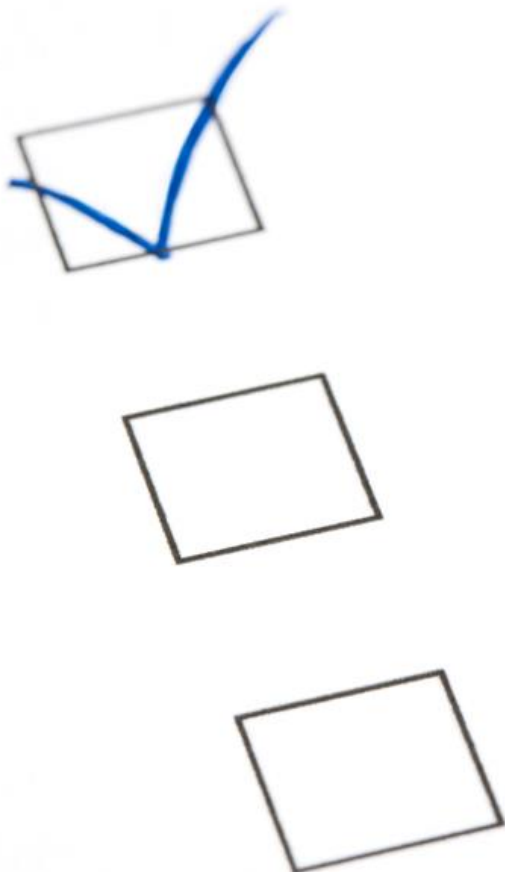


Sunderland City Council

Audit Progress Report

June 2015



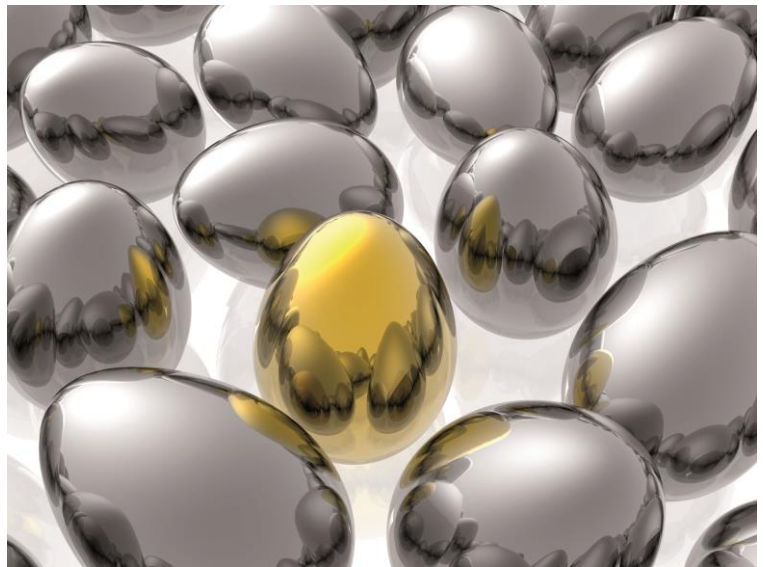
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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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Purpose of this paper

The purpose of this paper is to update the Audit and Governance Committee on progress in meeting our responsibilities as your external auditor. We also include in this paper key emerging national issues and developments which may be of interest to members of the Committee.

If you need any additional information please contact Mark Kirkham or Gavin Barker using the contact details at the end of this update.

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Summary of audit progress



Our audit work has continued to progress well.

Opinion audit

We have completed our interim work on financial systems.

We did not identify any significant issues that require reporting to members.

We are mindful that from 2017/18, the accounts and audit timetable will be brought forward significantly. With this in mind, we have continued to carry out early testing where we can. This year we have completed income and expenditure transactions testing up to month 9 ahead of the main final accounts audit. We also expect to have completed work on the bank reconciliation before the accounts are finalised.

This is a step in the right direction, although we will need to work closely with officers in future years to ensure arrangements are made to meet the new deadlines from 2017/18. This will require gradual changes each year by both ourselves and officers.

We have maintained a dialogue with officers working on the production of the Authority's accounts. This has once again been a positive process and we envisage that this will help the audit of the accounts run more smoothly. We have discussed a range of technical issues, including accounting for the new Local Asset Backed Vehicle (LABV), Siglion, and group accounting issues.

IT general controls

As part of Mazars commitment to audit quality, our IT specialists have been carrying out a review of IT general controls. This work is ongoing at present, and the results will be reported to this committee in due course.

VFM conclusion

Before its closure on 31 March 2015, the Audit Commission issued updated guidance in respect of the Value for Money (VfM) conclusion.

We are required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of resources. Our conclusion on your arrangements is based on two specified criteria :

- **securing financial resilience** – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- **challenging how you secure economy, efficiency and effectiveness** – focusing on whether you are prioritising resources within tighter budgets and the need to improve productivity and efficiency.

In addition, we have regard to:

- your system of internal control as reported in your own Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review bodies; and
- any other locally determined risk-based VfM work considered necessary.

The guidance is similar to last year, setting out guidance for each sector under the following areas:

- approach and specified reporting criteria;
- key sector issues;
- guidance on the specified reporting criteria;
- financial resilience;
- securing economy, efficiency and effectiveness;
- risks relevant to the specified reporting criteria; and
- supporting VfM tools.

The guidance also sets out the typical characteristics for each of the two criteria; we plan to use these as a framework to inform our work, taking into account any local risks we may identify, as set out in our Audit Strategy Memorandum presented to the previous meeting of the Audit and Governance Committee.

We will produce a more detailed report this year setting out the basis for our VfM conclusion. This will be discussed with officers in the summer and shared with the Audit and Governance Committee before we issue the final VfM conclusion.

Our proposals for a North East Governance Forum

We are the largest provider of external audit services to local authorities and related bodies in the North East and North Yorkshire. We are committed to a long term presence in this market when it is opened up to wider competition. We recognise that we need to continue to provide high quality services, provide value for money and also provide added value where we can. We strive for this in all that we do, and are committed to improving our offer to you where we can.

Consequently, we are seeking to establish a North East Governance Forum, targeted at Chairs and Vice Chairs of Audit Committees, with the aim of promoting good governance and sharing ideas and best practice.

The flyer attached as Appendix 1 to our Audit Progress Report sets out our proposals, including details of the two free places that are available to Sunderland City Council.

We hope that the Council will find this a helpful initiative and will participate in it.

Certification of the housing benefits claim

As your appointed auditor, Mazars LLP acts as an agent of Public Sector Audit Appointments (PSAA) in carrying out certification work on the housing benefit subsidy claim. In previous years the Audit Commission made arrangements with the Department for Work and Pensions (DWP) for claim certification but this function has transferred to PSAA following the closure of the Audit Commission on 31 March 2015.

Prior to closure the Audit Commission made arrangements with DWP for appointed auditors to certify the housing benefit subsidy claims for 2014/15. In certifying these claims, all auditors are required to comply with a specified approach set out in a certification instruction.

We certify the claim by issuing a certificate which states whether the claim has been certified:

- without qualification;
- without qualification following an agreed amendment made by the Council; or
- with a qualification letter.

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or claw back funding which has already been provided or has not been returned.

As reported to you in our Audit Strategy Memorandum, presented at the April 2015 meeting, the proposed fee for the certification of the housing benefit subsidy claim for 2014/15 is £10,300 plus VAT (2013/14 £12,412). The proposed fee reflects the scale fee set by the Audit Commission.

In addition to certification work carried out as agents of PSAA, we may also be engaged directly by the Council to carry out other certification work. Where this is the case we will agree separate engagement terms for each claim or return.

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Emerging issues and developments



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

- Moving ahead with health and social care integration (CIPFA Briefing); and
- Accounting for transport infrastructure.

CIPFA briefing paper: Moving ahead with integration, *May 2015*

With health and social care finances under increasing pressure and little sign that the government can afford to pump in the additional resources which would be needed to maintain historic arrangements, the integration of health with social care has emerged as a key initiative. However, many local health and social care providers do not yet have a secure basis for medium-term planning, and without that there is a danger that the promising start represented by the Better Care Fund will be dissipated. If the best is to be made of such integration, CIPFA thinks that three conditions will need to be met as set out below.

First, it will need to recognise that combining two financially challenged systems will not in itself increase resources available. All the indications are that additional funding or changes to the regime for charging will also be needed.

Second, it is critical that the new government moves quickly to address the financial and policy framework for integration in 2016/17 and beyond.

Third, central and local health and social care leaders must take the right local actions to facilitate successful integration, concentrating on frontline practice.

The Council is well aware of the integration agenda. We have already discussed these and other issues with senior officers of the Council and the CCG and will continue to do so over the coming months.

<http://www.cipfa.org/cipfa-thinks/briefings>

Accounting for transport infrastructure – The long and winding road, Room 151 (Mazars briefing), April 2015

CIPFA published the original Code of Practice on Transport Infrastructure Assets in 2010, setting out significant changes in the measurement of transport infrastructure assets captured by the code. CIPFA has now confirmed that local authorities are required to implement the requirements for the first time in 2016/17.

The sheer size and complexity of the network of transport assets managed by local authorities is leading many in the sector to begin to worry about how prepared authorities are to meet the challenges that implementing the code brings.

One of the primary reasons for the change is the continuing qualification of the Whole of Government Accounts on the grounds of inconsistency in the measurement basis for transport infrastructure assets between central and local government. HM Treasury estimates that the impact of this inconsistency is a potential £232bn understatement of asset values, which gives a good idea of the scale of the restatements required by each local authority adopting the code.

Even a fairly small unitary authority is likely to have a few billion pounds worth of assets on their balance sheet with larger county areas potentially exceeding £10bn.

We have already started discussing this issue with officers who are aware of the task ahead.

<http://www.room151.co.uk/technical/accounting-for-transport-infrastructure-the-long-and-winding-road/>

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Contact details



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Appendix 1

Our Proposals for a North East Governance Forum

North East Governance Forum



We are seeking to establish a North East Governance Forum, targeted at Chairs and Vice Chairs of Audit Committees, with the aim of promoting good governance and sharing ideas and best practice.

What is good governance?

Governance is about the framework of accountability to users, stakeholders and the wider community, within which organisations take decisions, and lead and control their functions, to achieve their objectives.

Good governance combines the ‘hard’ factors – robust systems and processes, such as risk management, financial management, performance management and internal controls – with the ‘softer’ characteristics of effective leadership, a culture based on openness and honesty, and high standards of behaviour. It involves a combination of both internal and external focus, understanding the needs of service users and the public and maintaining clarity of purpose.

The best organisations use governance to create the culture and tone that underpins the delivery of service excellence.

Why establish a governance forum?

Local government and the wider public sector is facing greater change and transformation than ever before, driven by austerity, significant cuts in public spending and a sharper focus on improving

services and achieving better outcomes for local people.

Significant changes will include:

- new and innovative models of service delivery;
- commissioning services rather than directly providing them;
- making services more self financing and sustainable;
- managing demand and reducing reliance on the public sector;
- working more closely with partners and the voluntary sector; and,
- building community capacity and resilience.

This change brings with it new governance and oversight challenges and those charged with governance need to be well sighted on the implications of the changes for their responsibilities.

Who should attend the governance forum?

The governance forum is for elected members and independent members and is targeted at the Chairs and Vice Chairs of Audit Committees and others interested in governance.

How will the governance forum help?

The purpose of the Governance Forum would be to:

- promote good practice in governance;



- facilitate a dialogue, debate and sharing of ideas among those providing governance oversight and their peers;
- horizon scanning to ensure that the forums are briefed on the latest developments and key topical issues; and,
- provide a safe and secure forum for discussion with a professional input drawing on Mazars' wide range of experience and expertise.
- January / February - Planning phase, identifying and addressing risks;
- May / June – Accounts production, annual reviews of governance arrangements; and,
- October – Reflections on audit completion, and horizon scanning on upcoming issues and developments.

The governance forum will meet for the first time in October 2015.

How much will it cost?

Each authority that we invite to join the governance forum will be entitled to two free spaces at each meeting.

If an authority wishes to nominate more than two delegates, each additional delegate will be charged at a nominal fee of £50 plus VAT (this charge will be per person per meeting).

What are the benefits for those that attend?

Those attending the Governance Forum will be better equipped to deal with their governance responsibilities and will benefit from:

- up-to-date briefings;
- a deeper understanding of key issues; and,
- a wider perspective on topics of interest and concern.

Which authorities are being invited to join the forum?

The forum is focused on local government and related bodies, and invitations to join are being sent to:

- all local authorities in the North East;
- The North East Combined Authority;
- police and fire bodies; and,
- other bodies, such as local government pension funds covering the North East / and organisations like Nexus.

Where will it meet and what will the format of the meeting be?

The first meeting will be held at our offices at the Rivergreen Centre in Durham; the date is to be confirmed.

The meeting will run from 10am to 12.30pm, with tea / coffee on arrival and including a tea / coffee break, and a buffet lunch / networking opportunity will be provided afterwards.

How do we make nominations to join the North East Governance Forum?

Please make your nominations to join the North East Governance Forum by completing the attached form and sending it by e-mail to:

durham.admin@mazars.co.uk

When will it meet?

The forum would aim to meet 3 times a year, and be broadly based around the accounts and audit timetable: