Audit Strategy Memorandum

Sunderland City Council

Year ending 31 March 2024

mazars

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mazars

Audit and Governance Committee Members
Sunderland City Council
City Hall, Plater Way
Sunderland
SR1 3AA

Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP

22 March 2024

Dear Members

Audit Strategy Memorandum – year ending 31 March 2024

We are pleased to present our Audit Strategy Memorandum for Sunderland City Council (the Council and Group) for the year ending 31 March 2024. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Sunderland City Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit, forthcoming accounting issues and details of consultations on measures to tackle the local government financial reporting and audit backlog.

If we identify any risks or changes to our planned strategy following completion of our planning, we will ensure we communicate these to the Audit and Governance Committee.

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07747 764529.

Yours faithfully

Mark Kirkham
Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview engagement responsibilities

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Audit and Governance Committee, as Those Charged With Governance, of their responsibilities.

The Director of Finance is responsible for the assessment of whether is it appropriate for the Council to prepare its financial statements on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

a) whether a material uncertainty related to going concern exists; and
b) consider the appropriateness of the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements.

Internal control

Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal controls.

Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both Those Charged With Governance and management. This includes establishing and maintaining internal controls over compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of Those Charged With Governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Our audit, however, should not be relied upon to identify all such misstatements.

Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the financial statements of the Council and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Value for money

We are also responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach in section 5 of this report.

02

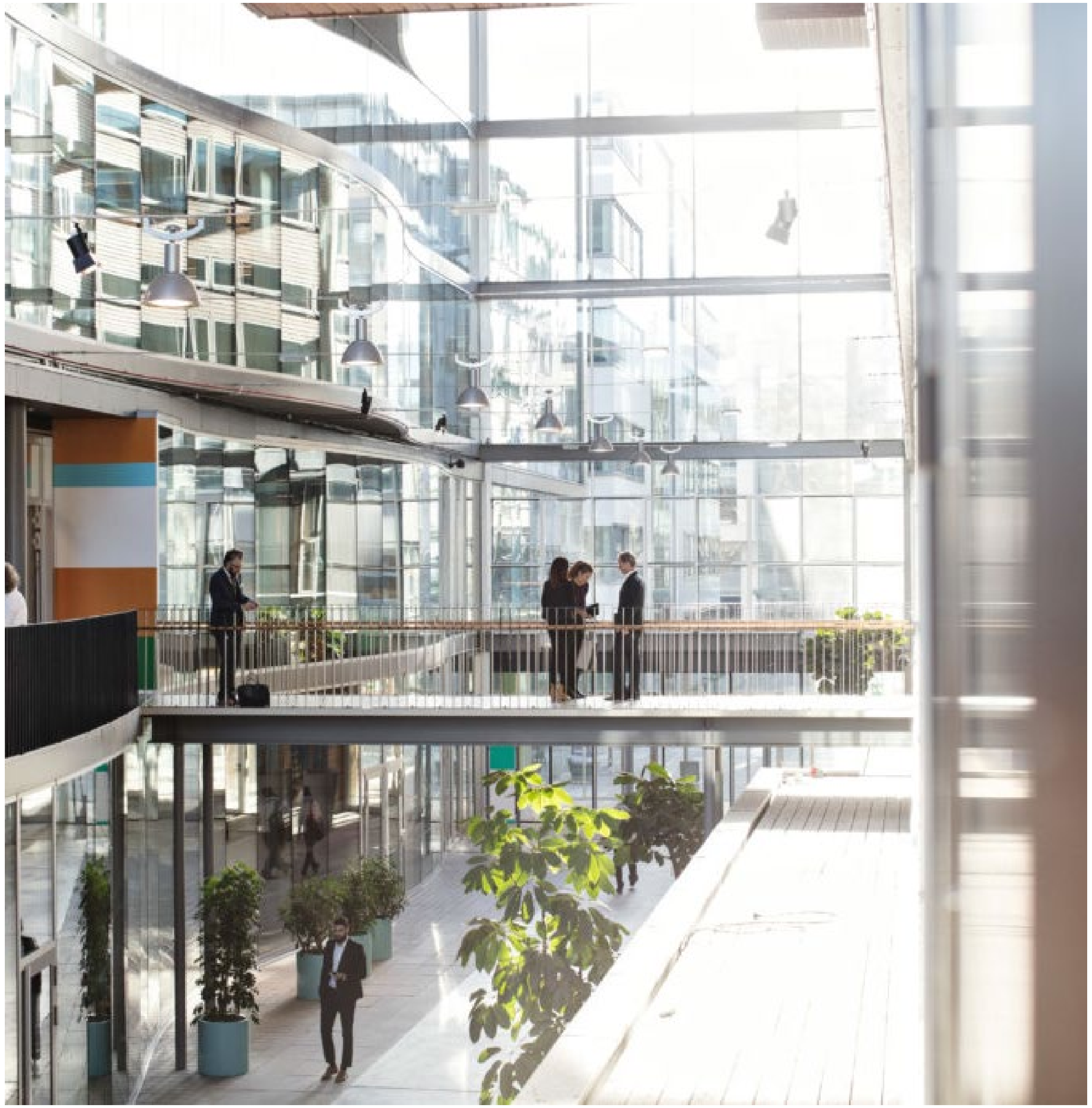
Section 02:

Your audit engagement team

2. Your audit engagement team

Your external audit service will be led by Mark Kirkham.

Who	Role	Contact
Mark Kirkham	Engagement Partner	mark.kirkham@mazars.co.uk 0774 776 4529
Diane Harold	Engagement Manager	diane.harold@mazars.co.uk 0797 151 3174
Peter Hawkins	Engagement Team Leader	peter.hawkins@mazars.co.uk 0758 085 4210



03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Risk-based approach

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

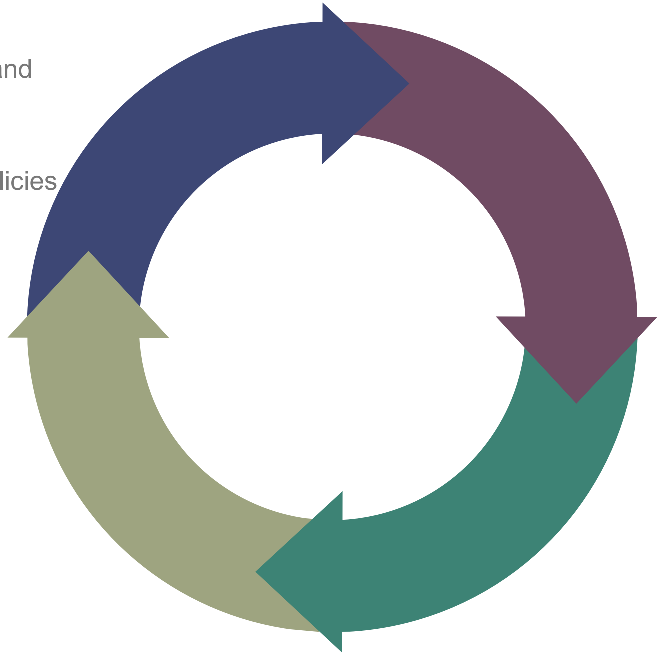
Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place, then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

3. Audit scope, approach and timeline



Planning **March**

- Planning visit and developing our understanding of the Council and Group
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Interim **March**

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Reassessment of audit plan and revision if necessary

Fieldwork **July-September**

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high-risk areas
- Communicating progress and issues
- Clearance meeting

Completion **September***

- Final review and disclosure checklist of financial statements
- Final analytical review
- Final review of the financial statements by our technical team (required for larger audits)
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit and Governance Committee
- Reviewing subsequent events
- Signing the auditor’s report

* Subject to team deployment updates and depending on the timing of assurance from the Pension Fund auditor

3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. There are no material service organisations to consider for this Council.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit net asset / (liability)	AON Hewitt (Actuary)	We use the National Audit Office's (NAO) consulting actuary (PWC) to provide us with assurance over the main assumptions used by your Actuary.
Property, plant and equipment	Internal Valuer	We will take into account relevant information which is available from third parties. If required, we can engage our own internal valuation expert; this would be dependent on any specific valuation issues arising during the audit.
Financial instrument disclosures	Link Asset Services	We do not typically engage an audit expert to assess the reasonableness for your expert's financial instrument valuation estimates. Where this is required we will engage our own internal experts.

3. Audit scope, approach and timeline

Group audit approach

In line with the requirements of the CIPFA Code of Practice, the Council has considered its interests in other entities and determined that group accounts are required which will consolidate its interests. This section sets out the planned work in respect of those entities which we refer to here as components.

Group materiality
Our assessment of group materiality is set out in section 8.

Assessment of components
We assess the significance of the components as part of determining the level of work required. In assessing the significance of components, we consider a range of quantitative and qualitative factors including:

- whether a component exceeds a minimum of 15% of key benchmarks (income, expenditure, assets and liabilities);
- whether any financial statement area (FSA) is greater than 15% of the relevant FSA in the consolidated accounts and greater than performance materiality; and
- whether there are any risks of material misstatement in the components likely to result in material misstatement in the group financial statements.

Our assessment is summarised in the first table in this section overleaf.

Nature and scope of planned work
The second table in this section sets out the estimated proportion of each component, relative to the overall group, as well as the nature and scope of planned work. Note that these are estimates and we will update our assessment for any significant changes. This work is in addition to our review of group-wide controls and the consolidation process.

Nature of work
Planned procedures are split into the following categories:

- full scope audit;
- limited or specific review; and
- other audit procedures, including group analytical procedures.

Components being treated as 'significant' and subject to a full scope audit or specific audit procedures are:

- the Council;
- Together for Children (TfC); and
- Sunderland Lifestyle Partnership (SLP - leisure assets).

Group analytical procedures will be carried out for the remaining components; the objective of the analytical procedures is to critically corroborate the group engagement team's conclusions that there are no significant risks of material misstatement of the aggregated financial information of components that are not significant components.

3. Audit scope, approach and timeline

Group audit approach (continued)

Entity	Nature of component / ownership	Auditor	Significant in terms of benchmarks?	Risks of material misstatement?	Commentary
Sunderland City Council	Parent – local authority.	Mazars LLP	Yes	Yes	Full – ultimate parent.
Together for Children Limited (TfC)	Subsidiary 100% owned by the Council for the provision of children's services.	Robson Laidler LLP	Yes	No	Significant component. Material transactions and balances; income and expenditure is around the15% benchmark, therefore, classed as a significant component. Net pensions liability balance upon consolidation is greater than the group headline materiality and is relevant to the significant pensions audit risk already identified.
Sunderland Lifestyle Partnership (SLP)	Joint venture providing leisure services.	Mazars LLP*	Yes*	No	*Material but not significant component: due to consolidation adjustments resulting in a financial statement area which is greater than 15% of the relevant financial statement area. No assurance required from the component auditor. *Audit carried out by the Mazars Birmingham office; separate Engagement Lead and team.
Sunderland Care and Support Limited (SCAS)	Subsidiary 100% owned by the Council for the provision of social care, health and support services.	Robson Laidler LLP	No	No	Material transactions and balances; none greater than the benchmarks upon consolidation on a line by line basis.
Siglion LLP – Developments and Investments companies	Subsidiary 100% owned by the Council - development and management of a portfolio of commercial and residential land locally.	Robson Laidler LLP	No	No	Material transactions and balances; none greater than the benchmarks upon consolidation on a line by line basis.
IAMP LLP	Joint venture with South Tyneside Metropolitan Borough Council for the development of an international advanced manufacturing park (IAMP).	Robson Laidler LLP	No	No	No transactions or balances will be greater than the benchmarks upon consolidation on a line-by-line basis.

3. Audit scope, approach and timeline

Group audit approach (continued)

Component	% of assets	% of liabilities	% of income	% of expenditure	Nature and scope of work
Sunderland City Council	94.57%	91.88%	76.30%	78.12%	Full scope audit
Together for Children Limited (TfC)	1.02%	2.14%	15.07%	15.20%	Full scope audit – reliance on the component auditor
Sunderland Lifestyle Partnership LLP (SLP)	0.08%	0.21%	0.10%	0.12%	Specified audit procedures in respect of the consolidation adjustments
Sunderland Care and Support Limited (SCAS)	0.44%	1.89%	5.46%	5.39%	Group analytical procedures
Siglion LLP – Developments and Investment companies	2.59%	1.12%	2.31%	0.48%	Group analytical procedures
IAMP LLP	1.30%	2.76%	0.76%	0.69%	Group analytical procedures
	100%	**100%**	**100%**	**100%**	

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The audit risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

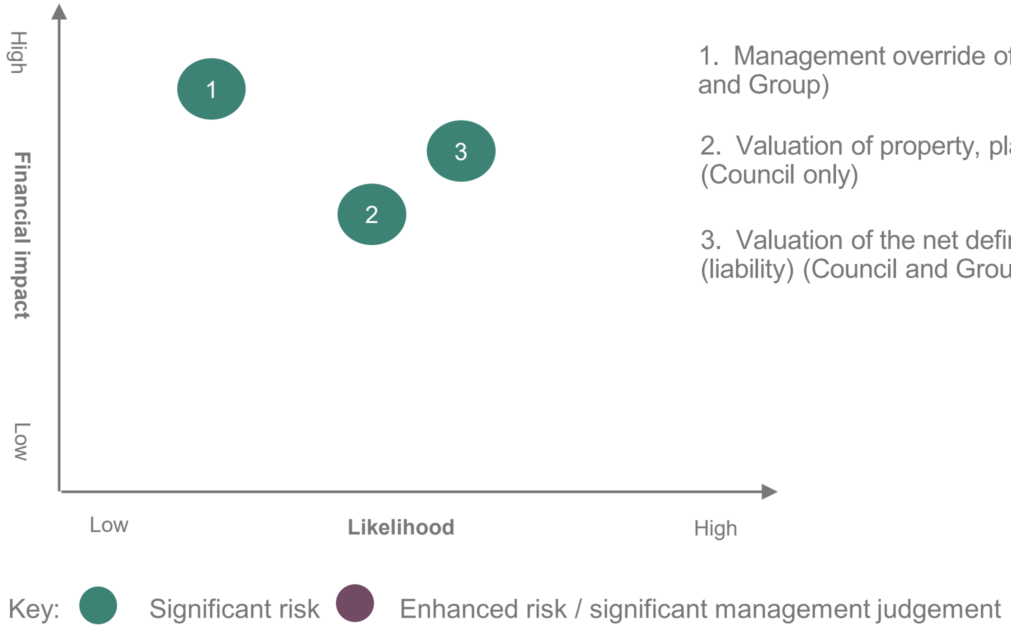
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant in respect of the Council and Group. We have summarised our audit response to these risks on the following pages.



1. Management override of controls (Council and Group)
2. Valuation of property, plant and equipment (Council only)
3. Valuation of the net defined benefit asset / (liability) (Council and Group)

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Audit and Governance Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	○	○	We plan to address the management override of controls risk by carrying out audit work on: accounting estimates; journal entries; and significant transactions outside the normal course of business or otherwise unusual.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Valuation of property, plant and equipment** **As at 31 March 2023** **- Council - £1,296.650m; and** **- Group - £1,347.744m.** The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (including the Council's PFI shared waste facility). The Council employs valuation expert(s) to provide information on valuations, however, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.	○	●	●	We will: • critically assess the Council's arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated; • critically assess the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuer(s), including the PFI shared waste facility; • consider the competence, skills and experience of the Valuer(s) and the instructions issued to the Valuer(s); • substantively test a sample of revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated; • carry out procedures to gain assurance over the consolidation adjustments for group accounts which impact on property, plant and equipment and associated financial statement areas; and • where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	**Net defined benefit asset / (liability) valuation** **As at 31 March 2023:** **- Council - £11.510m net pensions asset; and** **- Group - £21.960m net pensions asset (Council & Sunderland Care and support) and £6.660m net pensions liability (Together for Children).** The financial statements contain material pension entries in respect of the retirement benefits. The calculation of the net pensions asset / (liability), made up of the gross pension assets and gross pension liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	○	●	●	We will: • critically evaluate the Council's arrangements for making estimates in relation to pension entries within the financial statements; and • challenge the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office; • critically assess the competency, objectivity and independence of the Actuary; • liaise with the auditors of the Pension Fund to gain assurance that the overall procedures and controls in place at the Pension Fund are operating effectively; • review a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets and evaluating whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets. • review the actuarial allocation of Pension Fund assets to the Council by the Actuary, including comparing the Council's share of the assets to other corroborative information. • compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and • critically review the component auditor's work in respect of Together for Children's net pensions (asset) / liability which is consolidated in the group financial statements.

4. Significant risks and other key judgement areas

Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, as part of our audit we obtain the views of, and enquire whether the Audit and Governance Committee has knowledge of, the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- Are you aware of any significant communications between the Group and regulators?
- Are there any matters that you consider warrant particular attention during the course of our audit, and any areas where you would like additional procedures to be undertaken?

We plan to do this by formal letter to the Audit and Governance Committee which we will obtain prior to completing our audit.

Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 *Communication with Those Charged with Governance*, we are required to communicate certain matters to the Audit and Governance Committee which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- significant delays in management providing information that we require to perform our audit;
- an unnecessarily brief time within which to complete our audit;
- extensive and unexpected effort to obtain sufficient appropriate audit evidence;
- unavailability of expected information;
- restrictions imposed on us by management; and
- unwillingness by management to make or extend their assessment of an entity’s ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor’s report).

05

Section 05:

Value for money arrangements

5. Value for money arrangements

The framework for our work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

2022/23 will be the fourth audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services.
2. **Governance –** how the Council ensures that it makes informed decisions and properly manages its risks.
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include: • NAO guidance and supporting information; • information from internal and external sources including regulators; • knowledge from previous audits and other audit work undertaken in the year; and • interviews and discussions.
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: • significant weaknesses identified and our recommendations for improvement; and • emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

5. Value for money

Identified risks of significant weaknesses in arrangements

The NAO’s guidance requires us to carry out work at the planning stage to understand the Council’s arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our risk assessment work, work completed to-date has not identified any risks of significant weaknesses in arrangements.

We will report any identified risks to the Audit and Governance Committee, if any arise, as part of our continuous risk assessment.

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for audit and other services

Our fees (exclusive of VAT) for the audit of Sunderland City Council for the year ended 31 March 2024, and for any non-audit assurance services or other non-audit services provided by Mazars LLP in the period, are outlined below.

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Limited (PSAA).

Area of work	2022/23	2023/24
Code audit work – scale fee	£123,539*	£344,429***
Code audit work – fee variation	£21,760**	-
Total	**£145,299**	**£344,429**

* The fee above is *after* £6,424 inflation adjustment which PSAA is contributing from its surplus.

** Fee variations of "£14,072 have been proposed in respect of 2022/23; these are subject to an approval process and final approval by PSAA. Further detail is shown in our Auditor's Annual Report for 2022/23.

*** The 2023/24 scale fee is set by PSAA.

Fees for non-PSAA work

In addition to the fees outlined on the previous page in relation to our appointment by PSAA, we anticipate being separately engaged by the Council to carry out additional work as set out in the table below.
Before agreeing to undertake any additional work, we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2022/23	2023/24
Assurance services: Housing Benefit Subsidy return	£11,000	£11,500*
Assurance services: Teachers' Pension return	£4,500	£5,000*

* estimated fees

Services provided to other entities within the Council's group

Mazars LLP also provides external audit services to one of the entities consolidated in the Council's group financial statements; Sunderland Lifestyle Partnership Limited (SLP). SLP is a joint venture between the Council and Sports and Leisure Management Limited.

Sports and Leisure Management Limited produces group financial statements which are audited by Mazars LLP (Birmingham office). Sports and Leisure Management Limited operates approximately 209 leisure sites and has a number of subsidiaries including the Council's joint venture, SLP.

The total external audit fees for the Sports and Leisure Management Limited subsidiaries (which includes the Council's joint venture, SLP) were £63,345 for 2022/23.

07

Section 07:

Our commitment to independence

7. Our commitment to independence

Requirements	We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Ethical Standard 2019.
Compliance	We are not aware of any relationship between Mazars and Sunderland City Council that, in our professional judgement, may reasonably be thought to impair our independence. We are independent of Sunderland City Council and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.
Non-audit and Audit fees	We have set out a summary any non-audit services provided by Mazars (with related fees) to Sunderland City Council in Section 6, together with our audit fees and independence assessment.

We are committed to independence and confirm that we comply with the FRC's Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and complete annual ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with Mark Kirkham in the first instance.

Prior to the provision of any non-audit services, Mark Kirkham will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Principal threats to our independence and the associated safeguards we have identified and/ or put in place are set out in Terms of Appointment issued by PSAA available from the PSAA website: Terms of Appointment from 2018/19 - PSAA. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report. Principal threats to our independence and identified associated safeguards in relation to the audit and non-audit work listed in section 6 are summarised overleaf.

7. Our commitment to independence

Assurance services

Area	Perceived threat	Safeguards and procedures
Assurance services: Housing Benefits Subsidy Assurance and Teachers' Pension return (if engaged)	Self Review	No threat identified. Neither engagement results in the auditor providing accounting services to the Council.
	Self interest	No threat identified. The fees for each of the engagements is neither significant to Mazars LLP nor the Council. Safeguards include clear rules set by PSAA which limit additional services an external auditor can provide.
	Management	No threat identified as neither engagement requires the auditor to make decisions on behalf of the Council.
	Advocacy	No threat identified as neither engagement requires the auditor advocating a position on behalf of the Council.
	Familiarity	No threat identified. Safeguards include firm policies and procedures detailed on the previous page.
	Intimidation	No threat identified.

External audit services

Area	Perceived threat	Safeguards and procedures
Audit services: external audit of Sunderland Lifestyle Partnership Limited	Self Review	Sunderland Lifestyle Partnership Limited (SLP or "Everyone Active" is a joint venture that is consolidated in the Council's Group. Mazars LLP carries out the external audit of SLP. We have assessed SLP as a "material but not significant" component of the Council's Group and do not place reliance on the component auditor. SLP's financial statements are prepared on a different basis to those of the Council. The consolidation adjustment required for the leisure assets produces a material value in the Council's accounts but, as the adjustment is carried out by the Council's finance team, we do not place any reliance on the external audit of SLP. In addition, the external audit is led by an entirely separate Mazars audit team and engagement lead, based in the Mazars Birmingham office. We are satisfied there are no threats.
	Self interest	No threat identified. The fees for the engagement are neither significant to Mazars LLP nor SLP. Safeguards include clear rules set by PSAA which limit additional services an external auditor can provide.
	Management	No threat identified as the engagement does not require the auditor to make decisions on behalf of SLP.
	Advocacy	No threat identified as the engagement does not require the auditor advocating a position on behalf of SLP.
	Familiarity	No threat identified. Safeguards include firm policies and procedures detailed on the previous page.
	Intimidation	No threat identified.

08

Section 08:

Materiality and misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Group initial threshold £'000s	Single entity initial threshold £'000s
Overall materiality	16,225	15,620
Performance materiality	12,980	12,496
Specific materiality: senior officers' remuneration (10% of total)	n/a	185
Specific materiality: officers' remuneration 'bandings' table	Correct band £5,000	Correct band £5,000
Specific materiality: exit packages (10% of total)	145	132
Specific materiality: Members' allowances and expenses (10% of total)	n/a	102
Trivial threshold for errors to be reported to the Audit and Governance Committee	487	469

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors. Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

8. Materiality and misstatements

Materiality (continued)

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross expenditure at the surplus/deficit provision of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee. We consider that the gross expenditure at the surplus/deficit provision of services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of the benchmark. Based on the prior year financial statements, we anticipate the overall materiality for the year ending 31 March 2024 to be in the region of £15.620 million for the Council (prior year £15.976 million) and £16.225 million for the Group (prior year £16.581 million).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.469 million for the Council and £0.487 million for the Group based on 3% of overall materiality. If you have any queries about this, please do not hesitate to raise these with Mark Kirkham.

Group materiality for components

In the context of a group audit, materiality is established for both the group financial statements as a whole and for the financial information of components. Component materiality is determined for those components whose financial information will be audited as part of the group audit.

- **Together for Children (TfC) component materiality:** calculated as £2.9 million (prior year £2.9 million), being 2% of total expenditure. However, where a component is subject to audit itself, use can be made of the component auditor’s materiality, as long as it is lower than our calculated component materiality. This is the case for TfC; therefore, we will make use of their auditor’s calculation of materiality.

- **Sunderland Lifestyle Partnership component materiality:** as set out in the audit scope section, this component is being treated as a material but not significant component as a result of a material financial statement area for which we will obtain assurance via specific procedures on the accounting consolidation adjustment. Therefore, we do not need to issue group audit instructions to this component or specify component materiality.

Reporting to the Audit Governance Committee

The following three types of audit differences above the trivial threshold will be presented:
- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

A

Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged With Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements.
- The planned scope and timing of the audit.
- Significant audit risks and areas of management judgement.
- Our commitment to independence.
- Responsibilities for preventing and detecting errors.
- Materiality and misstatements.
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control.
- Significant findings from the audit.
- Significant matters discussed with management.
- Our conclusions on the significant audit risks and areas of management judgement.
- Summary of misstatements.
- Management representation letter.
- Our proposed draft audit report.
- Independence.

Appendix: Key communication points

ISA (UK) 260 'Communication with Those Charged With Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and Those Charged With Governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • enquiries of the Audit and Governance Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Audit and Governance Committee Audit planning and clearance meetings

Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit and Governance Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of.	Audit Completion Report and Audit and Governance Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity.	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Communication regarding our system of quality management, compliant with ISQM 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, the firm's ISQM 1 team completes, as part of an ongoing and iterative process, the following key steps to assess and conclude on the firm's System of Quality Management: • ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership; • establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities; • identify, review and update quality risks each quarter, taking into consideration of number of input sources (such as FRC / ICAEW review findings, AQT findings, RCA findings, etc.); • identify, design and implement responses as part of the process to strengthen the firm's internal control environment and overall quality; and • evaluate responses to identify and remediation process / control gaps. We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website here.	Audit strategy Memorandum
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity.	Audit Completion Report

Appendix B: Current year updates, forthcoming accounting & other issues

Applicable for IFRS Reporters

Current and forthcoming accounting issue

New standards and amendments

Effective for accounting periods beginning on or after 1 January 2023

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*: Disclosure of Accounting Policies (Issued February 2021)

- The amendments set out new requirements for material accounting policy information to be disclosed, rather than significant accounting policies. Immaterial accounting policy information should not be disclosed as accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of Accounting Estimates (Issued February 2021)

- The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

IFRS 17 *Insurance Contracts* (issued May 2017) and Amendments to IFRS 17 *Insurance Contracts* (Issued June 2020)

- IFRS 17 is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities.

Amendments to IFRS 17 *Insurance Contracts:* Initial Application of IFRS 17 and IFRS 9 *Financial Instruments* (Issued December 2021)

- The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis.

IFRS 17 Insurance Contracts has not yet been adopted by the FReM. Adoption in the FReM is expected to be from April 2025; early adoption is not permitted.

Applicable for IFRS Reporters

Current and forthcoming accounting issue (continued)

New standards and amendments (continued)

Effective for accounting periods beginning on or after 1 January 2024

The information detailed on this slide is for wider IFRS information only. They will be subject to inclusion within the FReM and Code as determined by FRAB.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Issued January 2020), Deferral of Effective Date (Issued July 2020) and Non-current Liabilities with Covenants (Issued October 2022)

- The January 2020 amendments clarify the requirements for classifying liabilities as current or non-current in IAS 1 by providing clarification surrounding: when to assess classification; understanding what is an ‘unconditional right’; whether to determine classification based on an entity’s right versus discretion and expectation; and dealing with settlements after the reporting date.

  The October 2022 amendments specify how covenants should be taken into account in the classification of a liability as current or non-current. Only covenants with which an entity is required to comply with by the reporting date affect the classification as current or non-current. Classification is not therefore affected if the right to defer settlement of a liability for at least 12 months is subject to compliance with covenants at a date after the reporting date. These amendments also clarify the disclosures about the nature of covenants, so that users of financial statements can assess the risk that non-current debts accompanied by covenants may become repayable within 12 months.

Amendments to IAS 16 *Leases*: Lease Liability in Sale and Leaseback (Issued September 2022)

- The amendments include additional requirements to explain how to subsequently measure the lease liability in a sale and leaseback transaction, specifically how to include variable lease payments.

For further information, please refer to our blog article: *Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback*

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued May 2023)

- The amendments introduce changes to the disclosure requirements around supplier finance arrangements with the intention of providing more detailed information to help users analyse and understand the effects of such arrangements.

  The amendments provide an overarching disclosure objective to ensure that users of financial statements are able to assess the effects of such arrangements on an entity’s liabilities and cash flows, as well as some additional disclosure requirements relating to the specific terms and conditions of the arrangement, quantitative information about changes in financial liabilities that are part of the supplier financing arrangement, and about an entity’s exposure to liquidity risk.

  For further information, please refer to our blog article: *IASB publishes final amendments on supplier finance arrangements*

Appendix C: Consultations on measures to tackle the local government financial reporting and audit backlog

As we outline in the introduction to this report, there are a number of consultations currently taking place that may have implications for: the format and content of the Council's financial statements, the work we are required to undertake under the Code of Audit Practice and the timetable for the publication of the audited statements of account.

In this Appendix, we summarise the proposals in each of the consultations for information.

CIPFA/LASAAC consultation on short-term measures to aid the recovery of local authority reporting and audit

This consultation proposes amendments to the Code of Practice on Local Authority Accounting (the Accounting Code), applicable only to relevant bodies in England. The proposals are to:

- extend the current temporary solution for accounting for infrastructure assets beyond 2024/25;
- remove some disclosure requirements relating to a body's net defined benefit liabilities / assets; and
- simplify the measurement for operational property, plant and equipment in specific circumstances up to 2025/26.

DLUHC consultation on addressing the local audit backlog in England

This consultation proposes a range of measures aimed at 'clear the backlog and put the system on a sustainable footing' and outlines two key phases of recovery up to 2027/28. A key aspect of the proposals is to require Category 1 bodies, such as Sunderland City Council, to publish audited financial statements by a series of backstop dates. This proposal will be put in place by amending the Accounts and Audit Regulations 2015. For statements of account for financial years up to and including 2022/23, this would mean audited accounts will need to be published by 30 September 2024 unless a pre-defined exemption criteria has been met (such as there being an outstanding objection to the accounts at the backstop date).

The consultation sets out other proposals including:

- publishing a list of bodies and audit firms which do not meet the statutory deadline for publishing audited financial statements; and
- setting out 'backstop' dates for each financial year up to and including 2027/28.

In including a statutory backstop date for the publication of audited statements of account, the consultation makes it clear that the DLUHC expects that this will give rise to auditors issuing modified audit reports where they have not been able to complete their work on the financial statements.

NAO consultation on draft amendments to the Code of Audit Practice

This consultation has been launched alongside DLUHC's consultation on amendments to the Accounts and Audit Regulations 2015 and seeks to introduce measures that support more timely auditor reporting. The principle changes to the Code of Audit Practice being proposed are to:

- require the auditor to issue an opinion on the financial statements by the 'backstop' date outlined in the amended Accounts and Audit Regulations 2015, whether this opinion is modified or not (subject to a number of exemptions);
- allow the auditor to apply a reduced scope of work in relation to VFM arrangements work for outstanding audits up to and including 2022/23; and
- require the auditor to publish the Auditor's Annual Report by 30 November each year from the 2023/24 audit year, and for this report to provide a summary of progress on the audit at the time of issue (even if the audit is not complete).

Mark Kirkham, Partner

Mazars
5th Floor
3 Wellington Place
Leeds
LS1 4AP

mazars