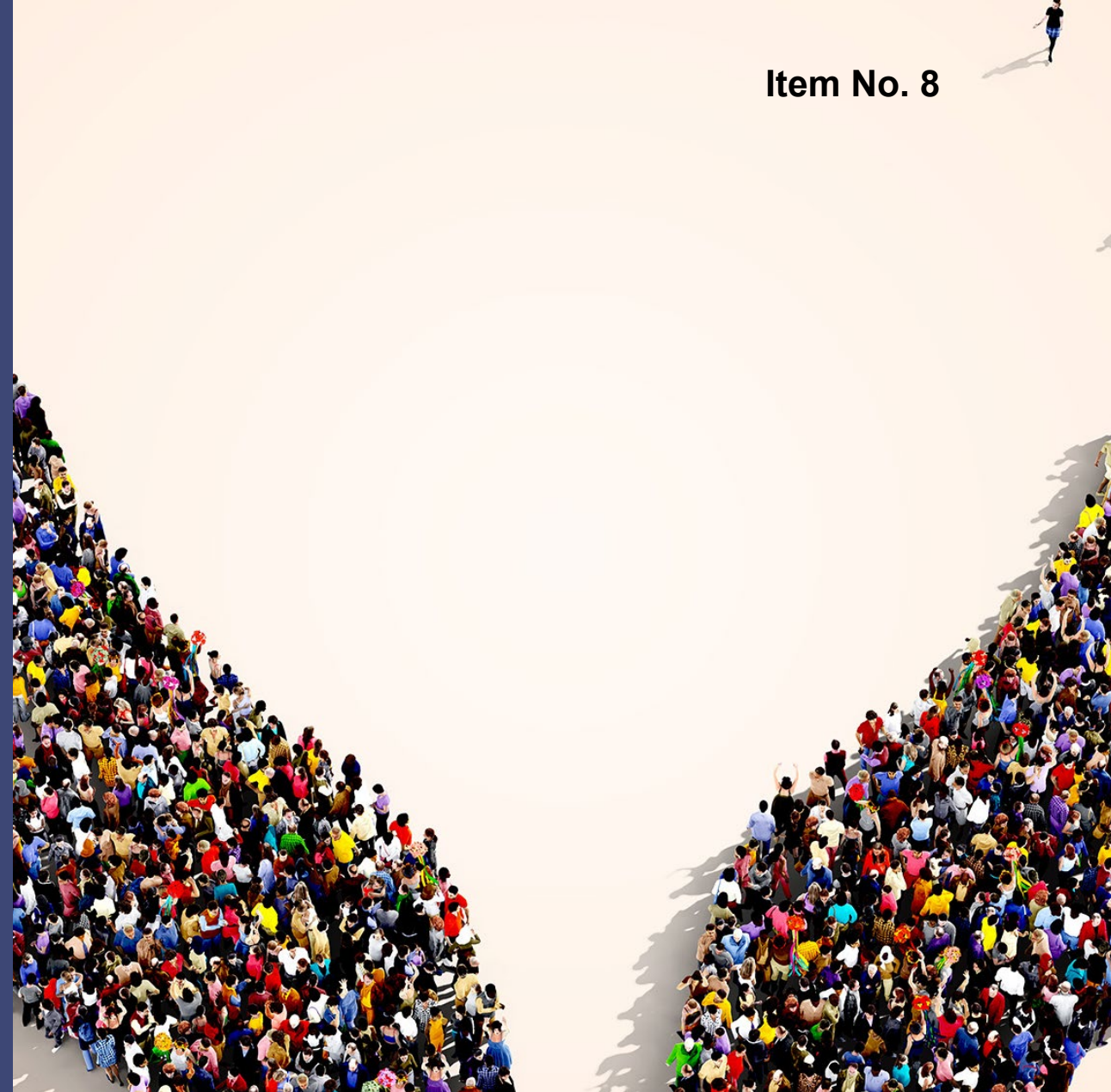


# Audit Progress Report

Sunderland City Council

Audit and Governance Committee  
April 2023



1. Audit Progress
2. National publications

# 01

Section 01:  
**Audit Progress**

# 1. Audit progress

## **Purpose of this report**

This report provides the Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditors. It also includes, at Section 2, a summary of recent national reports and publications for your information.

## **2021/22 Audit**

This April progress report provides an update to the position set out in our February progress report.

Our audit of the 2021/22 financial statements is virtually complete. Since our last progress report, we have received the Pension Fund auditor assurance which did not highlight any significant issues. We will report our formal findings, as in previous years, in a follow-up letter to our Audit Completion Report.

## **2022/23 Audit**

Significant risks and our planned testing approach for the 2022/23 audit are set out in the following pages.

There is a change of Engagement Lead for 2022/23; due to rotation rules Cameron Waddell will be replaced by Mark Kirkham.

In summary, there are no new significant risks to highlight to the Committee for 2022/23 and no new independence issues we are required to report to you, noting that our risk assessment is continuous, right up until when the auditor's opinion is given. We will update our risk assessment upon receipt of the draft 2022/23 financial statements and will report any changes to this Committee.

# Audit scope, approach and timeline

Under the Accounts and Audit Regulations, the Council is required to publish its draft statement of accounts for 2022/23 by the end of May and publish audited statements by the end of September. The timetable is subject to a number of assumptions and we will update the Committee on any significant changes that we agree with the Council.

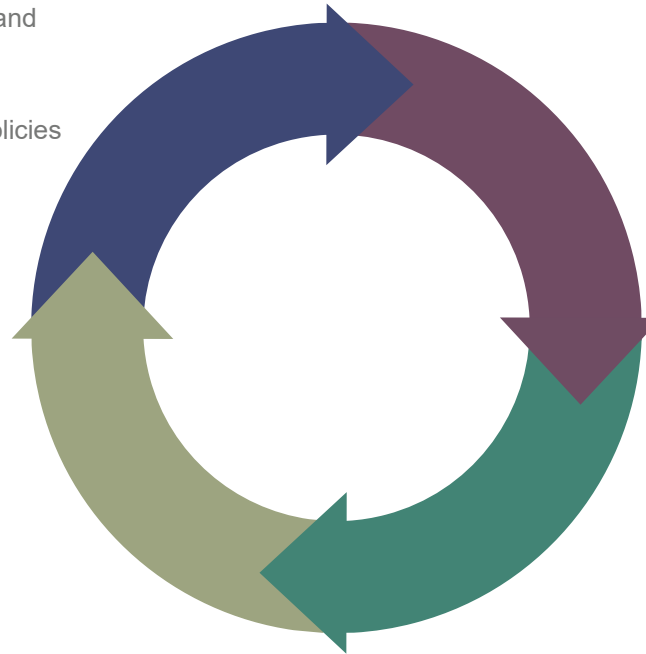
## Planning January-March

- 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 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

\* depending on timing of receipt of the Pension Fund auditor assurance



## Interim March-April

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- 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

\*subject to receipt of the financial statements at the beginning of July

# Audit scope, approach and timeline

## Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures. Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

## Service organisations

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

## Management's and our experts

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

Item of account	Management's expert	Our expert
Defined benefit net 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.

# Significant risks and other key judgement areas

Following our risk assessment, we have identified risks relevant to the audit of financial statements. The 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:

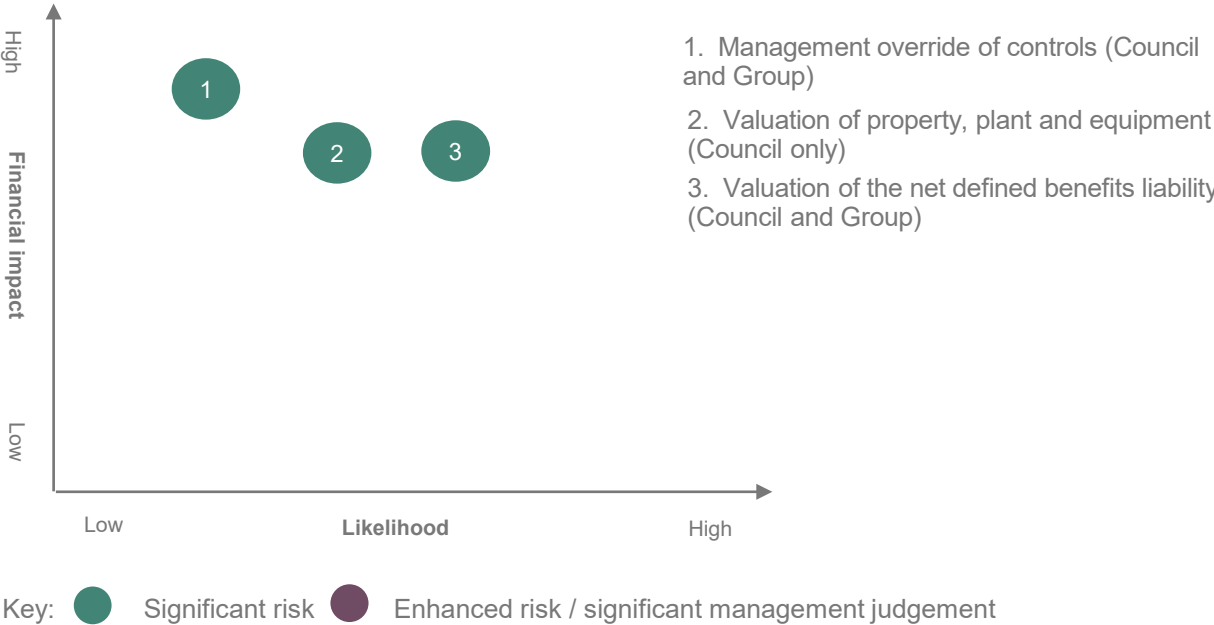
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

### 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 (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

### Summary risk assessment

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



# 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 (Council and Group)</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 will undertake substantive procedures including:</p> <ul style="list-style-type: none"> <li>• making enquiries of senior officers involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;</li> <li>• recording the Council’s financial reporting processes and controls over journal entries and other adjustments and performing a walkthrough of such controls;</li> <li>• determining risk based fraud characteristics for journals and testing such journals;</li> <li>• testing journals made by the Council in the preparation of the financial statements and post closing journals;</li> <li>• critically reviewing accounting estimates and the judgements and decisions made by management in arriving at estimates to ensure there has been no manipulation of results;</li> <li>• considering any significant transactions outside the normal course of business; and</li> <li>• critically reviewing the selection and application of accounting policies.</li> </ul>



# Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Valuation of property, plant and equipment (Council)</b></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 but there remains a high degree of estimation uncertainty because of 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 Valuers, including the PFI shared waste facility;</li> <li>consider the competence, skills and experience of the Valuers and the instructions issued to the Valuers;</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>liaise with the Council's Internal Valuer, to understand their approach;</li> <li>where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.</li> </ul>

# Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Net defined benefit liability valuation (Council and Group)</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits.</p> <p>The calculation of the net pensions 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 (including relevant controls) 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;</li> <li>agree data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements; and</li> <li>critically review the component auditor’s work in respect of the Together for Children’s pensions liability which is consolidated in the group financial statements.</li> </ul>

# 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 overleaf.

### 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.

# Audit scope, approach and timeline

## Group audit approach (continued)

Entity	Nature of component / ownership	Auditor	Significant in terms of benchmarks?	Risks of material misstatement?	Commentary
Sunderland City Council	Parent – local authority.	Mazars LLP	Yes	Yes	Full scope audit – 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; full scope audit. Material transactions and balances; income and expenditure is borderline with our 15% benchmark, therefore, classed as a significant component. Pensions liability balance upon consolidation is greater than the group headline materiality and is relevant to the significant pensions risk already identified. Group audit instructions issued to the component auditor.
Sunderland Lifestyle Partnership (SLP)	Joint venture providing leisure services.	RSM 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.
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	Expectation is that no transactions or balances will be greater than the benchmarks upon consolidation.

# Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Group initial threshold £'000s	Single entity initial threshold £'000s
Overall materiality	16,172	15,324
Performance materiality	12,937	12,259
Trivial threshold for errors to be reported to the Audit and Governance Committee	485	460

## Materiality

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.

# 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 net cost 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 net cost 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 2023 to be in the region of £15 million for the Council (£13.5 million in the prior year at the planning stage) and £16 million for the Group (£14.5 million in the prior year at the planning stage).

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 £0.485 million for the Group and £0.436 million for the Council 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:** estimated as £2.5 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).

# 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.

We undertake our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility is 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 with staff and Members.</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>

## 5. Value for money arrangements

### **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 planning and 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 procedures.



# 02

Section 02:

**National publications**

# National publications

	Publication/update	Key points
National Audit Office (NAO)		
1	<b>Tackling fraud and corruption against local government (March 2023)</b>	Outside of tax and welfare, government still lacks robust assessments of where and what its fraud risks are, and most public bodies cannot demonstrate that they have counter-fraud resources commensurate with the risk.
Local Government Association		
2	<b>Local Leadership Framework for Councillors (March 23)</b>	The purpose of this framework is to support councillors in their local leadership role as they work with local communities to make a difference. It includes suggestions, prompts and further resources.

# NATIONAL PUBLICATIONS

## NATIONAL AUDIT OFFICE (NAO)

### 1. Tackling fraud and corruption against local government (March 2023)

This report focuses on fraud and corruption against government and, therefore, the taxpayer.

The report sets out that government has made some progress since the NAO last reported in 2016. It has established the Government Counter Fraud Function (GCFF) and the Government Counter Fraud Profession (GCFP). More recently it established the Public Sector Fraud Authority (PSFA) to improve its understanding of fraud attacks against government and to improve the standards of the counter-fraud function and profession.

However, outside of tax and welfare, government still lacks robust assessments of where and what its fraud risks are, and most public bodies cannot demonstrate that they have counter-fraud resources commensurate with the risk.

The creation of the PSFA presents the opportunity for a renewed focus on fraud and corruption.

The report includes:

- types of fraud and corruption risks across government and where they have been measured; and
- good practice guidance relevant to tackling fraud and corruption against government.

<https://www.nao.org.uk/reports/tackling-fraud-and-corruption-against-government/>

# NATIONAL PUBLICATIONS

## LOCAL GOVERNMENT ASSOCIATION (LGA)

### 2. Local Leadership Framework for Councillors (March 23)

The purpose of this framework is to support councillors in their local leadership role as they work with local communities to make a difference. It includes suggestions, prompts and further resources.

The framework builds on the roles and skills set out in 'The 21st-century Councillor' research report – which sets out seven key future roles for councillors. These show how councillors are adapting to a series of new challenges such as perma-austerity, evolving citizen expectations, new technologies, different scales of working and the changing organisation of public services at local level. The leadership skills in this framework will enable councillors to fulfil the 'seven roles of the 21st-century councillor', identified in the research report namely:

- steward of place – working across the local area in partnership with others
- advocate – acting to represent the interests of all citizens
- buffer – seeking to mitigate the impact of austerity on citizens
- sensemaker – translating a shift in the role of public services and the relationship between institutions and citizen
- catalyst – enabling citizens to do things for themselves, having new conversations about what is now possible
- entrepreneur – working with citizens and partners to encourage local vitality and identify creative new solutions
- orchestrator – helping broker relationships, work with partners and develop new connections.

<https://www.local.gov.uk/publications/local-leadership-framework-councillors#about-this-framework>

# Contact

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