been closed for billing purposes, this work will be recorded as non-audit work as part of the 2014/15 audit.

Port of Sunderland

As was the case last year, the Council has produced a separate set of financial statements for the Port, which are to be provided to the Department for Transport in accordance with statutory requirements. We have agreed to carry out the required independent assurance procedures on these accounts at a cost of £3,000 plus VAT, a £500 reduction on last year's fee. The Audit Commission has approved this fee variation as a variation to the scale fee for the main audit, and the work is planned to be completed by the end of December 2014.

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Emerging issues and developments



The following pages outline for your attention some significant emerging issues and developments in respect of:

- New proposals to bring forward the accounts and audit timetable from 2017/18 and other proposals relating to local audit
- Role of the National Audit Office (NAO) in local audit
- Report on the National Fraud Initiative (NFI)
- Regulatory Compliance and Quality Review Programme - Annual report 2014
- Annual Regulatory Compliance and Quality Report - Mazars LLP

- 2015/16 proposed fee scales and work programme, Audit Commission
- Councils' expenditure on looked after children – VFM Briefing
- NFI information packs
- Local Authority Accounting Panel (LAAP) Bulletins
- Transitional arrangements regarding the Local Audit and Accountability Act 2014
- Protecting the Public Purse 2014, Audit Commission
- Interpreting the Accounts: A Review of Local Government Financial Ratios 2007/08 to 2012/13, Audit Commission.

Emerging issues and developments

Issue / development	Implications
<p>New proposals to bring forward the accounts and audit timetable from 2017/18 and other proposals relating to local audit</p> <p>Members will recall that previous Audit Progress Reports have referred to consultation on proposals to bring forward the accounts production and audit timetable.</p> <p>New proposals have now been made by DCLG, which will bring the accounts production deadline forward by one month from 30 June to 31 May from the 2017/18 financial year. The audit deadline will come forward by two months from 30 September to 31 July at the same time.</p> <p>The rationale from the consultation is set out below:</p>	<p>The changes in the accounts and audit deadline will have a significant impact on the Council's arrangements.</p> <p>More information on the latest proposals: https://www.gov.uk/government/consultations/local-audit-regulations</p>
<p>4.6 In relation to the bringing forward of the timetable for Category 1 authorities; whilst Ministers acknowledge the challenge that this will involve both for the authorities affected and their auditors, the proposal is firmly in line with wider Government moves to improve local government accountability to the public. The points made in the consultation responses about the complexity and length of local authority accounts are acknowledged, and Government will be working with the Chartered Institute of Public Finance and Accountancy to support their current initiatives to simplify the accounts and make them easier for local people to understand. The introduction of a requirement for an explanatory narrative to accompany the statement of accounts is a first step in the necessary changes.</p> <p>4.7 The Government proposes to bring forward the existing dates of 30 June and 30 September to 31 May and 31 July as from the accounts for 2017-18 for accounts being signed and certified by the Responsible Financial Officer and then approved and published. This period of notice is intended to give authorities time to make the necessary changes in their processes, and auditing firms time to adjust their business models accordingly. But it is hoped that authorities will move to the new timetable as soon as they can; some indeed already comply. No change is proposed in the timetable for Category 2 authorities.</p>	

Emerging issues and developments

Issue / development	Implications
<p>Role of the National Audit Office (NAO) in local audit</p> <p>The National Audit Office (NAO) has published a paper outlining its new role in local audit under the Local Audit and Accountability Act 2014.</p> <p>This includes:</p> <ul style="list-style-type: none">• preparing the Code of Audit Practice; and• Value for Money studies.	<p>For information</p> <p>http://www.nao.org.uk/reports/the-naos-role-in-local-audit/</p>
<p>Report on the National Fraud Initiative (NFI)</p> <p>The Audit Commission has published its National Fraud Initiative (NFI) annual report recently.</p> <p>The NFI is a data matching exercise which compares information held by and between around 1,300 organisations including councils, the police, hospitals and almost 100 private companies. This helps to identify potentially fraudulent claims, errors and overpayments, all hosted on a secure website. When there is a match, there may be something that warrants investigation. For example, when data matching shows a person listed as deceased and also in receipt of a pension, the relevant body will investigate and if appropriate, stop pension payments.</p> <p>The report is supported by case studies of successful outcomes both in the private sector and public sector.</p>	<p>Sunderland City Council participates actively in NFI.</p> <p>http://www.audit-commission.gov.uk/national-fraud-initiative/nfi-reports/</p>

Emerging issues and developments

Issue / development	Possible action
<p>Regulatory Compliance and Quality Review Programme - Annual report 2014</p> <p>The Audit Commission recently published the outcomes from its monitoring of the performance of all its audit firms. The report concludes that audit quality was maintained in the year following transfer of staff from the Commission's Audit Practice to firms, and the introduction of new firms to the regime. The Commission is satisfied that the risks of audit failure remain low; that all firms are meeting the Commission's regulatory requirements; and that all firms are continuing to produce work to an acceptable standard.</p>	<p>The results of monitoring by the Commission provides the Council and other stakeholders with assurance that high-quality audits are being delivered.</p> <p>The report can be found at http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/</p>
<p>Annual Regulatory Compliance and Quality Report - Mazars LLP</p> <p>This report, published in June 2014, summarises the results of monitoring work by the Audit Commission as described above, for Mazars LLP.</p> <p>The Firm was rated 'Green' overall, and the Audit Commission concluded that the Firm 'has performed well in its first year in the Commission's regime. All of the 2013/14 regulatory compliance indicators have been scored as green. In addition, audited bodies are satisfied with the performance of Mazars as their auditor'.</p>	<p>The report is available from http://www.audit-commission.gov.uk/wp-content/uploads/2012/11/Mazars-2013-14-Annual-Regulatory-Compliance-and-Quality-Report.pdf</p>

Emerging issues and developments

Issue / development	Possible action
<p>2015/16 proposed fee scales and work programme, Audit Commission</p> <p>The Audit Commission is consulting on its 2015/16 proposed work programme and scales of fees. The Department for Communities and Local Government (DCLG) has asked the Audit Commission to set fees for 2015/16 before the Commission’s closure on 31 March 2015.</p> <p>The Commission is proposing to reduce scale fees by a further 25 per cent from 2015/16, based on the scale fees applicable for 2014/15. It does not plan to make changes to the overall work programme. The 25 per cent fee reduction has been achieved as a result of a recent procurement exercise to retender the work undertaken under older contracts with audit firms, and is in addition to the 40 per cent cut in fees made by the Commission in 2012.</p> <p>The consultation document also states: “The new contracts awarded in the 2014 procurement are for two years, with the potential for extension by a further three years. The contracts will finish in 2017, or in 2020 if extended. The Commission’s other audit contracts, awarded in 2012, finish at the same time as the 2014 contracts. Extending the contracts to 2020 would ‘lock in’ reduced audit fees, delivering further savings for audited bodies”.</p> <p>The Commission has also highlighted in a press release that it will be returning a further £6 million to its audited bodies in rebates. The consultation ends on 9 January 2015.</p>	<p>The proposed scale fee for Sunderland City Council is £135,774, that is, a 25 per cent reduction on the 2014/15 scale fee of £181,032.</p> <p>http://www.audit-commission.gov.uk/audit-regime/audit-fees/201516propwpsf/</p> <p>(Note that the 2014/15 initial scale fee of £179,562 is proposed to be increased by £1,470 for additional work required at all sites on business rates, which is where the 2014/15 scale fee of £181,032 has been derived)</p>

Emerging issues and developments

Issue / development	Possible action
<p>Councils' expenditure on looked after children</p> <p>This Audit Commission VFM briefing provides an overview of councils' expenditure on children's social care and looks in more detail at expenditure on children who are looked after, with a particular focus on foster care. The briefing suggests how councils can use national and local data about activity and costs to identify ways of delivering better value for the money they spend.</p>	<p>We provided the Briefing to our key contacts at the Council.</p> <p>The document is at: http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/</p>
<p>NFI information packs</p> <p>The Audit Commission has distributed information packs for elected members with responsibility for finance and audit at councils. Copies were also sent to directors of finance and NFI key contacts for information. The pack brings together key facts about the NFI, the Council's NFI outcomes and comparisons to your nearest neighbours.</p>	<p>Further information on the National Fraud Initiative can be found at http://www.audit-commission.gov.uk/national-fraud-initiative/nfi-reports/</p>
<p>Local Authority Accounting Panel (LAAP) Bulletins</p> <p>CIPFA recently published:</p> <ul style="list-style-type: none"> • LAAP Bulletin 99 – Local Authority Reserves and Balances • LAAP Bulletin 100 - Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17 	<p>The bulletins include some significant developments for local authority accountants and Finance departments.</p>

Emerging issues and developments

Issue / development	Possible action
<p>Transitional arrangements regarding the Local Audit and Accountability Act 2014</p> <p>At a recent meeting of public sector audit suppliers, the following matters were among those discussed:</p> <ul style="list-style-type: none"> • The Council’s 2014/15 audits will be delivered under the Audit commission Act 1998, and the 2015/16 audit will be the first under the LA&A Act 2014; • The existing Code of Audit Practice will continue to apply in 2014/15, moving to the NAO Code (expected April 2015) for 2015/16 onwards; • Under the LA&A Act, auditors must have ‘regard to’ the guidance issued by the NAO. This is not the same as our current contractual requirement; and • NAO will continue to run technical networks for NHS, local government and smaller bodies. 	<p>We will keep the Committee informed on the implementation of the Act in our Progress Reports and Briefings.</p>
<p>Protecting the Public Purse</p> <p>The Audit Commission’s latest report on fraud in local government revealed the highest value of fraud detected by England’s councils since the Audit Commission turned the spotlight on 25 years ago. Fraud valued at £188 million was detected in 2013/14, a ten-fold increase since 1990 and beating all records for the past 25 years.</p>	<p>The Report can be found at http://www.audit-commission.gov.uk/2014/10/highest-value-of-fraud-detected-by-councils-since-audit-commission-turned-the-spotlight-on-25-years-ago/</p>

Emerging issues and developments

Issue / development	Possible action
<p>Interpreting the Accounts: A Review of Local Government Financial Ratios 2007/08 to 2012/13</p> <p>The report by the Audit Commission invites local government to help armchair auditors interpret accounts. It describes changes in the ratios for English councils during a period of considerable change for local government finance, and calls on local government to compile its own financial ratios data for comparison after the Commission closes in March 2015.</p>	<p>The Report can be found at http://www.audit-commission.gov.uk/2014/09/audit-commission-invites-local-government-to-help-armchair-auditors-interpret-the-accounts/</p>

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