

## AUDIT AND GOVERNANCE COMMITTEE

### AGENDA

Meeting to be held on Friday 26 April 2024 at 1.30pm in Committee Room 1, City Hall, Plater Way, Sunderland, SR1 3AA

ITEM		PAGE
1.	<b>Receipt of Declarations of Interest (if any)</b>	
2.	<b>Apologies</b>	
3.	<b>Minutes of the Meeting of the Committee held on Friday 2 February 2024</b>  (Copy attached.)	1
4.	<b>Annual Governance Review/Annual Governance Statement 2023/24</b>  Report of the Director of Finance (copy attached).	9
5.	<b>Risk and Assurance Map 2024/2025</b>  Report of the Assistant Director of Assurance and Property Services (copy attached).	19
6.	<b>Forward Plan of Reports 2024/25</b>  Report of the Director of Finance (copy attached).	31
7.	<b>Member Training and Development</b>  Report of the Director of Finance (copy attached).	35

For further information and assistance, please contact by Teams or Email:  
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Tel: 07919 509173

8. **Auditor's Annual Report 2021/22 and 2022/23** 37  
External Auditor
9. **Audit Strategy Memorandum 2023/24** 65  
External Auditor
10. **Date and Time of next meeting**  
The meeting schedule for 2024/2025 is as follows: -  
Friday 19 July 2024 at 1.30pm  
Friday 27 September 2024 at 1.30pm  
Friday 7 February 2025 at 1.30pm  
Friday 25 April 2025 at 1.30pm

ELAINE WAUGH,  
Assistant Director of Law and Governance

City Hall,  
Sunderland

18 April 2024

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 2 February 2024**

**Present:**

Mr G N Cook in the Chair

Councillors Crosby, Stewart and Trueman together with Mr M Knowles.

**In Attendance:**

Paul Wilson (Director of Finance), Claire Emmerson (Assistant Director of Finance), Paul Davies (Assistant Director of Assurance and Property Services) Tracy Davis (Senior Manager – Assurance) Mark Kirkham (Mazars) and Gillian Kelly (Democratic Services Team Leader).

**Declarations of Interest**

There were no declarations of interest.

**Apologies for Absence**

Apologies for absence were received from Councillor Foster.

**Minutes**

15. RESOLVED that the minutes of the meeting of the Committee held on 29 November 2023 be confirmed as a correct record.

**Risk and Assurance Map Update 2023/2024**

The Assistant Director of Assurance and Property Services submitted a report which asked the Committee to consider: -

- the updated Risk and Assurance Map and supporting Strategic and Corporate Risk Profiles based on assurances gathered from a range of sources;
- work undertaken by the audit, risk and assurance service during the year to date; and
- the performance of Internal Audit.

The Assistant Director of Assurance and Property Services directed Members to the Risk and Assurance Map and in doing so reminded the Committee that the Map and

the Strategic and Corporate Risk Profiles had been agreed in April 2023 and had been updated following consultation with Chief Officers and relevant key officers.

The Strategic Risk Areas summarised the risks to the priorities in the Council's City Plan and the Corporate Risk Areas were those which were due to the Council existing as an organisation. The changes to these were shown in red in appendices 2 and 3. Overall assurance was also provided in relation to Council owned companies and the Cumulative Assurance Position was Green or Amber for all Strategic and Corporate Risk Areas.

Changes to the risk scores for Strategic Risk Areas had been made in relation to: -

- R02 – *The city, its residents and businesses do not access the potential in the investments being delivered in the context of significant economic challenges.* The likelihood of the risk occurring had reduced from 3 to 2 and the overall risk rating from 12 (Red) to 8 (Amber)
- R03 – *Unable to meet the aspirations set out in the Local Plan to generate a variety of property types and tenures that meet the needs and aspirations of families and individuals.* The impact of the risk had been reduced from its previous level of 4 to 3 and this reduced the overall risk rating from 8 (Amber) to 6 (Amber).
- R06 – *Unable to maximise the opportunities created by the Smart City Infrastructure.* The target impact level had reduced from its previous level of 3 to 2, reducing the risk target score down from 6 (Amber) to 4 (Green)
- R07 – *Resources and critical infrastructure are not in place to enable the Council to become carbon neutral by 2030 and Sunderland to become carbon neutral by 2040.* The target impact level had increased from 3 to 4 and the target score had increased from 6 (Amber) to 8 (Amber).
- R11 – *Unable to control variants of the Covid virus, and other communicable diseases, which could increase the spread of the infection across Sunderland.* The likelihood of this risk occurring had reduced from 3 to 2 and therefore the overall risk score had been reduced from 12 (Red) to 8 (Amber).
- R12 – *The introduction of a statutory Integrated Care System with a regional Integrated Care System (ICS) Health and Care Partnership covering the North East and Cumbria may reduce the resources available in Sunderland for Health and Social Care.* The likelihood of this risk occurring had increased from 3 to 4 and the risk score has gone from 9 (Red) to 12 (Red)
- R13 – *Current model of social care cannot be sustained in the future, due to increasing pressures within the social care environment.* The impact of this risk had reduced from 4 to 3 and the overall risk score had been reduced from 8 (Amber) to 6 (Amber)
- R22 – *Opportunities are not taken to enable families and individuals to support themselves, to mitigate the impact of indebtedness and welfare reforms and*

*progress their ambitions*. The target likelihood had increased from 1 to 2 and the risk target score had increased from 4 (Green) to 8 (Amber).

A new risk had been added which was 'R21 Unable to implement the aspirations set out in the Housing Strategy and Homelessness and Rough Sleeper Prevention Strategy and unable to develop the city's rough sleeper accommodation that meets the needs and aspirations of individuals'.

It was highlighted that there had been one change in relation to the Corporate Risk Areas in that the score for R47 'Asset Management' had reduced from 9 (Red) to 6 (Amber) due to the positive results of the recent audit of the implementation of the Corporate Asset Management Strategy.

The cumulative assurance position for all Council owned companies was rated Green and performance in relation to targets set for Internal Audit was shown at Appendix 5 with all Key Performance Indicators being on target.

The Assistant Director of Assurance and Property Services advised Committee Members that Internal Audit was required to be subject to an external review every five years and this was currently taking place. The outcome of the review would be reported to the Committee in due course but as part of the work, Internal Audit's Charter had been updated and was attached at Appendix 6.

Mr Knowles commented that the report was very clear and he was pleased to note the inclusion of R12 and R13. Partnerships with health organisation were important and he referenced the increased risk in relation to the introduction of the Integrated Care System (ICS). The Assistant Director of Assurance and Property Services explained that as the funding was now on a broader footprint, there was a risk that Sunderland's needs were not as great as other areas and that this would impact on the funding received by the city. The Director of Finance added that the ICS and Integrated Care Board (ICB) were undertaking reviews of their resources and this may see an impact across the region.

Given that position, Mr Knowles went on to say that the link to health and social care in R13 was even more important. The Director of Finance noted that there was a representative from the ICS attending local authority finance director meetings.

Councillor Stewart referred to the increased risk score for R07 and queried the rationale for the change and whether this was anything which the Council had much control over. The Assistant Director of Assurance and Property Services acknowledged that the Council had set an ambitious target for carbon neutrality and there was a lot to do and it was expensive. There was an awareness from the Authority that achieving the goal was probably more difficult than had been envisaged and so the score had been increased; this did keep the target in focus and as a priority.

Councillor Crosby asked if the risk involved in Council partnerships – such as leisure and waste management – was measured. The Assistant Director of Assurance and Property Services stated that any Council owned companies were covered by the Risk and Assurance Map but for other entities, these would be audited from a contract management perspective and Internal Audit would not specifically be

looking at risks for these bodies. The Director of Finance highlighted that Health, Housing and Communities were involved in contract management for the Leisure Joint Vehicle and representatives would sit on managing boards for example.

Having considered the Risk and Assurance Map, it was: -

16. RESOLVED that: -

- (i) the report be noted; and
- (ii) the revised Audit Charter at Appendix 6 be approved.

### **Risk and Assurance Map – Consultation for 2024/2025**

The Assistant Director of Assurance and Property Services submitted a report consulting the Committee on the development of the plans of work for Internal Audit and Risk and Assurance for the forthcoming year to give Members the opportunity to raise any issues which they feel should be considered in the plans.

The allocation of resources would continue to be flexible throughout the year, but there had been a number of priority areas identified for 2024/2025 as follows: -

- On-going audit work in relation to Council owned companies and Schools.
- Activity to deliver the City Plan, including the management of risks and projects to deliver key priorities
- Compliance with the Civil Contingencies Act
- Premises Management Arrangements
- Building Maintenance Statutory Compliance
- New Port Fuel Management System
- Implementation of the Homelessness Strategy Action Plan
- Financial Safeguarding Team
- Arrangements for the Assessment of Non-paid carers
- National Fraud Initiative and counter fraud work
- Key corporate functions/systems, particularly where significant changes/budget reductions are planned or have occurred.

Having considered the proposed priority work areas, it was: -

17. RESOLVED that the proposed plans of work for the Internal Audit and Risk and Assurance teams for 2024/2025 be noted.

### **Treasury Management – Third Quarterly Review 2023/2024**

The Director of Finance submitted a report presenting the Treasury Management performance to date for the third quarter of 2023/2024 and setting out the Lending List Criteria and Approved Lending List.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. No new borrowing had been taken out to date during 2023/2024 but the position continued to be monitored closely should it be needed to support the financing requirements of the Council's Capital Programme.

The Council's interest rate on borrowing was low, currently 2.80%, and the authority had benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 5.05% compared with a benchmark of 4.88%.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within the limits set for all of these. Further detail on the indicators was set out in Appendix A to the report. The investment policy was also regularly monitored and reviewed to ensure that it had the flexibility to take full advantage of any changes in market conditions which would benefit the Council.

The Council's authorised lending list continued to be updated regularly to take into account financial institution mergers and changes in institutions' credit ratings. The updated Approved Lending List was attached as Appendix C to the report for information. There had been no changes to the Lending List Criteria which were set out at Appendix B.

Councillor Trueman asked if the information shown on page 41 showed the debt level of the Council and it was confirmed that this was the case.

Consideration having been given to the report, it was: -

18. RESOLVED that: -

- (i) the Treasury Management performance during Quarter 3 of 2023/2024 be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

### **Treasury Management Policy and Strategy 2024/2025, including Prudential Indicators for 2024/2025 to 2027/2028**

The Director of Finance submitted a report informing the Committee of the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2024/2025. The Committee were asked to note the Prudential 'Treasury Management' Indicators for 2024/2025 to 2027/2028 and to provide comments to Council on the proposed policy and indicators where appropriate.

The Committee were made aware of the statutory requirement for the Council to set Prudential Indicators, including specific Treasury Management Indicators, for a minimum period of three years to ensure that the Council's capital investment plans were affordable, prudent, and sustainable. The Prudential Indicators reflected the

commitments in the Authority's current plans and ensured compliance so that proposed spending remained affordable.

The Council was also required to adopt a Treasury Management Policy Statement and to set out its Treasury Management Strategy comprising the Council's strategy for borrowing and the Council's policies for managing its investments and giving priority to the security and liquidity of those investments. The Ministry of Housing, Communities and Local Government (MHCLG) 'Statutory Guidance on Local Government Investments' had been updated in February 2018 and CIPFA had updated its Treasury Management in the Public Services Code of Practice in December 2021. The Council was required to have regard to this advice when setting its Treasury Management Policy Statement and Treasury Management Strategy.

The Prudential and Treasury Indicators for 2024/2025 to 2027/2028 were set out in Appendix 1 and the Treasury Management Policy Statement was shown at Appendix 2 and the Treasury Management Strategy at Appendix 3 to the report. There were no major changes proposed to the overall strategy which maintained the careful and prudent approach adopted by the Council in previous years. Paragraph 2.1.4 outlined the Council's potential Borrowing Strategy and it was noted that the basis of the proposed strategy for 2024/2025 was to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Council's future borrowing requirement when market conditions are considered favourable; and
- current (January 2024) long-term PWLB rate (50 years) 5.15%, Forecast rates over the financial year 2024/2025 are 4.90% Q1, 4.70% Q2, 4.60% Q3 and 4.40% Q4. Should interest rates fall below these rates borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.

Annex A of the report set out interest rate forecasts based on a range of intelligence sources and the Lending List Criteria and Approved Lending List were shown at Annex B and C of the report.

Mr Knowles referred to the fixed and floating limits for borrowing and asked, in relation to maturity, how the certain fixed element was set.

The Director of Finance explained that cash flow, spending and income was monitored on a daily basis and it was aimed to optimise any investments whilst adhering to counterparty limits. There were a whole raft of considerations which were made when the money was placed within the overall policy of maintaining liquidity and minimising risk. The Director of Finance also confirmed that detailed cash flows underpinning decision making were audited.

Councillor Crosby noted that 100% of Siglion was owned by the Council and asked if there were any costs associated with this. The Director of Finance said that partnership services were provided by the Council and there was an additional cost arising from that but nothing identifiable.



The Chair commended the work of the Treasury Management function and the consistent performance which was above national benchmarks.

Having noted the prudent approach and positive performance of the Treasury Management function, the Committee: -

19. RESOLVED that: -

- (i) the proposed Annual Treasury Management Policy and Strategy for 2024/2025 (including specifically the Annual Borrowing and Investment Strategies) and the Prudential 'Treasury Management' Indicators to 2024/2025 to 2027/2028 be noted; and
- (ii) the Council be advised that the Committee were satisfied that the arrangements for Treasury Management were in an excellent position for the next and future years.

### **Audit Progress Update**

Mark Kirkham was in attendance from Mazars and he advised that the 2022/2023 audit was not quite complete due to the need to have confirmation of an investment which was in place on 31 March 2023.

The Assistant Director of Finance reported that she had been in communication with the bank concerned daily about this matter but the confirmation was still awaited. The Director of Finance explained that the issue was that the bank needed to confirm that they held an investment balance for the Council on 31 March 2023.

The Chair proposed that this issue needed to be escalated and Mark stated that this had been done by other organisations in a similar position and suggested that this might be an appropriate action to take.

20. RESOLVED that the update be noted.

### **Dates and Times of Next Meetings**

21. RESOLVED that the next meeting be held on Friday 26 April 2024 at 1.30pm.

(Signed) G N COOK  
Chair



**AUDIT AND GOVERNANCE COMMITTEE****26th April 2024****ANNUAL GOVERNANCE REVIEW / STATEMENT 2023/24****Report of the Director of Finance****1. Purpose of Report**

- 1.1 This report provides details of the 2023/24 Annual Governance Review, Risk and Assurance Map at the end of the year and the Internal Audit opinion on the adequacy of the overall system of internal control. The draft Annual Governance Statement for 2023/24 is included.

**2. Description of Decision**

- 2.1 The Audit and Governance Committee is asked to
- note the report and Risk and Assurance Map at Appendix 1,
  - consider and agree the draft Annual Governance Statement at Appendix 2.

**3. Background**

- 3.1 In April 2023 the Committee approved the proposed Risk and Assurance Map for 2023/24 and the plans of work for Internal Audit and Risk & Assurance.
- 3.2 A key feature of the Council's Integrated Assurance Framework is to co-ordinate assurances that are provided by sources within the Council and external, for the Council and its wholly owned companies, Together for Children Ltd, Sunderland Care and Support Ltd and Siglion LLP. The results of this assurance work are used to review the Council and companies' corporate governance arrangements on an annual basis.
- 3.3 The Local Code of Corporate Governance is reviewed annually to ensure that it is up to date and effective. This year's review has not highlighted any required amendments and therefore remains relevant. The Council is also required to publish an Annual Governance Statement (AGS) with its Statement of Accounts, covering the Council and its companies which must be supported by a comprehensive assurance gathering process.

#### **4. Annual Governance Review 2023/24**

4.1 The review was undertaken by gathering assurance throughout the year from several sources via the Integrated Assurance Framework.

4.2 The review has considered assurances provided from:

- Assistant Directors
- Executive Directors/Directors
- Specialist functions with an oversight of governance arrangements
- Risk and Assurance
- Internal and External Audit
- Other external agencies

##### *Risk and Assurance Map*

4.3 The assurances gathered are shown in the Risk and Assurance Map which is updated and reviewed on a quarterly basis and presented to the Chief Officers and the Audit and Governance Committee throughout the year. The Audit and Governance Committee have monitored the assurances provided, received progress updates and considered the performance of the Internal Audit team. The Risk and Assurance Map as at 31<sup>st</sup> March 2024 is shown at Appendix 1.

##### Strategic Risk Areas

4.4 The top section of the Map relates to the risks identified in the Strategic Risk Profile, which reflects the priorities in the City Plan. Progress against each of the planned actions to mitigate the risks has been assessed with the lead officers and assurance levels determined for all areas.

##### Assurance from Internal Audit

4.5 The Map shows the opinion of Internal Audit from work undertaken within 2023/24 and the preceding three years in relation to the Council and its wholly owned companies.

4.6 The assurance ratings from Internal Audit in relation to the strategic and corporate risk areas have been updated as appropriate throughout the year.

##### Assurance from Risk and Assurance

4.7 Much of the work of Risk and Assurance is ongoing over a period of time due to the nature of the role, however, where ongoing assurance can be provided, this is shown on the Map.

##### Assurance from others within the Council

4.8 Assurance provided from others within the Council is shown in the Risk and Assurance Map. This predominantly shows substantial assurance against

the risk areas.

#### Assurance from Management

- 4.9 Arrangements are in place to obtain assurance from service management in a number of areas on an annual basis through the completion of a governance questionnaire. The completed questionnaires have been obtained for 2023/24 and have been used to allow Executive Directors/Directors to complete an assurance statement for their areas of responsibility. The updated results have been included within the Risk and Assurance Map.

#### Assurance from External Sources

- 4.10 The Map includes feedback received external sources are appropriate.

#### Overall

- 4.11 The overall level of assurance for all risk areas is either Green or Amber.

#### Internal Audit Performance

- 4.12 As a result of unexpected long term sickness the Internal Audit Team has had a shortage of staff resources during the year. To assist Internal Audit with the delivery of the Audit Plan for the year an external internal audit firm has been engaged. Despite this a small number of audits have been carried forward into 2024/25 with the agreement of the Chief Officers.
- 4.13 All of the Key Performance Indicator targets set for Internal Audit for the year were achieved.
- 4.14 It is confirmed that the internal auditors undertaking the work continue to remain independent of the areas audited.

#### *Counter Fraud / Error Work*

- 4.15 Planned counter fraud / error work was undertaken in the following areas during the year:

- BACS
- Income Collection
- Accounts Receivable
- Accounts Payable
- Payroll
- Revenue Procurement
- Adult Social Care Income Arrangements
- Vulnerable Groups Funding Arrangements

- 4.16 The work carried out did not highlight any significant issues however some opportunities for improvements to the control environment were identified, which have been reported upon.

### *Corporate Governance Improvement Plan*

- 4.17 The corporate governance improvement plan for 2023/24 included two actions. A review of progress on these actions found that all are complete.

### *Compliance with the Public Sector Internal Audit Standards*

- 4.18 Internal Audit continues to comply with the Public Sector Internal Audit Standards (PSIAS) through the standards being built into audit working practices. This was confirmed during an independent review of the service in March 2024. Although the review report has not yet been received verbal feedback has confirmed the service continues to comply with the Standards.

## **5. Draft Annual Governance Statement**

- 5.1 The Annual Governance Statement has been drafted taking into account the findings of the annual governance review and is attached at Appendix 2.

## **6. Conclusion / Opinion**

- 6.1 This report sets out the assurance provided in the Risk and Assurance Map, work undertaken by the Internal Audit team and performance for Internal Audit for 2023/24.
- 6.2 The opinion of the head of internal audit has been reported to the Audit and Governance Committee throughout the year. This opinion continues to be that the Council has an adequate system of internal control.
- 6.3 The Council continues to have robust and effective corporate governance arrangements in place. The views elicited during the review from senior managers across the Council, and all Chief Officers, demonstrate that the principles of good governance continue to be embedded Council-wide.

## **7. Recommendations**

- 7.1 The Audit and Governance Committee are asked to:
- Note the report and Risk and Assurance Map at Appendix 1,
  - consider and agree the draft Annual Governance Statement at Appendix 2.

Risk and Assurance Map – 31<sup>st</sup> March 24

Strategic and Corporate Risk Areas			1st Line												
	Current Risk Score	Cumulative Assurance Position	2nd Line											3rd Line	
			Other Internal Assurance Activity											Internal Audit	External Assurance
			Law & Governance	Financial	Programmes & Projects	Performance	DPO	ICT	People Mgt	Health & Safety	Business Continuity	Risk & Assurance	Internal Audit	External Assurance	
<b>Strategic Risk Areas</b>															
<b>Dynamic Smart City</b>															
More and better jobs	Amber	Green										Green			
More and better housing	Amber	Green										Green			
More local people with better qualifications and skills	Red	Amber										Amber			
A stronger City Centre with more businesses, housing and cultural opportunities	Red	Green										Green			
A lower carbon City with greater digital connectivity for all	Amber	Green										Green			
<b>Healthy Smart City</b>															
Equitable opportunities and the best life chances for children	Green	Green										Amber		Green	
Reduced health inequalities enabling more people to live healthier longer lives	Red	Amber										Amber			
High quality support and social care that enables those who need it to live the life they want to lead	Amber	Green										Green	Green		
Cleaner and more attractive City and neighbourhoods	Amber	Amber										Green	Amber		
Great transport links with low carbon and active travel opportunities for all	Amber	Amber										Amber			
<b>Vibrant Smart City</b>															
Residents feeling proud of the city and please where they live with more people active and participating in their communities	Amber	Green										Green			
More people visiting Sunderland with businesses thriving and more residents shaping and participating in cultural events	Amber	Amber										Amber			
More people feeling safe in their homes and neighbourhoods and businesses benefitting from the city's safe and secure environment	Amber	Amber										Amber			
Residents who are more resilient to ongoing challenges including the cost-of-living crisis	Amber	Green										Green			
<b>Enabling</b>															
Finance	Red	Green										Amber		Green	
Partnership Working	Amber	Amber										Amber			
<b>Corporate Risk Areas</b>															
Strategic Planning	Amber	Green				Green						Green			
Commissioning	Amber	Amber	Green									Amber		Amber	
Service Delivery Arrangements	Amber	Amber	Green									Amber	Green	Amber	
Partnership/Integrated Working	Amber	Green	Green									Green		Green	
Procurement	Green	Green										Green	Green		
Relationship/Contract Management	Green	Green										Green	Green	Amber	
Legality	Green	Green	Green	Green								Green	Green		
Risk Management	Amber	Green										Green		Amber	
Corporate Performance Management	Green	Green				Green						Green			
Financial Management	Green	Green	Green	Green								Green	Green	Green	
Income Collection	Green	Green										Green	Green	Green	
Capital Programme Management	Amber	Amber										Amber			
People Management	Red	Amber	Green						Green			Green	Green	Amber	
Health and Safety	Amber	Green	Green							Green		Green			
ICT Infrastructure	Amber	Amber						Green				Amber			
Cyber Security	Amber	Amber						Green				Amber			
Information Governance/Security	Amber	Green	Amber				Green					Amber	Green		
Business Continuity Management	Amber	Green								Green		Amber	Green		
Programme and Project Management	Red	Amber	Green		Green							Amber	Green	Amber	
Asset Management	Amber	Amber									Green	Amber			
Anti-Fraud and Corruption	Green	Green	Green							Green		Green	Green		
<b>Council Owned Companies</b>															
Sunderland Care and Support	Amber	Green		Green								Green	Green	Green	
Together for Children Sunderland	Green	Green		Amber							Green	Green	Green	Green	
Siglon	Amber	Green		Green								Green	Green	Green	

Key: X=activity planned, White=no coverage, Green=full / substantial assurance, Amber=moderate assurance, Red=limited / no assurance

## 2023/24 Annual Governance Statement

### 1. SCOPE OF RESPONSIBILITY

The Council is responsible for ensuring that its business, and that of its owned companies, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. We also have a duty to continually review and improve the way in which functions are exercised.

We have put in place a local Code of Corporate Governance and a framework intended to make sure we do the right things, in the right way, for the right people. The Code is in line with the 2016 Framework issued by CIPFA. This Statement explains how the Council has complied with its Code in 2023/24.

### 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values that direct and control our activities and through which we account to, engage with, and lead the community. The framework enables us to monitor the achievement of strategic objectives and priorities and to consider whether they have led to the achievement of appropriate, cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The governance framework has been in place at the Council for the year ended 31st March 2024 and up to the date of approval of the Statement of Accounts.

### 3. THE GOVERNANCE FRAMEWORK

- 3.1 The City Plan sets out the vision for the City until 2035. The intentions of the vision are set out as part of a Dynamic Smart, Healthy Smart and Vibrant Smart City. The City Plan sets out explicitly the Council's planned key actions and performance targets for the future.
- 3.2 The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the Council's vision remains relevant and meets the needs of local communities. There are annual reviews of the Local Code of Corporate Governance to ensure that it is upto date and effective.



- 3.3 Arrangements are in place to measure the quality of services, to ensure they are delivered in line with our objectives and priorities and for ensuring that they provide value for money. There are performance management arrangements in place including regular reporting to the Chief Officer's Group and Scrutiny. Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions.
- 3.4 The roles and responsibilities of Council members and employees are clearly documented. The Council's Constitution sets out how the Council operates. It incorporates a delegation scheme, indicates responsibilities for functions and sets out how decisions are made. The Council's wholly owned companies have similar arrangements that set out how they will be governed.
- 3.5 The Constitution includes Rules of Procedure and a scheme of delegation which clearly define how decisions are taken and we have various Codes and Protocols that set out standards of behaviour for members and staff. Directorates have established delegation schemes, although these require regular updating to reflect ongoing organisational changes.
- 3.6 During the year a system of scrutiny was in place allowing the scrutiny function to:
- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
  - make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
  - consider any matter affecting the area or its inhabitants;
  - exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees;
  - consider Local Petitions and Councillor Calls for Action for matters within their terms of reference; and
  - consider regular reports on the Council's performance against the City Plan.
- 3.7 A range of financial and people management policies and procedures are in place. Appropriate project management standards and Business Continuity Plans are in place. There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts. There are clearly defined capital expenditure guidelines in place and procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

- 3.8 The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. The importance of compliance with this statement was also confirmed in Financial Management Code issued by CIPFA in 2019. The Director of Finance is designated Chief Finance Officer and fulfils this role through the following:
- Attendance at meetings of the Chief Officer Group, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
  - Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
  - Alignment of medium term business and financial planning processes;
  - Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively; and
  - Ensuring that the finance function is resourced to be fit for purpose.
- 3.9 The Council has an Audit and Governance Committee which, as well as approving the Council's Statement of Accounts, undertakes an assurance and advisory role to:
- consider the effectiveness of the Council's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
  - be satisfied that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
  - receive and consider (but not direct) internal audit's strategy, plan and monitor performance;
  - receive and consider the external audit plan;
  - review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
  - receive and consider the annual report of internal audit;
  - consider the reports of external audit and inspection agencies, including the Annual Audit Letter;
  - ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
  - review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit;
  - review the adequacy of and compliance with, the Council's Treasury Management Policy; and
  - make recommendations to Cabinet or Council as appropriate.

- 3.10 We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Assistant Director of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers to safeguard the legality of all Council activities. All Cabinet Reports are considered for legal issues before submission to members.
- 3.11 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised and subject to periodic review. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they can easily report their concerns. Monitoring records held by the Assistant Director of Law and Governance show that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.
- 3.12 We have arrangements to identify the development needs of members and senior officers in relation to their strategic roles. The Council recognises that managing the performance of all of employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation of the extent to which employees understand and support the values of the Council.
- 3.13 Channels of communication have been established with the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that services meet the needs of local people.
- 3.14 The Council has arrangements in place for the consistent management of partnerships through guidance and supporting documents for all Council employees to use when involved with partnerships and supporting arrangements have been in place throughout the year.
- 3.15 Contractual arrangements with our subsidiary companies set out challenging targets around use of resources and improved outcomes.

## 4. REVIEW OF EFFECTIVENESS

- 4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is carried out over the course of the year through the Integrated Assurance Framework. The review is informed by the Risk and Assurance Map which summarises assurances gathered from various sources in relation to the Council and its wholly owned companies, and in particular:
- Assurances from Assistant Directors who have carried out self-assessments relating to their areas of responsibility;
  - assurances from Chief Officers through completion of controls assurance statements;
  - assurances from senior officers responsible for relevant specialist areas;
  - internal audit planning processes which include consultation with all Chief Officers, and the results of audit activity as summarised in the Annual Governance Review report.
- 4.2 The Assistant Director of Assurance and Property Services, as the Council's head of internal audit, has directed, co-ordinated and overseen the review and its findings have been reported to the Chief Officers for their consideration and approval of the Annual Governance Statement.
- 4.3 The findings of the review have been reported to the Audit and Governance Committee in April 2024 to ensure that under their Terms of Reference the Committee has satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it before formal approval of the Statement of Accounts.
- 4.4 The outcome of the review of effectiveness provided the necessary assurance and that no significant issues across the Council or its wholly owned companies were identified.
- 4.5 We have been advised of the outcome of the review of the effectiveness of the governance framework, and that the overall arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Councillor Graeme Miller  
Leader of the Council

Patrick Melia  
Chief Executive

Paul Wilson  
Director of Finance

Dated

**AUDIT AND GOVERNANCE COMMITTEE**26<sup>th</sup> April 2024**RISK AND ASSURANCE MAP 2024/25****Report of the Assistant Director of Assurance and Property Services****1. Purpose of Report**

1.1 To enable the Audit and Governance Committee to consider:

- The proposed Risk and Assurance Map and the supporting plans of work for Internal Audit and Risk and Assurance for 2024/25;
- Internal Audit's key performance measures and targets for 2024/25.

1.2 The report covers work undertaken for the Council and Council owned companies.

**2. Current Position**

2.1 In February 2024, the Audit and Governance Committee was asked for its comments in relation to a range of potential areas of work to support the Risk and Assurance Map for the coming year.

2.2 This report presents the Risk and Assurance Map for 2024/25 and sets out where assurance will be obtained from, including the plans of work for Internal Audit and Risk and Assurance, and the performance measures for Internal Audit. Regular update reports will continue to be provided to Members throughout the rest of the year.

**3. Recommendation**

3.1 The Audit and Governance Committee is invited to consider and note the report.

## **Risk and Assurance Map 2024/25**

### **1. Introduction**

- 1.1 In order for the Council to ensure that it has robust arrangements for delivering its priorities, managing its affairs and completing its Annual Governance Statement with some certainty, it must have in place three key elements: good Governance, Risk Management and Assurance. The Council's Integrated Assurance Framework provides a comprehensive view on the arrangements in place within the Council.
- 1.2 This Framework enables assurances to be sourced from service management, corporate functions with an oversight role, internal audit and external sources (e.g. external audit / inspectorates) in relation to key risk areas.

### **2. Risk and Assurance Map**

- 2.1 The proposed Risk and Assurance Map for 2024/25 is shown at Appendix 1. This highlights those areas for which assurance will be provided, where the assurance is expected to be obtained from and the current assurance level based on work undertaken previously.
- 2.2 As previously, the Map is split into three parts, Strategic Risk Areas which align with the City Plan priorities, Corporate Risk Areas which represent the risk areas that need to be managed for the Council to maintain a strong system of internal control, and companies owned by the Council.
- 2.3 Where assurance is expected to be provided from a particular source this is marked with an X. As in previous years the level of assurance provided will be updated based on the results of the work undertaken within the area and the assurance gathered from the various sources.
- 2.4 The Map has been prepared based on the work undertaken and reported previously and the planned activity has been developed in consultation with the Chief Executive, all Executive Directors/Directors and key senior officers across the Council. The current assurance position in relation to all key risk areas is either Amber or Green.
- 2.5 The work to be undertaken by Internal Audit and Risk and Assurance in support of the Map is shown at Appendix 2. The appendix shows all of the work that contributes to providing assurance against each risk area (some work provides assurance to more than one risk area).

### **3. Key Areas of Activity**

- 3.1 As in previous years the level of change ongoing within the Council continues to be significant and the pressure to deliver the Council's Strategic Priorities and budget savings. The Strategic Risk Profile is driven by the City Plan.
- 3.2 The work of Risk and Assurance includes obtaining assurance on the progress in relation to the actions identified to manage risks in the Strategic Risk Profile and providing risk management support to senior managers as required. In addition, work is ongoing in relation to updating the Council's Risk Management Policy and Framework, and the Integrated Assurance Framework.
- 3.3 The planned internal audit work for the year is shown in Appendix 2. The plan includes work on the following key areas:
- Implementation of the Homelessness Strategy Action Plan.
  - Adults Financial Safeguarding.
  - Commercial Waste Management.
  - Compliance with the Civil Contingencies Act.
  - Project Management Benefits Realisation.
  - Programme Management Arrangements in relation to regeneration activity.
  - ICT Asset Management.
  - Premises Management.
  - Building Maintenance Statutory Compliance.
  - Audits of maintained schools are scheduled over a three-year cycle.
  - Completion of audit certificates where grant funders require verification that monies have been spent in line with grant conditions.
  - A range of audits of the Council's financial systems will be undertaken in line with an agreed 5 year rolling plan.
  - Each of the Council's companies has their own audit plan, the results of which feed into the Risk and Assurance Map.
- 3.4 Counter Fraud work will continue, including participation in the National Fraud Initiative.

#### **4. Internal Audit**

- 4.1 The Key Performance Indicators and targets that Internal Audit aim to achieve are attached at Appendix 3. The targets remain the same as the previous year.
- 4.2. It is confirmed that the internal auditors undertaking the work continue to remain independent of the areas audited.

#### **5. Reporting Protocols**

- 5.1 Progress reports will be presented to the Committee during the year. The reports will indicate the level of assurance provided, and significant findings arising from the work undertaken.
- 5.2 An Annual Report (including the year end Risk and Assurance Map) will be prepared for the Chief Officers and Audit and Governance Committee in order to provide assurance or otherwise and enable the Annual Governance Statement to be completed.



Risk and Assurance Map – 2024/25 Plan

Strategic and Corporate Risk Areas			1st Line												
	Current Risk Score	Cumulative Assurance Position	2nd Line											3rd Line	
			Other Internal Assurance Activity											Internal Audit	External Assurance
			Law & Governance	Financial Resources	Programmes & Projects	Performance	DPO	ICT	People Mgt	Health & Safety	Business Continuity	Risk & Assurance	Internal Audit	External Assurance	
<b>Strategic Risk Areas</b>															
<b>Dynamic Smart City</b>															
More and better jobs	Amber	Green										Green			
More and better housing	Amber	Green										Green	Amber		
More local people with better qualifications and skills	Red	Amber										Green			
A stronger City Centre with more businesses, housing and cultural opportunities	Red	Green										Green			
A lower carbon City with greater digital connectivity for all	Amber	Green										Green			
<b>Healthy Smart City</b>															
Equitable opportunities and the best life chances for children	Green	Green										Green	Amber	Green	
Reduced health inequalities enabling more people to live healthier longer lives	Red	Amber										Green			
High quality support and social care that enables those who need it to live the life they want to lead	Amber	Green										Green	Green		
Cleaner and more attractive City and neighbourhoods	Amber	Amber										Green	Amber		
Great transport links with low carbon and active travel opportunities for all	Amber	Amber										Green			
<b>Vibrant Smart City</b>															
More people being active and participating in their communities	Amber	Green										Green	Green		
More people visiting Sunderland with businesses thriving and more residents shaping and participating in cultural events	Amber	Amber										Green	Amber		
More people feeling safe in their homes and neighbourhoods and businesses benefitting from the city's safe and secure environment	Amber	Amber										Green			
Residents who are more resilient to ongoing challenges including the cost-of-living crisis	Amber	Green										Green			
<b>Enabling</b>															
Finance	Red	Green										Green	Green	Green	
Partnership Working	Amber	Amber										Green	Amber		
<b>Corporate Risk Areas</b>															
Strategic Planning	Amber	Green				Green						Green			
Commissioning	Amber	Amber	Green									Green	Amber	Amber	
Service Delivery Arrangements	Amber	Amber	Green									Green	Green	Green	
Partnership/Integrated Working	Amber	Amber	Green									Green	Green	Green	
Procurement	Green	Green										Green	Green		
Relationship/Contract Management	Amber	Amber										Green	Amber	Amber	
Legality	Green	Green	Green	Green								Green	Green		
Risk Management	Amber	Amber										Green	Green	Amber	
Corporate Performance Management	Green	Green				Green						Green	Green		
Financial Management	Green	Green	Green									Green	Green	Green	
Income Collection	Green	Green										Green	Green	Green	
Capital Programme Management	Amber	Amber										Green	Green		
People Management	Red	Amber	Green						Green			Green	Amber	Amber	
Health and Safety	Amber	Amber	Green							Green		Green	Green	Green	
ICT Infrastructure	Amber	Amber						Green				Green	Green		
Cyber Security	Amber	Amber						Green				Green	Green		
Information Governance/Security	Amber	Amber	Green				Green					Green	Green		
Business Continuity Management	Amber	Amber									Green	Green	Green		
Programme and Project Management	Red	Amber	Green		Green							Green	Green	Amber	
Asset Management	Red	Amber									Green	Green	Green	Amber	
Anti-Fraud and Corruption	Green	Green	Green								Green	Green	Green		
<b>Council Owned Companies</b>															
Sunderland Care and Support Ltd.	Amber	Green		Green								Green	Green	Green	
Together for Children Sunderland Ltd.	Green	Green		Green							Green	Green	Green	Green	
Siglion LLP	Amber	Green		Green								Green	Green		

Key: X=activity planned, White=no coverage, Green=full / substantial assurance, Amber=moderate assurance, Red=limited / no assurance

## Detailed Coverage 2024/25 – Internal Audit and Risk &amp; Assurance

Strategic Risk Area	Internal Audit Work	Risk and Assurance Work
More and better jobs		Strategic Risk Profile Updates
More and better housing	Implementation of the Homelessness Strategy Action Plan (10 days)	Strategic Risk Profile Updates
More local people with better qualifications and skills		Strategic Risk Profile Updates
A stronger city centre with more businesses, housing and cultural opportunities		Strategic Risk Profile Updates
A lower carbon city with greater digital connectivity for all		Strategic Risk Profile Updates
Equitable opportunities and the best life chances for children		Strategic Risk Profile Updates
Reduced health inequalities enabling more people to live healthier longer lives		Strategic Risk Profile Updates
High quality support and social care that enables those who need it to live the life they want to lead	Financial Safeguarding (20 days) Non-paid carers (15 days)	Strategic Risk Profile Updates Risk support to the Safeguarding Adults Board
A cleaner and more attractive city and neighbourhoods		Strategic Risk Profile Updates
Great transport links with low carbon and active travel opportunities for all		Strategic Risk Profile Updates
More people being active and participating in their communities	Neighbourhood Investment Fund (15 days)	Strategic Risk Profile Updates
More people visiting Sunderland with businesses thriving and more residents shaping and participating in cultural events		Strategic Risk Profile Updates
More people feeling safe in their homes and neighbourhoods and businesses benefitting from the city's safe and secure environment		Strategic Risk Profile Updates
Residents who are more resilient to ongoing challenges including the cost-of-living crisis		Strategic Risk Profile Updates

Strategic Risk Area	Internal Audit Work	Risk and Assurance Work
Finance		Strategic Risk Profile Updates
Partnership Working		Strategic Risk Profile Updates

Corporate Risk Area	Internal Audit Work	Risk and Assurance Work
Strategic Planning		
Commissioning		
Service Delivery Arrangements	Port Fuel Management (12) Allotments (12 days) Highways Permits (15 days) Commercial Waste Management (15 days)	
Partnership/Integrated Working		
Procurement	Revenue Procurement (8 days) Capital Procurement (12 days)	Financial Assessments of bidders – as part of the procurement process
Relationship/Contract Management		
Legality	Compliance with the Civil Contingencies Act (12 days)	
Risk Management		Update of the Strategic and Corporate Risk Profiles in line with the City Plan  Risk management support to senior managers as required throughout the year on service delivery and project management issues
Corporate Performance Management	Public Health Operational Performance Management (10 days)	

Corporate Risk Area	Internal Audit Work	Risk and Assurance Work
Financial Management	<p>Treasury Management (10 days)            Delivery of SLA's with Public Health (12 days)            Main Accounting (10 days)            Payroll 15 (days)            BACS (4 days)            Accounts Payable (5 days)            Benefits applications, admin and processing (12 days)</p> <p><b>Grants (3 days each):</b>            Local Transport Capital Settlement - Highways Maintenance Needs Element            Local Transport Capital Settlement - Integrated Transport            Local Transport Capital Settlement - Incentive Element            Nexus (Combined Authority)            Pothole Action Fund            Network North            Better Care Fund - DFG            Installing Changing Places and Toilet Facilities            Sustainable Mobility Hub            Riverside Sunderland Strategic Infrastructure Works            Holmeside Bus Rationalisation            Strategic Cycle Network            Sunderland Railway Station            Smarter Cities            Holmeside MSCP            Family Hubs and Start for Life            A183 Whitburn Road            5G Innovations Region</p>	
Income Collection	<p>Allotments (12 days)            Income Collection (5 days)            Accounts Receivable and Periodic Income (5 days)            Highways Permits (15 days)            Commercial Waste Management (15 days)            Council Tax Liability, Setting and Billing (16 days)</p>	

Corporate Risk Area	Internal Audit Work	Risk and Assurance Work
	NNDR Liability, Setting and Billing (16 days)	
Capital Programme Management	Capital Programme Management (10 days) Project Management Benefits Realisation (15)	
People Management		
Health and Safety		
ICT Infrastructure		
Cyber Security	ISO checks (10 days)	
Information Governance/Security	GDPR (5 days) ISO Checks (10 days) Compliance with payment card industry standards (12 days)	
Business Continuity Management		
Programme and Project Management	Regeneration Programme Management (15 days)	
Asset Management	ICT Asset Management (14 days) Use of electric vehicles (8 days) Fleet Management (12 days) Premises Management (12 days) Building Maintenance Statutory Compliance (12 days)	
Anti-Fraud and Corruption	Port Fuel Management Allotments Income Collection Use of electric vehicles ICT Asset Management BACS NFI data extraction/upload (40 days) Highways Permits Commercial Waste Management Council Tax Liability, Setting and Billing NNDR Liability, Setting and Billing	

Corporate Risk Area	Internal Audit Work	Risk and Assurance Work
	Financial Safeguarding	

*Note: Given a piece of work can contribute towards more than one risk area, audits may be shown more than once above.*

**Detailed Coverage 204/25 – Council Owned Companies work (for information only)**

<b>Council Owned Companies</b>	<b>Internal Audit Work</b>	<b>Risk and Assurance Work</b>
Sunderland Care and Support	Compliance with Financial Procedures (10 days) Assistive Technologies (12 days) Information Governance (18 days) Contract Management Arrangements (18 days)	
Together for Children	Holiday Activity Fund (3 days) Supporting Families (3 days) Family Hubs (11 days) Derwent Hill (17 days) Optimisation of VAT recovery (7 days) Marlow Drive (5 days) Nookside (5 days) School Admissions (12 days)	
Siglion	Property Disposals (15 days)	Risk and Assurance Support in relation to risk management arrangements

## Appendix 3

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2024/25		
<b>Efficiency and Effectiveness</b>		
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the corporate risk areas	1) All corporate risk areas covered over a 3 year period
	2) Percentage of draft reports issued within 21 calendar days of the end of fieldwork	2) 90%
	3) Percentage of audits completed by the target date	3) 85%
<b>Quality</b>		
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant. 90% for medium risk
<b>Client Satisfaction</b>		
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)
	2) Results of other Questionnaires	2) Results classed as 'Good'
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported



**AUDIT AND GOVERNANCE COMMITTEE**

**26<sup>th</sup> April 2024**

**PROPOSED FORWARD PLAN OF REPORTS FOR 2024/25**

**Report of the Director Finance**

**1. Purpose of Report**

- 1.1 To enable the Committee to consider and comment on the proposed Forward Plan of reports for 2024/25.
- 1.2 There will be four meetings of the Committee during the year (including this one) where various reports will be presented. Those expected are included within this report although there may be other ad hoc reports as required.

**2. Recommendations**

- 2.1 Members are asked to consider and agree to the attached proposed Forward Plan of reports.

## Audit and Governance Committee

### Forward Plan of Reports 2023/24

Month	Brief Description	Report of
26 <sup>th</sup> April 2024	Annual Governance Review/Annual Governance Statement 2023/24	Director of Finance
	Risk and Assurance Map 2024/25	Assistant Director of Assurance and Property Services
	Forward Plan of Reports 2024/25	Director of Finance
	Member Training and Development	Director of Finance
	Auditor's Annual Report 2021/22 and 2022/23	External Auditor
	Audit Progress Report	External Auditor
	Audit Strategy Memorandum 2023/24	External Auditor
19th July 2024	Annual Review on the Work of the Committee 2023/24	Director of Finance
	Public Sector Internal Audit Standards Review	Assistant Director of Assurance and Property Services
	Treasury Management Annual Review 2023/24	Director of Finance
	Treasury Management First Quarter Review 2024/25	Director of Finance
	Council's Going Concern Status Report	Director of Finance
	Data Protection Annual Report 2023/24	Data Protection Officer
	Audit Progress Report	External Auditor
27 <sup>th</sup> September 2024	Risk and Assurance Map – Update 2024/25	Assistant Director of Assurance and Property Services
	Audited Statement of Accounts 2023/24 (including the Audit Completion Report from the External Auditor)	Director of Finance
	Treasury Management Second Quarter Review 2024/25	Director of Finance

Month	Brief Description	Report of
7 <sup>th</sup> February 2025	Risk and Assurance Map Update 2024/25	Assistant Director of Assurance and Property Services
	Risk and Assurance Map 2025/26 Consultation	Assistant Director of Assurance and Property Services
	Treasury Management Third Quarter Review 2024/25	Director of Finance
	Treasury Management Policy and Strategy 2025/26	Director of Finance
	Audit Progress Report	External Auditor
	Auditor's Annual Report 2023/24	External Auditor



**AUDIT AND GOVERNANCE COMMITTEE****26<sup>th</sup> April 2024****Member Training and Development****Report of the Director of Finance****1. Purpose of Report**

- 1.1 The purpose of this report is to provide members of the Committee with the opportunity to identify areas for which they require any further training / refresher / awareness sessions to be arranged.

**2. Training / Development Requirements**

- 2.1 The proposed forward plan of reports that are to be presented to the Committee throughout 2024/25 is included as an agenda item for this meeting. This may provide members with a reference for any areas for which they would like to receive further training / awareness sessions.
- 2.2 The draft Statement of Accounts 2023/24 will be forwarded to members upon publication and the audited Statement of Accounts will be presented at the committee meeting in September. It is therefore proposed that a briefing session be offered for members in June/July regarding the Statement of Accounts so that they can be made aware of the key areas.
- 2.3 It is also proposed for a training session for members be held in October regarding Treasury Management. The session will be delivered by the Council's Treasury Management Advisors via Microsoft Teams.

**3. Recommendations**

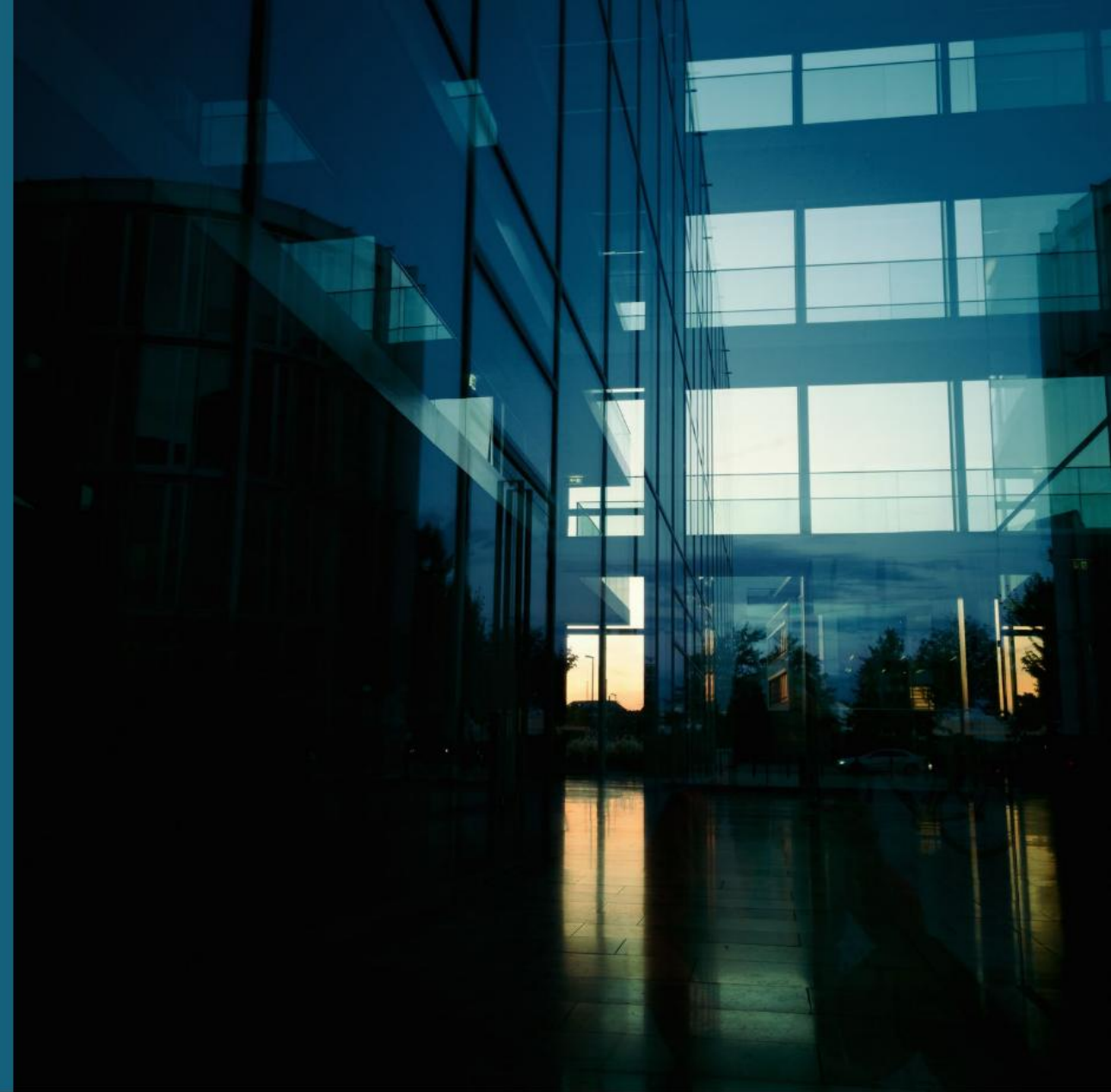
- 3.1 Members are asked to consider any areas for which they would like to receive training or awareness sessions, and:
- Agree to the offer of a briefing regarding the 2023/24 Statement of Accounts.
  - Agree to receive a training session regarding Treasury Management.
  - Suggest any further areas for training / awareness sessions required.



# Auditor's Annual Report

Sunderland City Council - years ended  
31 March 2022 and 31 March 2023

March 2024



# Contents

- 01** Introduction
- 02** Audit of the financial statements
- 03** Commentary on value for money arrangements
- 04** Other reporting responsibilities

## Appendix

A. Further information on our audit of the financial statements

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.



# 01

## Section 01: **Introduction**

# 1. Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Sunderland City Council ('the Council') for the year ended 31 March 2022 and 31 March 2023. In accordance with Section A of the National Audit Office's Supplementary Guidance Note 02, we are issuing a combined report covering the years ended 31 March 2022 and 31 March 2023. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



### Opinion on the financial statements

We issued our audit reports for 2021/22 on 31 October 2023 and for 2022/23 on 16 February 2024. Our opinions on the financial statements were unqualified.



### Value for money (VFM) arrangements

In our audit reports for 2021/22 and 2022/23, we explained that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting.

Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements.



### Wider reporting responsibilities

The National Audit Office (NAO), as group auditor, requires us to complete the Whole of Government Accounts (WGA) Assurance Statement in respect of its consolidation data.

We submitted this information to the NAO on 31 October 2023 in respect of 2021/22 and on 15 April 2024 for 2022/23.

# 02

Section 02:

## **Audit of the financial statements**

## 2. Audit of the financial statements

### The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council and Group's financial position as at 31 March 2022 and 31 March 2023 and of its financial performance for the years then ended.

Our audit reports, issued on 31 October 2023 and 16 February 2024, gave unqualified opinions on the financial statements for the years ended 31 March 2022 and 31 March 2023.

### Qualitative aspects of the Council's accounting practices

Additional work has been carried out in 2021/22 in respect of the Council's accounting practices in relation to infrastructure assets, following issues highlighted nationally that have been relevant for all highway authorities. The Council undertook additional work to analyse their infrastructure assets in early 2023; we critically reviewed this area as part of our audit work.

In addition, due to the elapsed time of the 2021/22 audit work, additional work was required by the Council, as the pensions triennial valuation was completed, which required a further update to the 2021/22 statement of accounts.

### Significant difficulties during the audit

There were no significant difficulties during the audit, over and above the national issues, impacting on most local government bodies, leading to delays i.e. the national infrastructure issue and the impact of the elapsed

time, leading to further amendments being required to the statement of accounts, when the pensions triennial valuation was completed.

### Internal control recommendations

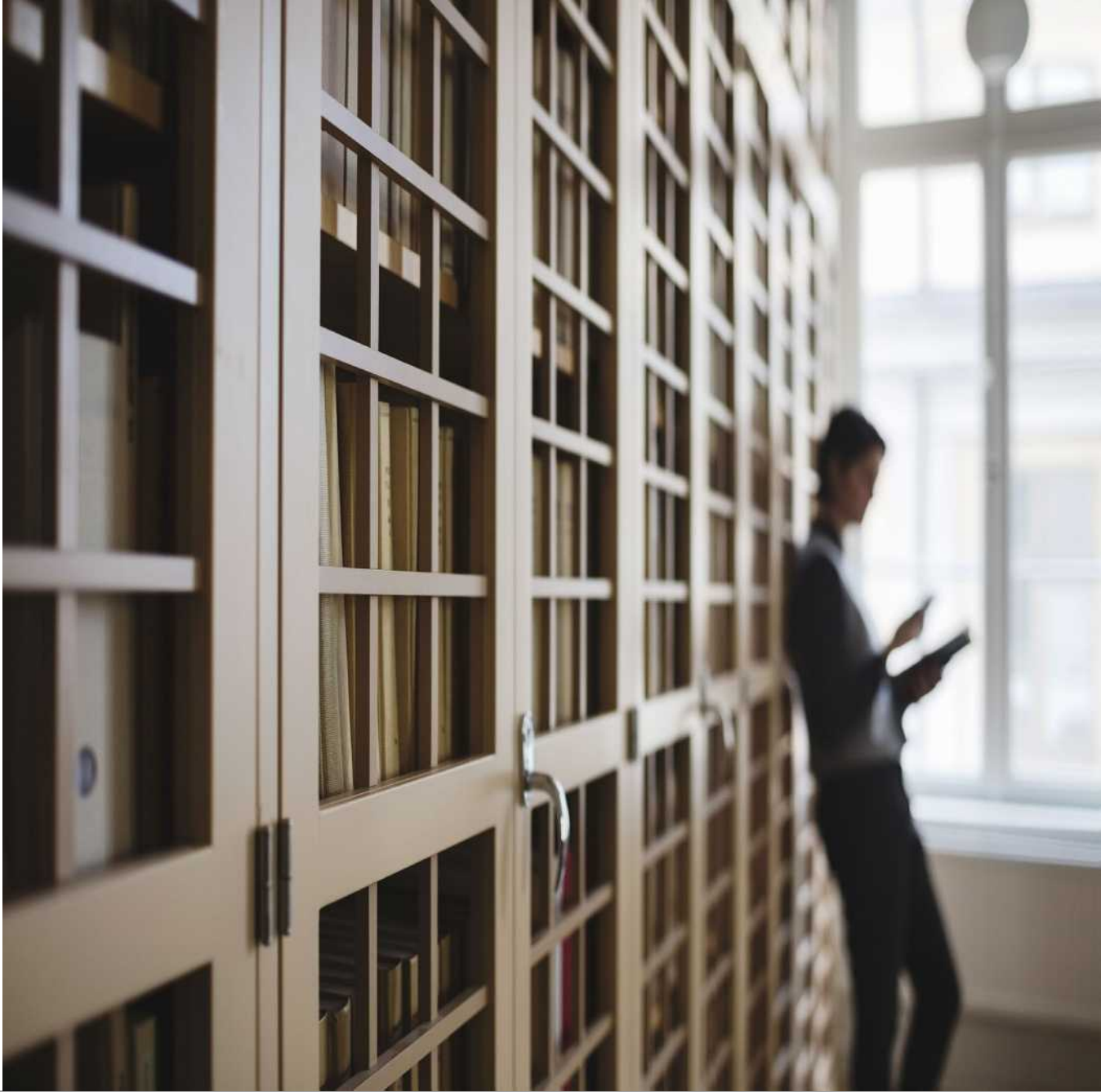
As part of our audit, we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Our audit work did not identify any significant (high priority) recommendations in relation to internal controls.

# 03

Section 03:

**Commentary on VFM arrangements**

### 3. Commentary on VFM arrangements



## Our approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



**Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services.



**Governance** - how the Council ensures that it makes informed decisions and properly manages its risks.



**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 work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may 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.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

### Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We did not identify a risk of significant weakness in the Council's arrangements for 2021/22 and 2022/23.

### Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria.

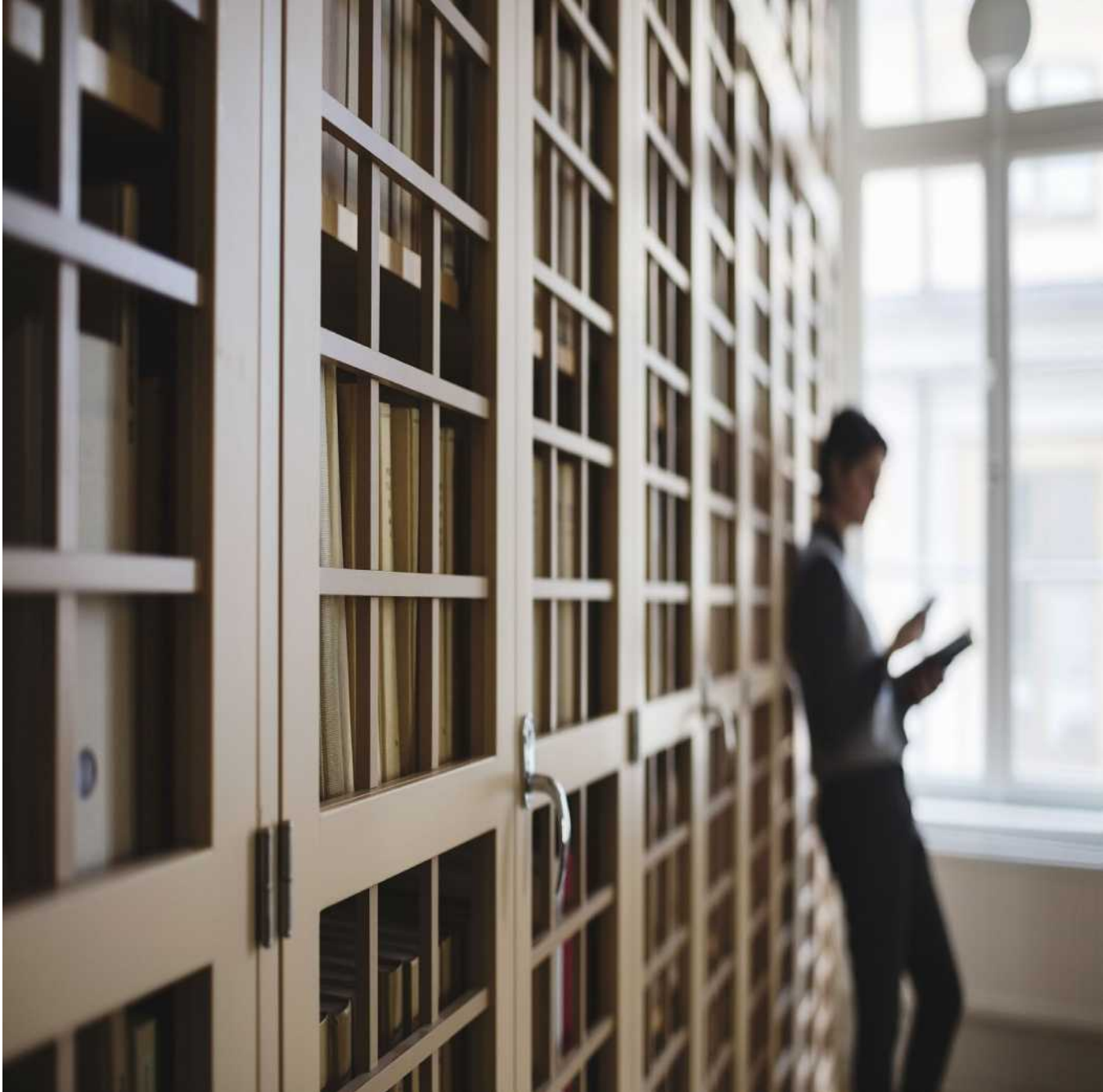
# 3. VFM arrangements – overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 <b>Financial sustainability</b>	11	No	No	No
 <b>Governance</b>	14	No	No	No
 <b>Improving economy, efficiency and effectiveness</b>	17	No	No	No



### 3. Commentary on VFM arrangements



# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

The Council's Medium-Term Financial Plan (MTFP) includes financial projections analysis and context that supports the City Plan 2019-2030. The City Plan sets out the vision for the City until 2030. The intentions of the vision are set out as part of a Dynamic, Healthy and Vibrant City. The City Plan sets out explicitly the Council's planned key actions and performance targets for the future.

The overarching aim of the Sunderland City Council Capital Strategy ("the Strategy") is to provide a framework within which the Council's capital investment is prioritised and delivered with an overall ambition that by 2030 Sunderland will be a connected, international city with opportunities for all.

Quarterly reports are presented to the Cabinet throughout the year, underpinned by budget monitoring within each portfolio and service and reporting to the Chief Officers' Group. The quarterly reports provide a clear summary of the projected outturn and the actuals, along with supporting narrative to explain any significant changes. Implications of overspends and non-delivery of planned savings and efficiencies are set out in each report.

The Council has a strong track record of delivering its budget over the last decade, despite the continued pressures of funding reductions and the need to identify and deliver expenditure reductions, reporting a surplus of £0.037 million for 2021/22 and £8.932m for 2022/23 (prior year £0.264 million for 2020/2021). Ongoing financial pressures are highlighted in the Council's quarterly reports and robust budget monitoring is crucial to its financial sustainability.

Our review of minutes and supporting papers has confirmed MTFP arrangements have remained in place in 2021/22 and 2022/23 and to date, including consideration of the latest MTFP covering 2024/25 to 2027/28.

### How the Council plans to bridge its funding gaps and identifies achievable savings

The overarching MTFP includes the identification of savings and efficiencies over the period of the next four years, after taking into account estimated funding. The latest plan sets out the headline messages of an estimated MTFS gap after agreed use of reserves of £50.1 million across the four-year period to 31 March 2028, incorporating savings proposals of £6.626 million in that period.

The annual budget savings cycle is a continuous approach with budget developments brought to Cabinet for consideration throughout the year to allocate resources to services and consider consultation outcomes.

Savings of approximately £6.27 million and £5.82million were built into the budget for 2021/22 and 2022/23 respectively, of which approximately 80% and 87% were achieved; in the context of the net budget, the savings not delivered were not a significant amount. For 2023/24 and 2024/25, savings of £13.38 million and £6.67 million respectively are planned.

### How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

As detailed in the MTFP, *"in seeking to minimise the impact on residents and the city, the Council will increasingly need to take a citywide approach with partners in health, education and the business sector together with our communities to collectively reshape services to enable the best response for the city. The Council's role will increasingly need to shift from delivering services to enabling individuals, communities and other organisations in the public, private and voluntary sectors to work together to address the needs of the city in new ways and to encourage people to be more self-supporting"*.

We confirmed the MTFP was based on reasonable assumptions available at the time of approving the Plan. The MTFP is regularly reviewed, including the main assumptions, and regularly reported including where changes in assumptions affect the forecast financial position.

### 3. VFM arrangements – Financial Sustainability

#### How the Council ensures that its financial plan is consistent with other plans

The Council's MTFP sets out the financial context for the Council's resource allocation process and budget setting and it underpins decision-making and other plans.

The Council's City Plan is also part of the Council's Strategic Planning Framework. We confirmed that arrangements were in place for the development of the MTFP including linking the financial plan to the Council's corporate objectives to ensure priorities are delivered, and for scrutinising the MTFP with support from the Scrutiny Committee. We have confirmed a similar timetable was in place for setting the 2023/24 and 2024/25 budget.

In line with the Prudential Code and the Council's Capital Strategy, the revenue implications of capital investment decisions are considered and form part of the MTFP planning and budget setting processes. This is designed to ensure investments are fully funded. A detailed Capital plan is included in the MTFP.

Annual reports of activity are produced, which inform Members as part of on-going decision-making. For example, the Health and Wellbeing Scrutiny Committee received the Annual Report of the Director of Public Health for 2021/22 in July 2022 and October 2023. This report, "*Same Boat, Different Storms*", focused on the pandemic and its impact on the wider determinants of health and health inequalities in Sunderland.

#### How the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

As part of the annual budget setting process, the Council's s151 officer sets out his assessment of the adequacy of reserves and the robustness of budget estimates. Appropriate risk factors are considered as part of this assessment, including the level of reserves, prudential and treasury indicators and the robustness of inflationary estimates.

This risk assessment is underpinned by the review of reserves set out in the annual update of the Council's MTFP, which includes an estimate of projected earmarked reserves.

Earmarked reserves as at 31 March 2022 and 31 March 2023 were £200.3 million and £197.23 million respectively (including schools reserves and the general fund balance), compared to £190.7 million and

£154.63 million the prior year. Overall, earmarked reserves (including the general fund balance and school reserves) are currently projected to reduce to £66.030 million by 31 March 2027.

The Council also manages risks to its financial resilience by maintaining a general fund balance. The Council's policy for the level of this balance is set out in the MTFP annually, along with the Section 151 Officer's assessment. For 2021/22 onwards, the Council is continuing its policy of maintaining its general fund balance at £12.0 million.

In line with good practice, the Council prepares and takes a formal report to the Audit and Governance Committee on whether the 'going concern' assumption is appropriate; this report was taken to the July 2022 and July 2023 Committees for 2021/22 and 2022/23. In this report, the Council sets out that:

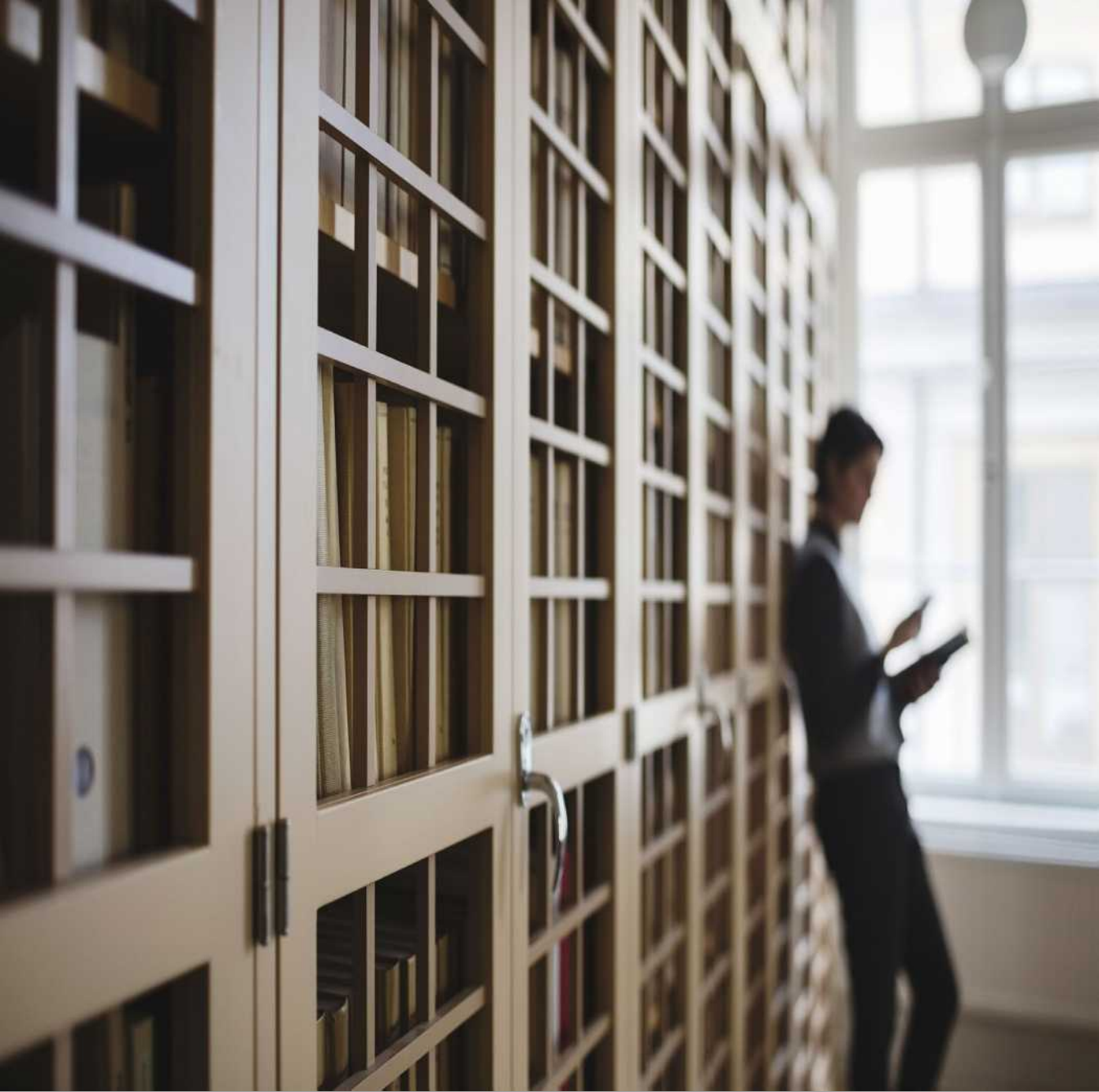
*"it will be difficult to continue to deliver substantial savings without significant changes in the way we deliver services and therefore reserves have been maintained to assist transition and mitigate future risk. Reserve levels and use will be kept under review and reported to Cabinet".*

The Council has an established MTFP process which is designed to reflect changes that affect the Council's financial plans. The latest MTFP, for example, has been updated to reflect the known pressures identified in the 2021/22 and 2022/23 financial years that include: pay increases; contract inflation and social care costs.

The budget is monitored on a regular basis ahead of quarterly reporting to the Cabinet. We have reviewed budget monitoring reports presented during the year and noted that they reflect in-year changes.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

### 3. Commentary on VFM arrangements



# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### How the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has an established risk management framework, with regular reviews and reporting to Audit and Governance Committee. We confirmed that the Audit and Governance Committee receives regular risk management updates and seeks assurance on the adequacy of the Council's risk management framework and associated control environment.

The Council has adopted a Code of Corporate Governance. The Council's Annual Governance Statements set out how the Council has complied with this Code during each year. We considered the Council's Annual Governance Statements for 2021/22 and 2022/23 and identified no matters indicating a significant weakness in arrangements.

A risk and assurance map is presented regularly to the Audit and Governance Committee, setting out strategic and corporate risks, along with sources of assurance, both internal and external. There is appropriate challenge by Committee Members of this summary, which provides a useful overview of the many sources of evidence and various assurance activities.

We confirmed the Audit and Governance Committee received regular updates on the Internal Audit Plan. Internal Audit reports highlight weaknesses and include recommendations when required to strengthen processes or procedures. The reports are regularly reported to the Audit and Governance Committee which holds management to account where weaknesses are identified. We confirmed the Audit and Governance Committee monitors management actions in response to recommendations and this is reported on a regular basis. The Audit and Governance Committee challenges management if recommendations are not implemented within the agreed timeframe.

The Head of Internal Audit provides an independent annual opinion on the adequacy and effectiveness of the system of internal control. These were reported to the Audit and Governance Committee in April 2022 and April

2023, as part of the annual review of the draft Annual Governance Statements.

Internal Audit undertook counter fraud work during each year; this was reported to the Audit and Governance Committee in April 2022 and April 2023 and did not highlight any significant issues.

### How the Council approaches and carries out its annual budget setting process

The Council adopted and followed project timetables for setting financial plans. The arrangements have been in place for several years and have supported the successful delivery of spending priorities. The latest Medium Term Financial Plan, covering the period 2024/25 to 2027/28, was initially presented to the Cabinet in December 2023. This is at a high level and illustrates the regular monitoring and refinement of the MTFP after Member input.

Financial Procedure Rules provide the overall high-level framework for managing the Council's financial affairs, from setting the budget to the security and control of assets.

We have reviewed the budget setting arrangements and have not identified any matters that indicate a significant weakness in arrangements. Overall, the Council is aware of the financial pressures it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks occurring.

### 3. VFM arrangements – Governance

#### **How the Council ensures effective processes and systems are in place to ensure budgetary control**

We noted that regular reporting of the financial position took place throughout the 2021/22 and 2022/23 financial years. Quarterly forecasts of outturn reports were presented to the Chief Officers' Group, Cabinet and Scrutiny Committees. The reports included details of movements in the budget between quarters and remedial measures taken. The positions reported at quarter three and year end did not indicate a weakness in the Council's monitoring and reporting arrangements.

As well as financial performance data, the Cabinet received quarterly performance management reports which presented an overview of progress towards achieving the key objectives of the City Plan and highlighted key messages to inform strategic priorities and work programmes.

Our audit of the financial statements for each year did not identify any matters to indicate a significant weakness in the accuracy of the information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

#### **How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency**

Membership of the Audit and Governance Committee includes Councillors and independent co-opted members. We have attended all meetings held in the year and post year end and found meetings to be effective and well represented. The Terms of Reference of the Audit and Governance Committee are detailed in the Constitution, and we have identified no evidence to indicate they are not being delivered.

The Council publishes on its website notice of key decisions and all officer decisions made under the Officer Scheme of Delegation. The website also includes details on how decisions are made in the Council.

Scrutiny meetings provide an opportunity to challenge decisions. A Scrutiny Coordinating Committee is in place to oversee and coordinate the work and our work identified no matters that indicate a significant weakness in arrangements.

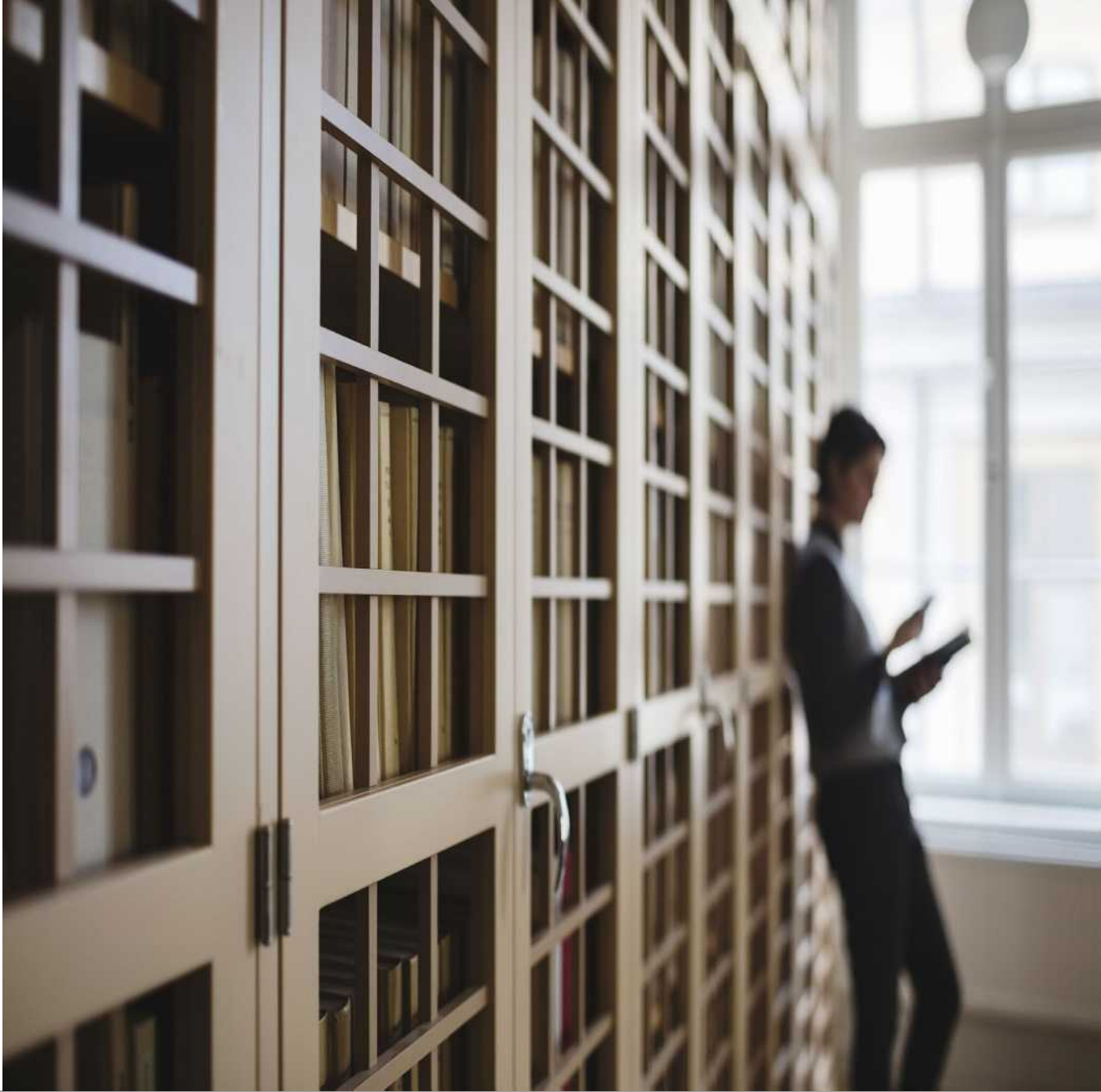
Contract Procedure Rules are in place and require procurement decisions to comply with standard principles. Contract registers are published and available on the Council website.

The Standards Committee is responsible for promoting and maintaining high standards of conduct by councillors, independent members and co-opted members. The Committee receives updates on compliance with the Code of Conduct including details of any complaints managed in the year.

There is regular reporting of treasury management activity that details the Council's investments, cash and borrowing positions. The annual Treasury Management Strategy was approved ahead of the 2021/22 and 2022/23 financial years and sets out the Council's measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council's finances and we identified no evidence to indicate a weakness in arrangements.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

### 3. Commentary on VFM arrangements



# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

### How financial and performance information has been used to assess performance to identify areas for improvement

As detailed in the previous sections we confirmed there was regular financial reporting during each year. Reporting includes consideration of human resource implications and equality impact assessments. The Cabinet also receive regular updates on delivery of the Medium Term Financial Plan (MTFP) savings.

The Council has a performance management framework which is designed to report against a basket of indicators. Quarterly reports are considered by the Chief Officers' Group, Cabinet and various scrutiny committees. The arrangements enable scrutiny of corporate performance and the identification of areas for improvement. This is underpinned by performance management within each service grouping, with a large number of services accessing demand, delivery, Service Level Agreement and performance information.

There is regular treasury management performance reporting which uses benchmarking and treasury management indicators to assess performance.

### How the Council evaluates the services it provides to assess performance and identify areas for improvement

Alongside the performance framework, the Council considers the output from regulators to evaluation performance and identify areas for improvement. The output from such regulators feeds into the Council's overall risk and assurance map, which is reported regularly to the Audit and Governance Committee.

- **Children's Services:** the last inspection of June 2021 resulted in the re-grading of the Council's Children's Services as outstanding, which was a tremendous achievement. We note the independent review of Together for Children's governance arrangements undertaken in 2022, which concluded that Board arrangements were strong and highlighted some recommendations to practices to support continuous improvement.

- **SEND (Special Educational Needs and Disabilities):** The Council had an inspection of SEND services by Ofsted/CQC in September 2021. This highlighted two areas for recommendations and required the Council and local Clinical Commissioning Group (at that time) to submit a joint response to the 'Written Statement of Action'. The two areas being joint commissioning and the support for children and young people at times of transition across all services and age ranges. The joint response to the 'Written Statement of Action' was accepted by the Regulators in early January 2022.
- **Joint Area Child Protection Inspection:** following this inspection, a report was issued in January 2023 which set out that "Sunderland Safeguarding Children Partnership (LSP) arrangements are well established and effective. Leaders have an accurate understanding of the needs of vulnerable children in their local area". The report highlighted some areas for improvement.

### How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council has arrangements in place for the consistent management of partnerships with guidance and supporting documents for all Council employees to use when involved with partnerships and supporting arrangements have been in place throughout the year.

Contractual arrangements with the Council's subsidiary companies set out targets around use of resources and improved outcomes, with the subsidiaries performance also being included in quarterly monitoring reports. There is appropriate scrutiny of business plans e.g. the Siglion business plan. Contracts with Together for Children and Sunderland Care and Support are reported to Cabinet and scrutinised.



### 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

#### How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve - continued

From 1 July 2022, responsibility for commissioning healthcare services transferred from the former Sunderland Clinical Commissioning Group (CCG) to the **North East and North Cumbria Integrated Care System (ICS)**.

As part of the ICS, Sunderland Integrated Care Board (ICB) manages the budget and provision of health services in Sunderland. The Health and Wellbeing Scrutiny Committee have received a number of updates from Sunderland ICB looking at the development and continuity of place-based arrangements, developing integrated care partnerships and the strategic aims of the ICB.

The Council has **five Area Committees** made up of elected Members, which work closely with Council officers, service delivery partners and members from the area Voluntary and Community Sector Network (VCSN) to ensure strong and consistent links are made between local and city-wide priorities. An annual report is produced setting out the work of the Area Committees.

2021/22 has seen the implementation of the **Voluntary Sector Alliance (VSA)** which has been developed with key partners across the City. The aim of the VSA is to facilitate key partners' engagement with the sector through one recognised route, and for other local commissioners and national funding organisations to communicate through one stream lined and formally recognised route. In January 2022, the Council published its first Annual Data Report since the adoption Sunderland Low Carbon Action Plan in January 2021, which covered the period April 2020 – March 2021, and will continue to publish this on an annual basis.

Another key partnership within the City is the **2030 Shadow Board** – reflecting the ambition to be carbon neutral by 2030. The 2030 Shadow Board's purpose is to work collectively to drive forward Sunderland's ambitions and commitment to tackling climate change and the 2030 Shadow Board has shaped the development of the Sunderland Low Carbon Framework. An Action Plan was prepared to align to the

Sunderland Low Carbon Framework. The initial Action Plan (published in January 2021) established how the Council would reduce its carbon impact and meet the strategic objectives in the Framework. The Council's Action Plan was then updated in July 2022.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

# 04

Section 04:

**Other reporting responsibilities and  
our fees**

## 4. Other reporting responsibilities and our fees

### Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### Reporting to the National Audit Office (NAO) in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 31 October 2023 for 2021/22 and on 15 April 2024 for 2022/23.

## Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in April 2022 and September 2023 for the years ended 31 March 2022 and 31 March 2023 respectively. For the 2021/22 and 2022/23 financial years, our fees are as follows, noting that additional fees are subject to review and approval by Public Sector Audit Appointments Limited (PSAA):

**Note 1** – recurrent fee variations from 2020/21 were built into the fee by PSAA for 2022/23, either fully or in part.

Area of work	2020/21 fees	2021/22 fees	2022/23 fees
Fee in respect of our work under the Code of Audit Practice	£104,546	£104,546	£123,539
Recurrent scope changes: additional fees in respect of complex group consolidation adjustments	£5,227	£6,430	<b>Note 1</b>
Recurrent scope changes: additional fees in respect of property, plant and equipment valuations due to increased regulatory requirements	£15,912	£4,967	<b>Note 1</b>
Recurrent scope changes: additional fees in respect of pensions due to increased regulatory requirements	£10,041	£10,178	<b>Note 1</b>
In-year scope change: additional testing as a result of the implementation of new auditing standards: 2022/23 – ISA 315 (revised) additional risk assessment procedures. 2020/21 - ISA 540 (revised) auditing accounting estimates and related disclosures; ISA 570 (revised) going concern. Range set by PSAA for a metropolitan borough council being up to £4,300.	£1,500	n/a	£3,917
<i>Non-recurrent: additional work in respect of infrastructure in 2021/22 (national issue)</i>	<i>n/a</i>	<i>£10,261</i>	<i>-</i>
<i>Non-recurrent: revised pensions report (over and above the typical revised pensions report obtained during the audit – i.e. additional work to a typical year) and calculation of the asset ceiling in 2022/23</i>	<i>£2,091</i>	<i>£5,604</i>	<i>£5,131</i>
<b>Value for money:</b> implementation of the new approach on VFM arising from the change to the Code of Audit Practice. Range set by PSAA for a metropolitan borough council being £10,000 - £19,000.	£15,682	£12,712	£12,712
<b>Total</b>	<b>£154,999</b>	<b>£154,698</b>	<b>£145,299</b>

## Fees for other work

We carried out the following work for the Council in the years ended 31 March 2022 and 2023:

Area of work	2020/21 fees	2021/22 fees	2022/23 fees
Teachers' Pensions return	£4,205	£4,500	£4,500
Housing Benefits Subsidy return	£10,600	£10,850	£11,000



# Appendix

## Significant risks

Risk	Summary of how risk addressed	Summary of audit conclusion – 2022/23	Summary of audit conclusion – 2021/22
<b>Management override of controls</b>	Procedures included critical review of accounting estimates, accounting policies and testing journals.	Sufficient, appropriate assurance obtained.	Sufficient, appropriate assurance obtained.
<b>Net defined pensions liability</b>	Testing included critical review of the Actuary's assumptions and obtaining assurance from the Pension Fund auditor.	The Council obtained a revised pensions report for 2022/23, due to 'actuals' being available for the asset return. The Council amended its statement of accounts for this revised pensions report. Sufficient, appropriate assurance obtained.	The Council obtained a revised pensions report for 2021/22, due to 'actuals' being available for the asset return. The Council amended its statement of accounts for this revised pensions report. Due to the elapsed time of the audit, further material amendments were necessary as the triennial pension fund valuation was completed, providing further information on the pensions estimates. Sufficient, appropriate assurance obtained.
<b>Property, Plant and Equipment (PPE) valuations</b>	Critical review of the Valuer's report and valuations.	We critically reviewed valuations; as part of our substantive testing, we identified a small number of errors. Sufficient, appropriate assurance obtained.	We critically reviewed valuations as part of our substantive testing. Additional work was carried out in respect of the national infrastructure issue, applying to all highways authorities. Amendments were made to the Council's infrastructure assets and we raised an associated medium-priority internal control recommendation. Sufficient, appropriate assurance obtained.

## Enhanced risks

Risk	Summary of how risk addressed	Summary of audit conclusion – 2022/23	Summary of audit conclusion – 2021/22
<b>Accounting for PFI arrangements</b>	Critical review of the accounting for the Council's Private Finance Initiative (PFI) arrangements.	Not applicable – as not assessed as an enhanced risk in 2022/23.	Sufficient, appropriate assurance obtained.

## A. Further information on our audit of the financial statements

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
<b>2022/23</b>					
A	Unadjusted misstatements – 2022/23	3,506	-650	-1,575	-1,281
B	Unadjusted misstatements – prior year	0	0	0	0
	<b>Unadjusted misstatements – current and prior year: 2022/23</b>	<b>3,506</b>	<b>-650</b>	<b>-1,575</b>	<b>-1,281</b>
<b>2021/22</b>					
C	<b>Adjusted misstatements – 2022/23</b>	<b>-9,450</b>	<b>0</b>	<b>0</b>	<b>9,450</b>
<b>2021/22</b>					
A	Unadjusted misstatements – 2021/22	1,032	6,371	0	-7,403
B	Unadjusted misstatements – prior year	1,610	0	-1,610	0
	<b>Unadjusted misstatements – current and prior year: 2021/22</b>	<b>2,642</b>	<b>6,371</b>	<b>-1,610</b>	<b>-7,403</b>
C	<b>Adjusted misstatements – 2021/22 (Note 1)</b>	<b>0</b>	<b>74,180</b>	<b>0</b>	<b>74,180</b>

**Note 1:** being the sum of amendments to the net pensions liability, because of two revised Actuary reports.



# A. Further information on our audit of the financial statements

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to [the Board and the Audit Committee any significant deficiencies identified during the course of our work.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues – 2022/23	Number of issues – 2021/22
<b>1 (high)</b>	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0	0
<b>2 (medium)</b>	In our view, there is a need to strengthen internal controls or enhance business efficiency. The recommendations should be actioned in the near future.	1	0
<b>3 (low)</b>	In our view, internal controls should be strengthened in these additional areas when practicable.	2	0

Priority ranking	Recommendation – 2022/23	Recommendation – 2021/22
<b>1 (high)</b>	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>
<b>2 (medium)</b>	<ul style="list-style-type: none"> <li>Infrastructure: review of asset register and useful economic lives</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>
<b>3 (low)</b>	<ul style="list-style-type: none"> <li>Loans: evidencing approvals for new loans</li> <li>Access to journals posting</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>

We also followed-up prior year recommendations as part of each year's audit; details can be found in our Audit Completion Report, taken to the Council's Audit and Governance Committee in November 2022 and November 2023 respectively.

For 2022/23, we reported that two prior year low priority internal control recommendations remained open as of November 2023, being:

- carrying out user access review of SAP, the Council's general ledger; and
- reviewing the password complexity configuration within SAP.

# Cameron Waddell, Partner (audit year 2021/22) Mark Kirkham, Partner (audit year 2022/23)

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## **Mazars**

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.

# Audit Strategy Memorandum

Sunderland City Council

Year ending 31 March 2024



# Contents

- 01** Engagement and responsibilities summary
- 02** Your audit engagement team
- 03** Audit scope, approach and timeline
- 04** Significant risks and other key judgement areas
- 05** Value for money arrangements
- 06** Fees for audit and other services
- 07** Our commitment to independence
- 08** Materiality and misstatements

Appendix A - Key communication points

Appendix B - Current year updates, forthcoming accounting and other issues

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

This document is to be regarded as confidential to Sunderland City Council. It has been prepared for the sole use of Audit and Governance Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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

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.

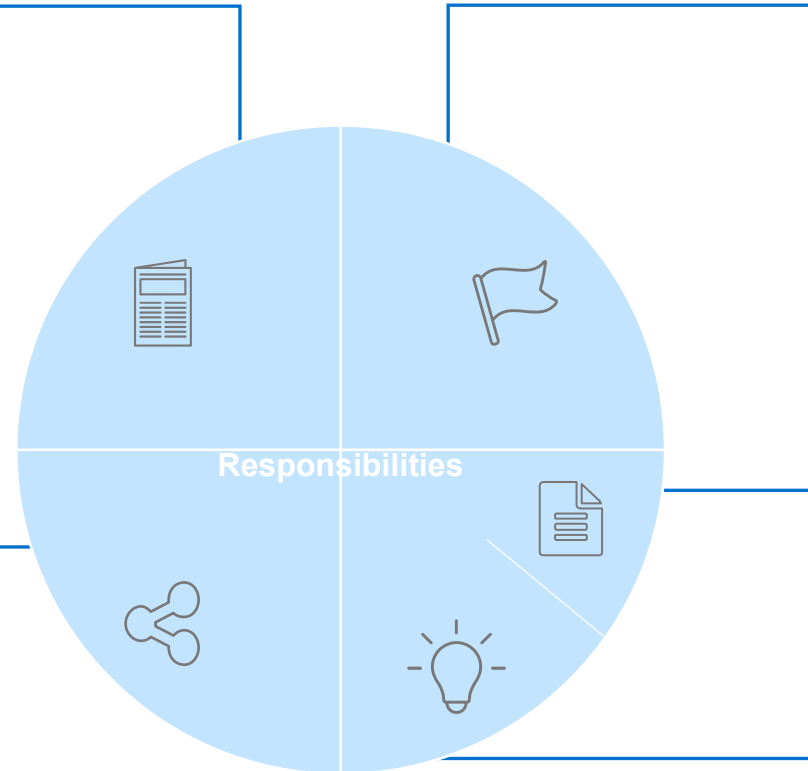
The Director of Finance is responsible for the assessment of whether it is appropriate for the Council to prepare its financial statements on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- 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

Who	Role	Contact
Mark Kirkham	Engagement Partner	<a href="mailto:mark.kirkham@mazars.co.uk">mark.kirkham@mazars.co.uk</a> 0774 776 4529
Diane Harold	Engagement Manager	<a href="mailto:diane.harold@mazars.co.uk">diane.harold@mazars.co.uk</a> 0797 151 3174
Peter Hawkins	Engagement Team Leader	<a href="mailto:peter.hawkins@mazars.co.uk">peter.hawkins@mazars.co.uk</a> 0758 085 4210



# 03

Section 03:

**Audit scope, approach and timeline**

# 3. Audit scope, approach and timeline



# 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.

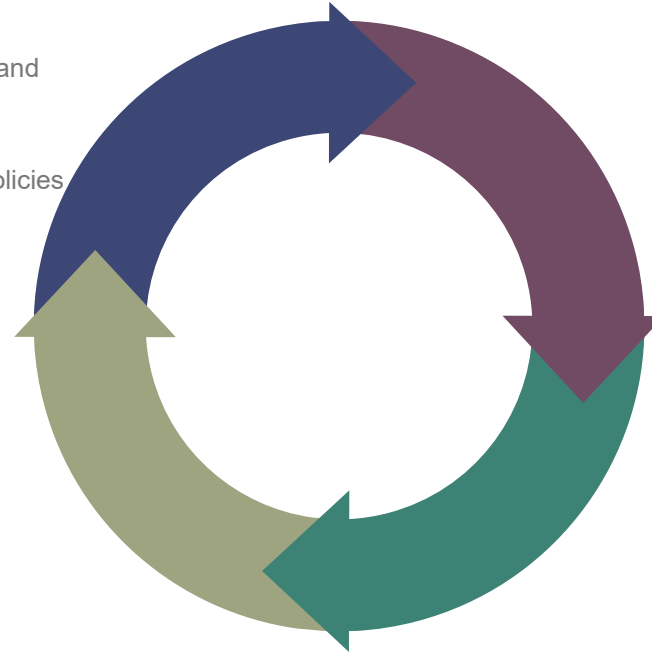
## Planning March

- 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

## 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



## 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

## 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.

## 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 the 15% 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.



## 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
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	

# 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.

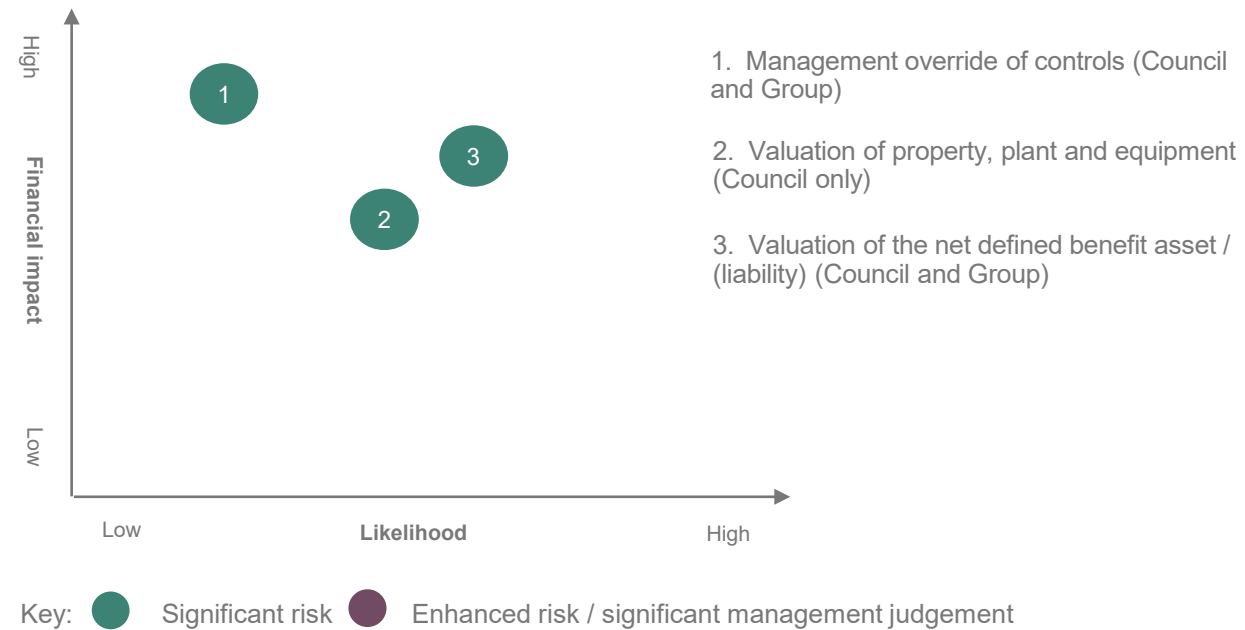
### Enhanced risk

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.



# 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	<p><b>Management override of controls</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>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.</p>	●	○	○	<p>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.</p>

## 4. Significant risks and other key judgement areas

### Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Valuation of property, plant and equipment</b></p> <p><b>As at 31 March 2023</b>                      - Council - £1,296.650m; and                      - Group - £1,347.744m.</p> <p>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).</p> <p>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.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> <li>critically assess the Council's arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated;</li> <li>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;</li> <li>consider the competence, skills and experience of the Valuer(s) and the instructions issued to the Valuer(s);</li> <li>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;</li> <li>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</li> <li>where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.</li> </ul>

## 4. Significant risks and other key judgement areas

### Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Net defined benefit asset / (liability) valuation</b></p> <p><b>As at 31 March 2023:</b>                      - Council - £11.510m net pensions asset; and                      - Group - £21.960m net pensions asset (Council &amp; Sunderland Care and support) and £6.660m net pensions liability (Together for Children).</p> <p>The financial statements contain material pension entries in respect of the retirement benefits.</p> <p>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.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> <li>critically evaluate the Council's arrangements for making estimates in relation to pension entries within the financial statements; and</li> <li>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;</li> <li>critically assess the competency, objectivity and independence of the Actuary;</li> <li>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;</li> <li>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.</li> <li>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.</li> <li>compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and</li> <li>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.</li> </ul>

# 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**



## 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	<p>Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:</p> <ul style="list-style-type: none"><li>• NAO guidance and supporting information;</li><li>• information from internal and external sources including regulators;</li><li>• knowledge from previous audits and other audit work undertaken in the year; and</li><li>• interviews and discussions.</li></ul>
Additional risk based procedures and evaluation	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
Reporting	<p>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.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none"><li>• significant weaknesses identified and our recommendations for improvement; and</li><li>• emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.</li></ul>

## 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

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**	-
<b>Total</b>	<b>£145,299</b>	<b>£344,429</b>

\* 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.

Area	Perceived threat	Safeguards and procedures
Audit services: external audit of Sunderland Lifestyle Partnership Limited	Self Review	<p>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.</p> <p>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.</p> <p>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.</p> <p>In addition, the external audit is led by an entirely separate Mazars audit team and engagement lead, based in the Mazars Birmingham office.</p> <p>We are satisfied there are no threats.</p>
	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).



## 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.

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: <ul style="list-style-type: none"> <li>• uncorrected misstatements and their effect on our audit opinion;</li> <li>• the effect of uncorrected misstatements related to prior periods;</li> <li>• a request that any uncorrected misstatement is corrected; and</li> <li>• in writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>• enquiries of the Audit and Governance Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• a discussion of any other matters related to fraud.</li> </ul>	Audit Completion Report and discussion at the Audit and Governance Committee Audit planning and clearance meetings

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• non-disclosure by management;</li> <li>• inappropriate authorisation and approval of transactions;</li> <li>• disagreement over disclosures;</li> <li>• non-compliance with laws and regulations; and</li> <li>• difficulty in identifying the party that ultimately controls the entity.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• significant difficulties, if any, encountered during the audit;</li> <li>• significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• written representations that we are seeking;</li> <li>• expected modifications to the audit report; and</li> <li>• 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.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>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.</p>	<p>Audit Completion Report</p>

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: <ul style="list-style-type: none"> <li>• whether the events or conditions constitute a material uncertainty;</li> <li>• whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• the adequacy of related disclosures in the financial statements.</li> </ul>	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

Required communication	Where addressed
<p>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:</p> <ul style="list-style-type: none"> <li>• ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership;</li> <li>• establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities;</li> <li>• 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.);</li> <li>• identify, design and implement responses as part of the process to strengthen the firm's internal control environment and overall quality; and</li> <li>• evaluate responses to identify and remediation process / control gaps.</li> </ul> <p>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 <a href="#">here</a>.</p>	<p>Audit strategy Memorandum</p>
<p>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.</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>
<p>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.</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>
<p>Indication of whether all requested explanations and documents were provided by the entity.</p>	<p>Audit Completion Report</p>



## 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.

## 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](#)

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

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.