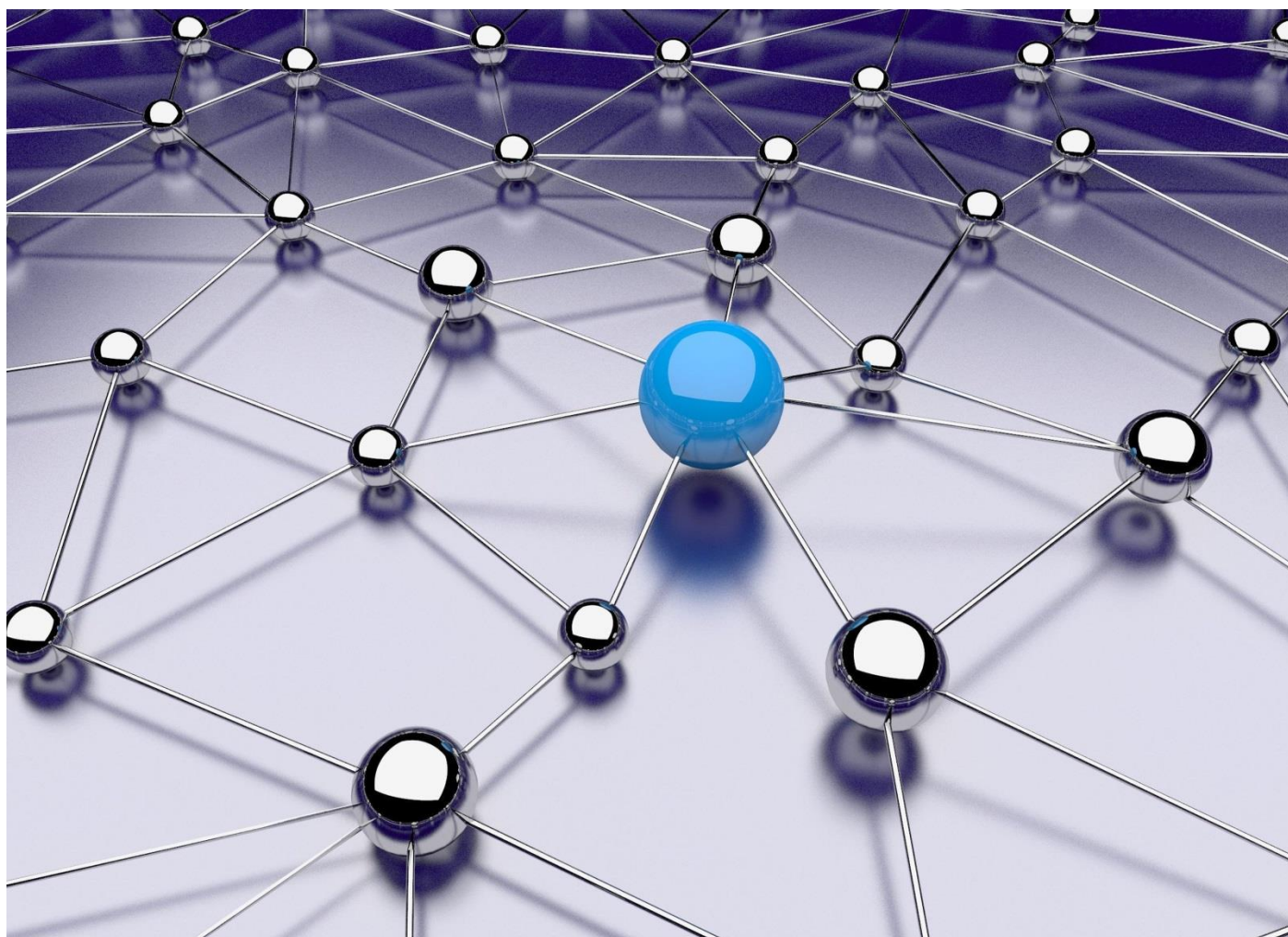


Sunderland City Council Audit Progress Report

December 2015




Sunderland
City Council

Contents

01 Introduction.....	2
02 Summary of audit progress	3
03 National publications and other updates.....	6
04 Contact details.....	11

Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Sunderland City Council, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.

01 Introduction

The purpose of this report is to update the Audit and Governance Committee of Sunderland City Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

02 Summary of audit progress

Completion of 2014/15 audit

We completed our 2014/15 by the statutory deadline of 30 September 2015 and issued:

- an unqualified opinion on the Council's financial statements;
- an 'except for' qualification of the value for money conclusion, in respect of the assessment by OFSTED of children's safeguarding services as 'inadequate'.

We reported to the National Audit Office (NAO) on 30 September 2015 that the Council's 2014/15 Whole of Government Accounts consolidation pack was consistent with the audited financial statements.

We discussed our annual audit letter with senior management and it was finalised by the deadline of 30 October 2015. This marks the formal conclusion of our 2014/15 audit and summarises our work and findings as well as outlining future challenges. We will be presenting the letter to the Audit and Governance Committee as a separate agenda item. The letter will also be presented to Cabinet and Scrutiny Committee and be reported to full Council.

IT audit review

Members may recall that as part of our 2014/15 audit, our IT specialists carried out a review of IT general controls, including:

- physical security;
- back-up and disaster recovery arrangements;
- access management and logical security;
- strategy and internal control; and
- change management.

In the Audit Completion Report we informed Members that our IT specialists had concluded that the significant IT risks were being substantially mitigated by the control environment in place, and they did not identify any significant weaknesses which could significantly threaten IT reliability in respect of the production of the financial information in the financial statements for 2014/15.

At that time, detailed findings were still being discussed with officers, and we promised to report a summary for Members in due course.

Our findings have now been discussed and agreed, and the matters arising are summarised below:

- Data restoration is regularly tested. However, although business users have the option to take part in the data restoration testing, only SAP (the general ledger) and Swift (social care payments system) users are regularly included in the process. To avoid compromising data availability and integrity, we recommend ensuring business users are involved in the data restoration tests. ICT officers responded that they will endeavour to involve end users at every point where practicable and where capacity and willingness exist.
- Windows screensaver is in place, however it is limited to the Office of the Chief Executive users, and disabled for the rest of the groups due to the performance overhead. To avoid unauthorised access to data, we recommend considering enforcing the screensaver to all operational users. If due to special requirements this is not possible, we recommend ensuring compensating controls are in place: staff enforcing to lock their workstations when away, automated logout from business systems after a period of inactivity, etc. ICT officers responded that the Council has a use of facilities policy in place which insists that staff lock their machines when not in use. They are looking into rolling a standard timeout to all users.
- Some generic accounts were identified at application level. To ensure access is appropriately restricted, and proper traceability and accountability of operations at application level are in place, we recommend: Ensuring generic accounts are disabled when not used; and considering assigning nominal users to all administrative and privileged users. ICT officers responded that Internal audit was undertaken, and many generic accounts have already been removed. The rest are scheduled to be removed and or reviewed over the coming months.
- Applications password settings are not aligned to best practice. To avoid unauthorised access to the Council's programs and data, we recommend aligning the application password settings to the best practices - Minimum length should be at least 8 characters; Complexity should be enforced, for passwords to contain both alphanumeric characters as well as special characters; Expiry: passwords should be regularly changed; History: users should not be allowed to use the same passwords several times in a row; Account lockout: accounts should be locked after several unsuccessful logon attempts. ICT officers responded that Government guidance is that these should be reviewed on a risk basis. This is the approach that we currently take; this will be reviewed over time as part of our usual internal processes.
- Although for most changes segregation of duties between development and migration of changes into production is respected, one developer also migrated changes into production in the audited period. However, mitigating controls tested showed that these SAP transports have no impact on the financial statements. To avoid unauthorised changes being deployed on the Council's programs, we recommend ensuring segregation of duties between development and migration of changes into production. If due to special requirements or restrictions the segregation is not possible, we recommend ensuring close monitoring of changes being implemented into production. ICT officers responded that upon review none of the transports containing SAP changes were implemented into the production environment by the developer. Only the BASIS technical staff were able to implement changes through all environments and only changes containing software vendor content.

Certification of claims and returns

Work on the 2014/15 Housing Benefits Subsidy Claim is complete, and we certified the claim before the Department of Work and Pensions deadline of 30 November 2014. Only minor issues were reported.

This is now the only claim remaining part of the national arrangements managed by Public Sector Audit Appointments Ltd (PSAA), successor to the Audit Commission.

Additional schemes outside the national arrangements

The Council is required by funding bodies to arrange independent certification of certain grant claims and returns that are now outside the PSAA regime.

As reported in the annual audit letter, we made arrangements for the certification of the Teachers' Pension Return for 2014/15, for an agreed fee of £2,750 plus VAT.

The work on the Teachers' Pensions return has now been completed and reported ahead of the deadline of 30 November 2015. There were no issues arising from this work.

Since finalising the annual audit letter we have been commissioned to carry out the certification work on the Skills Funding Agency return, for an agreed fee of £3,550 plus VAT. This work will be recorded as non-audit work as part of the 2014/15 audit.

Port of Sunderland

The Council has indicated to us that it no longer requires the Port accounts to be audited by us, and provided an explanation of the reasons for this.

2015/2016 planning

This is our first progress report in respect of the 2015/2016 audit year; in the coming quarter we will:

- carry out our initial planning in respect of 2015/2016, refreshing our understanding of the business and what we consider are the significant risks of material misstatement in respect of the financial statements and also the Value for Money (VfM) conclusion so as to inform our testing strategy;
- walkthrough the key financial systems;
- liaise with your internal auditors to both share common knowledge and ensure no duplication;
- maintain on-going liaison with senior officers and consideration of key agendas and papers; and
- plan and carry out any interim substantive testing.

Our detailed Audit Strategy Memorandum will set out our planned work and assessments in more detail and we will present the plan to the Audit and Governance Committee meeting on 18 March 2016.

03 National publications and other updates

This section contains updates on the following:

1. **Annual Regulatory Compliance and Quality Report, PSAA, June 2015**
2. **Regulatory Compliance and Quality Report, Quarter 1 2015/16**
3. **Whistleblowing e-learning for the public sector**
4. **Consultation on regulation of auditors, Financial Reporting Council, May 2015**
5. **Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited**
6. **Consultation on 2016/2017 work programme and scales of fees, Public Sector Audit Appointments Ltd October 2015**
7. **Extension of existing external audit contracts by one year**
8. **A Practical Guide for Local Authorities on Income Generation, 2015 edition CIPFA, November 2015**
9. **Social Value: defining, delivering, reporting CIPFA, November 2015**
10. **An Introductory Guide to Local Government Finance, 2015 edition CIPFA, November 2015**

1. **Annual Regulatory Compliance and Quality Report, PSAA, June 2015**

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of monitoring provide audited bodies and other stakeholders with assurance that auditors within our regime are delivering high-quality audits.

There are two strands to their monitoring:

- audit quality – applying our annual quality review programme (QRP) to the audit work undertaken for the year ending 2013/14; and
- regulatory compliance – reporting quarterly on audit firms' compliance with our 2014/15 regulatory requirements as set out in the Terms of Appointment.

The audit quality and regulatory compliance monitoring for 2014/15 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) conclusions and Whole of Government Accounts (WGA).
- an assessment as to whether they could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published report on the results of its inspection of firm audits in the private sector;
- the results of inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of our commissioned rolling inspection programme of financial statements and VFM work;

- the results of each firm’s compliance with 17 key indicators relating to Terms of Appointment requirements;
- a review of each firms' systems to ensure they comply with regulatory requirements; and
- a review of each firm’s client satisfaction surveys for 2013/14 work.

The report summarising the results of our monitoring work for Mazars LLP is available on the PSAA website. <http://www.psa.co.uk/wp-content/uploads/2015/07/Mazars-2014-15-Annual-Regulatory-Compliance-and-Quality-Report-Final.pdf>

The firm is meeting standards for overall audit quality and regulatory compliance requirements. The red, amber, green (RAG) indicator for overall audit quality and regulatory compliance was calculated using the principles detailed in Appendices 1 and 2 to the report. For 2014/15, Mazars’ combined audit quality and regulatory compliance rating was **green** (the highest available).

2015 Comparative performance for audit quality and regulatory compliance

BDO Amber	Deloitte Amber	EY Green	GT Amber	KPMG Amber	Mazars Green	PwC Amber
---------------------	--------------------------	--------------------	--------------------	----------------------	------------------------	---------------------

The firm has maintained its performance against the regulatory compliance indicators since last year, with all of the 2014/15 indicators scored as green.

The satisfaction survey results show that audited bodies are satisfied with the performance of Mazars as their auditor.

2. Regulatory Compliance and Quality Report, Quarter 1 2015-16

This report summarises the performance of Mazars LLP (Mazars) against key quarterly performance indicators and is available on the PSAA website <http://www.psa.co.uk/wp-content/uploads/2015/07/Mazars-Q1-2015-16-monitoring-report.pdf>

Mazars are rated **green** in all areas. The all firm comparison is also provided.

3. Whistleblowing e-learning for the public sector

The CIPFA Counter Fraud Centre has worked with the leading whistleblowing charity, Public Concern at Work (PCaW) and Mazars to create an accessible, easy to navigate e-learning course on whistleblowing.

The whistleblowing course is designed for use in organisations, to show all staff how to raise and report concerns at work and to clarify ‘grey areas’ around processes, complaints and definitions.

Featuring high profile examples plus sector specific case studies, the course aims to help staff to understand:

- what is and what is not whistleblowing
- the arrangements you have in place
- how best to blow the whistle/raise concerns
- where staff can blow the whistle/raise concerns

- what staff can expect and how their organisation will support them
- rights and options for support
- why whistleblowing is so important.

4. Consultation on regulation of auditors, Financial Reporting Council, May 2015

In July 2014, the Financial Reporting Council (FRC) issued a consultation document seeking views on the way in which it should give effect to three specific responsibilities delegated to it under the Local Audit and Accountability Act 2014, that is:

- guidance on the recognition of individuals as key audit partners;
- regulations for the keeping of the Register of Local Auditors;
- regulations for local audit firms on the requirement to publish transparency reports.

The FRC has now published a feedback statement to this consultation together with the Guidance and Regulations as per the link below.

<https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2015/May/FRC-publishes-feedback-statement-on-the-Regulation.aspx>

The areas consulted on included:

- transparency report requirements;
- register of local auditor requirements; and
- approval of engagement leads for local audits.

5. Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited

This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. It replaces the previous statement issued by the Audit Commission and applies to audit engagements in respect of 2015/2016.

The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the Code of Audit Practice, now produced by the National Audit Office (NAO). Nothing in the Statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence, the role of the appointed auditor does not include providing financial or legal advice or consultancy services to the audited body.

The statement covers the following areas:

- responsibilities in relation to the financial statements;
- responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources (the VfM conclusion);
- specific powers and duties of auditors (public interest report, referral to Secretary of State);
- reporting the results of audit work;

- ad hoc requests for auditors' views; and
- access to information, data security and confidentiality.

http://www.psa.co.uk/wp-content/uploads/2006/08/Statement-of-responsibilities-of-auditors-and-audited-bodies-2015_16.pdf

Code of Audit Practice applying to 2015/2016 audits

As a reminder, earlier in 2015/2016, the NAO published the new Code of Practice applying to 2015/2016 audits. The Code prescribes the way local auditors are to carry out their functions and is supplemented by guidance issued by the NAO during the year.

<https://www.nao.org.uk/code-audit-practice/>

6. Consultation on 2016/2017 work programme and scales of fees, Public Sector Audit Appointments Ltd October 2015

Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2016/2017 proposed work programme and scales of fees.

There are no planned changes to the overall work programme for 2016/2017. It is proposed scale fees are set at the same level as the scale fees applicable for 2015/2016 previously set by the Audit Commission. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13.

Following completion of the Audit Commission's 2014/2015 accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings. PSAA will redistribute this and any other surpluses from audit fees to audited bodies.

The work that auditors will carry out on the 2016/2017 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office.

The consultation closes on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016.

<http://www.psa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/>

7. Extension of existing external audit contracts by one year

The current local government audit contracts with audit firms end with completion of the audit of the accounts for 2016/17, with an option to extend contracts after this date. The Government has taken a decision to extend local authority contracts by one year to cover the 2017/18 audit, the first year in which the accounts and audit deadline is to be brought forward significantly. From the 2018/19 audit, local authorities, including Sunderland City Council, will be required to make their own auditor appointments. The auditor for 2018/19 must be appointed by 31 December 2017. CIPFA is preparing guidance for local authorities on appointing auditors.

8. A Practical Guide for Local Authorities on Income Generation, 2015 edition CIPFA, November 2015

CIPFA has published its latest practical guide on income generation. Income from fees and charges is a key financial area for local authorities, and much has happened since CIPFA published the last edition of this guide in 2013. In 2015 local authorities will look at income in its widest sense as a key factor in their funding equation. Financial uncertainties continue to motivate local authorities to evaluate every possible funding source.

9. Social Value: defining, delivering, reporting CIPFA, November 2015

This CIPFA publication looks at social value and its practical application and assessment. It covers:

- the legislation and related guidance;
- how this links to guidance on best value;
- the range of definitions of social value;
- how social value relates to outcomes commissioning;
- examples of how social value is being interpreted by local authorities; and
- approaches to measuring social value.

10. An Introductory Guide to Local Government Finance, 2015 edition CIPFA, November 2015

2015/16 has seen a change in the landscape of local government with the growth of the devolution agenda, with Manchester leading the way. The Cities and Local Government Devolution Bill is currently progressing through Parliament.

The pace of fiscal devolution has been slower and pressure is still being brought to bear for greater freedoms for local authorities around the financing of local services. These freedoms are not reflected in the current financing options but with the changes to business rates in Manchester and Cambridge and the debates currently taking place, the issue of how local government is financed will continue to be important.

<http://www.cipfa.org/policy-and-guidance/publications?tab=&filters=%7b7D9EAA93-8748-4746-9B73-DE0D7A0A7695%7d#filters>

04 Contact details

Please let us know if you would like further information on any items in this report.

www.mazars.co.uk

Mark Kirkham
Partner
0191 383 6300

mark.kirkham@mazars.co.uk

Gavin Barker
Senior Manager
0191 383 6300

gavin.barker@mazars.co.uk

Address: Rivergreen Centre,
Aykley Heads,
Durham,
DH1 5TS.