

Annual Audit Letter 2013/14

Sunderland City Council



October 2014

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October 2014

Dear Members

Annual Audit Letter 2014

We are delighted to present to you the Council's Annual Audit Letter.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

2013/14 has been another challenging year for the Council and like most other authorities in the North East and across the country Sunderland City Council has faced difficult decisions on its spending priorities and plans for the future. We reflect on these matters in the value for money part of this letter. However, we were pleased to issue an unqualified opinion on the statement of accounts and value for money conclusion.

I would like to express my thanks for the assistance of the Council's finance team, as well as senior officers and the Audit and Governance Committee, during the audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300 or mark.kirkham@mazars.co.uk.

Yours faithfully

Mark Kirkham
Mazars LLP

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

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01 Overall messages

Purpose of this letter

Our Annual Audit Letter provides a summary of our work and findings for the 2013/14 audit period for Member and other interested parties.

In addition to the summary outlined in this letter, our Audit Completion Report that we presented to the Council's Audit Committee on 26 September 2014 provides a more detailed analysis of the work we have undertaken in 2013/14.

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's statement of accounts on 30 September 2014.

The production of the statement of accounts is a significant technical challenge involving a great deal of work by the Council's officers. We appreciate the cooperation of management and the patience, courtesy and assistance shown to us in the completion of our work. The working papers supporting the statement of accounts were of good quality and officers were responsive in following up the queries we raised.

Our main findings from the audit were:

- a number of agreed amendments to the financial statements;
- a small number of unadjusted misstatements where errors were not material; and
- the overall quality of the final statement of accounts was good.

Our value for money conclusion

We performed our work in line with the Audit Commission's Code of Audit Practice for Local Government bodies and the Commission's guidance for 2013/14. Our audit report included a conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Our work in this area focussed on the two criteria specified by the Audit Commission, and considered whether the Council had proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

Financial Resilience

The Council has managed its financial position well. Forecasting arrangements and close monitoring ensured the delivery of spending within budget. The outturn report for 2013/14 shows that the Council underspent by £5m against the revenue budget. The capital outturn was £51m, with net slippage of £16.7m being carried forward to 2014/15.

Overall, the Council has delivered £135m of savings in the period 2010/2011 to 2013/2014.

The annual revenue budget for 2014/15 includes a further £35.6m in savings requirements. The Medium Term Financial Strategy sets out how the Council proposes to deal with the difficult economic climate and the further funding cuts that are required. In the three year period 2014/15, 2015/16 and 2016/17, the Council expects to have to deliver a total of £113m in savings.

The earmarked reserves set aside for specific plans and projects will help the Council to deliver its priorities in the coming years. These reserves provide some flexibility if the Council needs to invest to save, for example, but there is a recognition that reserves can not be used to sustain services and the underlying budget reductions identified will need to be delivered.

Securing economy, efficiency and effectiveness

In recent years, the Council has made significant transformational changes to deliver challenging savings targets, but it has also sought to maintain and improve service delivery.

The Council continues to deliver an ambitious programme which has included:

- securing a City Deal to help deliver the new Wear Crossing and pursue the plans to develop a new advanced manufacturing site near Nissan;
- progressing the physical and economic regeneration of the City , for example, with infrastructure work on the old Vaux site and in the City Centre, and by entering into a local asset backed vehicle (LABV) with private sector partners to accelerate economic regeneration more widely;
- implementing alternative models of service delivery, including establishing two new local authority trading companies, Sunderland Live Ltd and Sunderland Care and Support Ltd;
- exploring and delivering transformation in a range of services including leisure and libraries; and
- working with its partners to establish a Combined Authority so that economic growth, skills and transformation improvement can be delivered on a regional basis.

The challenge for the future is ensuring that the well established track record of delivering results can be continued.

Whole of Government Accounts (WGA)

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of the Council's WGA consolidation pack with the audited statement of accounts. We reported that your consolidation pack was consistent with the audited statement of accounts on 30 September 2014.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions or objections in relation to your 2013/14 accounts from local electors, nor did we exercise our wider reporting powers.

02 Fees

As outlined in our Audit Strategy Memorandum presented to the Audit and Governance Committee on 28 March 2014, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2013/14 are summarised below.

| Element of work | As previously reported | Final Fee |
|---------------------------------|------------------------|-----------------|
| Code audit work ¹ | £179,562 | £183,802 |
| Certification work ² | £12,412 | £12,412 |
| Non-audit work ³ | £35,500 | £35,500 |
| Total | £227,474 | £231,714 |

All fees exclude VAT

¹ There has been an increase in fees for Code audit work since we reported to you in our Audit Strategy Memorandum in March 2014. The increase in fee of £4,240 is explained as follows:

- £3,000 – an additional fee in relation to the Port of Sunderland accounts; this additional fee has been agreed by officers and is awaiting approval by the Audit Commission;
- £740 - this increase in fee has arisen because the Audit Commission no longer makes certification arrangements for the NNDR 3 return and, as a result we have had to undertake additional audit testing to obtain suitable assurance over relevant entries in the Council's accounts. This assurance would have previously been obtained from work to certify the NNDR 3 return. The Audit Commission advised all audit suppliers of the expected additional fees arising from this additional work and we can confirm that the additional fee we have charged is in line with that prescribed by the Audit Commission; and
- £500 – an additional fee in relation to risk assessment work in respect of Private Finance Initiative schemes; this additional fee was agreed by officers and was approved by the Audit Commission.

² The previously reported fee is the fee reported in the Certification of Claims and Returns Work Plan in June 2014. This reduced from the original estimate of £15,600 reported in the Audit Strategy Memorandum, due to the removal of council tax benefits and teachers pensions from the scope of this work. The final fee of £12,412 outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim. We will confirm the final fee charged for certification work when we issue our Annual Certification Report.

³ An analysis of the total fee for non-audit work, which was reported in the Audit Strategy Memorandum in March 2014, is included on the next page of this report.

There are two additional areas of work, which are not yet reflected in the fee table:

- The certification of the Teachers Pensions Return – the arrangements for this have changed and these are still being clarified with officers and with the Teachers Pensions Agency; and
- s256 agreements with the CCG and / or NHS England – we have been asked to estimate the cost of work on these returns, but we have not yet completed our estimate.

| Non-audit services | 2013/14 Actual Fee |
|----------------------------|--------------------|
| Review of Fees and Charges | £15,650 |
| Review of Advertising | £14,850 |
| Review of Internal Audit | £3,500 |
| Tax advisory services | £1,500 |
| Total fee | £35,500 |

All fees exclude VAT

Any additional fees arising from work in relation to the Teachers Pensions Return and / or s256 agreements will be reported in future Audit Progress Reports to the Audit and Governance Committee.

03 Future challenges

We see the main challenge facing the Council, along with other local authorities and the wider public sector, is the continued pressure on the public finances and the need to plan for further reductions in spending power, coupled with increased demand for services.

In our comments earlier in this report, we summarised how the Council has dealt with these challenges so far, its arrangements for ongoing financial resilience and its plans for the future, including an ambitious programme for transformational change.

There are still risks with these and the other initiatives the Council is engaged in and it is important that the Council continues to monitor closely the progress of its key projects and initiatives to ensure that the benefits envisaged are delivered for residents.

We will focus our 2014/15 audit on the risks that these challenges present to the financial statements and the ability to maintain proper arrangements for securing value for money.

We will also share with the Council relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments, and we will be on hand to discuss any issues as and when they arise.

Should you require any further information on this letter or on any other aspects of our work, please contact:

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