



# Audit Completion Report

Sunderland City Council

Year ending 31 March 2020



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

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Sunderland City Council  
Civic Centre  
Burdon Road  
Sunderland  
SR2 7DN

9 October 2020

Dear Members

### **Audit Completion Report – year ended 31 March 2020**

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, key audit matters and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 24 July 2020, incorporating consideration of the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks, key audit matters and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were changed to 31 August and 30 November respectively. The Council prepared draft financial statements ahead of the revised deadline and both officers and Council management have worked with us, despite this challenging period, to complete the audit. We would like to express our sincere thanks for the assistance of your team during the audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0781 375 2053.

Yours faithfully



Cameron Waddell (Key Audit Partner)  
For and on behalf of Mazars LLP

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# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Sunderland City Council ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Audit and Governance Committee meeting on 16 October 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 3 and 6 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 3 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- **Property, Plant and Equipment and Investment Properties valuations (Key Audit Matter);**
- **defined benefit liability valuation (Key Audit Matter);**
- management override of control;
- revenue recognition: fees, charges and other income;
- valuation of short and long-term debtors; and
- valuation of the Airport shares (long-term investments).

## Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

Subject to the satisfactory completion of the remaining audit procedures, we anticipate issuing an unqualified opinion on the financial statements, including drawing attention to the Valuer's material uncertainty statement in the key audit matter on property, plant and equipment and investment properties. This relates to the impact of COVID-19, which is disclosed in Note 4 of Council's financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

### Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, except for the areas assessed as inadequate by Ofsted in their report on Children's Services in July 2018. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

### Whole of Government Accounts (WGA)

The National Audit Office have not yet issued auditors with their group instructions; we will complete the required work to the MHCLG timetable as soon as possible once these details have been clarified.

### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. There have been no objections or questions from local electors during the audit.

# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. We will provide the Audit and Governance Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our work will continue up to the point of signing off; at the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Pensions	Amber	Work to be finalised. The assurance from the Pension Fund auditor has not yet been received and considered, including consideration of any material uncertainty due to COVID-19 in respect of Pension Fund investments.
Property, plant and equipment	Amber	Work to be finalised, including consideration of the valuation of the Council's shared waste facility.
Other areas	Green	Our work is on-going in a number of areas, including finalisation of our IT general controls testing.
Closing procedures	Green	Review and closure processes, including consideration of post balance sheet events and checking the revised financial statements.

## Status key

R = likely to result in material adjustment or significant change to disclosures within the financial statements

A = potential to result in material adjustment or significant change to disclosures within the financial statements

G = not considered likely to result in material adjustment or change to disclosures within the financial statements

## Misstatements and internal control recommendations

Section 4 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 5 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Governance Committee in a follow-up letter.

# 2. AUDIT APPROACH

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum of July 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

We set materiality at the planning stage of the audit at £13.898 million for the Group financial statements and £13.538 million for the Council financial statements, using a benchmark of 2% of gross expenditure at the Surplus/Deficit on Provision of Services level.

Our final assessment of materiality, has been updated based upon the final 2019/20 financial statements. Qualitative factors are unchanged from that at the planning stage for both the Group and Council financial statements. Qualitative factors considered included the level of understanding of key stakeholders of materiality and inherent uncertainties and judgements in the financial statements as well as taking into account the Council being classed as a 'public interest entity'.

Our final materiality levels are set out in the table below including our trivial threshold (the level under which individual errors are not communicated to the Audit and Governance Committee which is based on 3% of overall materiality).

Materiality element	Group materiality £000s	Council (single-entity) materiality £000s
Overall materiality	13,898	13,538
Performance materiality	10,840	10,560
Trivial threshold for reporting to the Audit and Governance Committee	417	406

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that adjustments of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We set specific materiality for the following items of account/disclosures:

Item of account/disclosure	Basis of materiality	Specific materiality £000s
Officers' remuneration	25% of total	195
Officers' remuneration (bandings table)	Bandings (£5,000)	5
Members' allowances and expenses*	25% of total	284
Exit packages (termination benefits) – single entity	25% of total	302
Exit packages (termination benefits) – Group (including single entity)	25% of total	412

\* Single-entity only

## 2. AUDIT APPROACH

### Key summary of audit approach and findings

We have summarised the key information regarding our approach, risks and significant findings for the Comprehensive Income & Expenditure Statement (CIES) and Balance Sheet in the following table. Further information on the findings is provided in sections 3 and 5.

Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Internal control issue arising	Significant audit findings / recommendations
CIES: net cost of services – single entity	Significant	Revenue recognition – fees, charges and other income only	No	None	No	None
CIES: net cost of services – group	Significant	Revenue recognition – fees, charges and other income only	No	None	No	None
Other operating expenditure	Standard	-	No	None	No	None
Financing and Investment I&E	Standard	-	No	None	No	None
Taxation and non-specific grant I&E	Standard	-	No	None	No	None
Other comp. I&E	Standard	-	No	None	No	None
Property, Plant and Equipment / Investment Properties	Significant (Key Audit Matter)	Valuations	Yes	None	Yes	Work is in progress. Errors have been identified from testing, however, no material misstatements have been identified to date. Issues arising include the timeliness of the Valuer's report and capacity to respond to audit queries and the PFI waste facility valuation. Our draft auditor's report on this key audit matter draws attention to the Council's own disclosure of the Valuer's material uncertainty statement arising from COVID-19.



## 2. AUDIT APPROACH (CONTINUED)

Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Internal control issue arising	Significant audit findings / recommendations
Heritage assets	Standard	-	No	None	No	None
Intangibles	Standard	-	No	None	No	None
Long-term Investments	Enhanced	Valuation of unquoted equity investments	No	None	No	None
Long-term debtors	Significant	Valuation of short and long-term debtors	No	None	No	None
Short-term investments	Standard	-	No	None	No	None
Inventories	Standard	-	No	None	No	None
Debtors	Significant	Valuation of short and long-term debtors	No	Yes	No	None
Assets held for sale	Standard	-	No	None	No	Balance below triviality. However, misclassified as 'held for sale' and should be included within Property, Plant and Equipment.
Cash and cash equivalents	Standard	-	No	None	No	None
Borrowing	Standard	-	No	Yes	No	None
Creditors	Standard	-	No	None	No	None
Provisions	Standard	-	No	None	No	None
Grants receipts in advance	Standard	-	No	None	No	None



## 2. AUDIT APPROACH (CONTINUED)

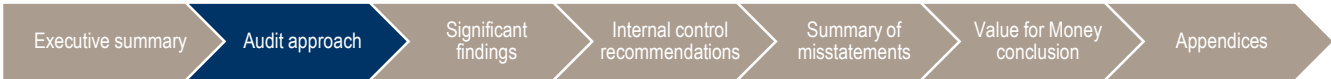
Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Internal control issue arising	Significant audit findings / recommendations
Defined benefit pension liability	Significant (Key Audit Matter)	High estimation uncertainty	Yes	None	No	Work is on-going. Assurance from the Pension Fund auditor is now anticipated in mid to late October.
PFI liabilities	Standard	-	No	None	No	None
Usable reserves	Standard	-	No	None	No	None
Unusable Reserves	Standard	-	No	None	No	None
Group reserves	Standard	-	No	None	No	None

## 2. AUDIT APPROACH (CONTINUED)

### Overview of our group audit approach

Our Audit Strategy Memorandum provided details of our intended group audit approach, including our initial assessment of group materiality. The table below confirms the approach we have taken to auditing the Council's consolidated financial statements.

Entity	Nature of entity audit	Auditor	Description of audit procedures undertaken on the component	Changes to audit approach
Sunderland City Council (parent)	Full scope audit.	Mazars LLP	Full scope audit as described in this report.	None.
Together for Children Sunderland Limited (subsidiary)	Full scope audit and review of key component auditor working papers.	Robson Laidler LLP	Identified as a significant component. <ul style="list-style-type: none"><li>We set a component materiality level and discussed significant risks with the component auditor.</li><li>We ensured that the statutory audit of this significant component provided sufficient assurance for the group audit.</li><li>We reviewed the work of the component auditor to ensure that the work was completed satisfactorily.</li></ul>	None.
Sunderland Lifestyle Partnership Limited (joint venture)	Specified audit procedures in respect of the leisure assets accounting adjustment upon consolidation.	RSM UK	Identified as a material but not significant component, with review of consolidation adjustments including revaluation of the leisure assets.  Analytical procedures at group audit level; review of the consolidation process; reasonableness checks; review of consolidation adjustments and disclosures.	None.
Sunderland Care and Support Ltd (SCAS) (subsidiary)	Group analytical procedures.	Robson Laidler LLP	Analytical procedures at group audit level; review of the consolidation process; reasonableness checks; review of consolidation adjustments and disclosures.	None.
Sunderland Homes Ltd (subsidiary)	Group analytical procedures.	Robson Laidler LLP	Analytical procedures at group audit level; review of the consolidation process; reasonableness checks; review of consolidation adjustments and disclosures.	None.
Siglion LLP – developments and investment companies (subsidiary)	Group analytical procedures.	Robson Laidler LLP	Analytical procedures at group audit level; review of the consolidation process; reasonableness checks; review of consolidation adjustments and disclosures.	None.
IAMP (International Advanced Manufacturing Park) LLP (joint venture)	Group analytical procedures.	Robson Laidler LLP	Analytical procedures at group audit level; review of the consolidation process; reasonableness checks; review of consolidation adjustments and disclosures.	None.

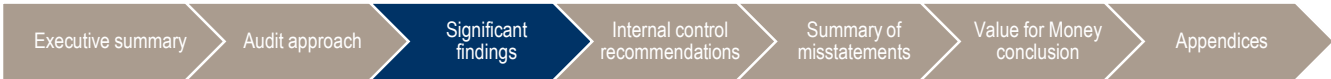


### 3. SIGNIFICANT FINDINGS

This section sets out the significant findings from our audit. These findings include:

- our findings on key audit matters, including:
  - why the matter was considered to be one of the most significance to the audit and therefore determined to be a key audit matter;
  - how the matter was addressed in the audit, including a summary of our response;
  - where relevant, key observations arising with respect to each matter; and
  - a clear reference to the relevant disclosures in the financial statements.
- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 16 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

As part of our planning procedures we considered the risks of material misstatement in the Council’s financial statements that required special audit consideration. Although we report identified key audit matters and significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new key audit matters and significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.



# 3. SIGNIFICANT FINDINGS

## Key audit matters

**Key audit matter:**  
**defined benefit liability**  
**valuation**

**Description of the key audit matter**

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and 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.

The risk has increased as a result of the economic downturn arising from COVID-19.

**How we addressed the key audit matter:**

- we critically evaluated the Council’s arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements;
- we challenged 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;
- we assessed the competency, objectivity and independence of the Actuary;
- we liaised with the auditors of the Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively, in particular given the triennial valuation;
- we compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and
- we agreed data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements.

**Key observations and audit conclusion**

Subject to completion of outstanding work, including the outstanding Pension Fund auditor assurance, we have obtained the assurance required, with no significant issues arising we are required to report to you.

# 3. SIGNIFICANT FINDINGS (CONTINUED)

## Key audit matters (continued)

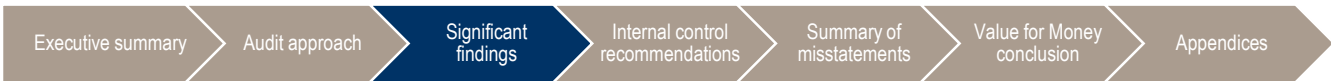
Key audit matter: Property, Plant and Equipment and Investment Property valuations	Description of the key audit matter
	<p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of Property, Plant and Equipment (PPE) and Investment Properties (including the Council's PFI shared waste facility).</p> <p>The Council employs a valuation expert to provide information on valuations, however there remains a high degree of estimation uncertainty associated with the (re)valuations of PPE and Investment Properties due to the significant judgements and number of variables involved.</p> <p>The risk has increased as a result of the economic downturn arising from COVID-19. We note also the Valuation Practice Alert issued by the valuation body The Royal Institute of Chartered Surveyors (RICS) recently. This highlighted the use by Valuers, where appropriate, of material uncertainty declarations in their valuation reports.</p>
	<p><b>How we addressed this key audit matter:</b></p> <ul style="list-style-type: none"><li>• we assessed the Council's arrangements for ensuring that property, plant and equipment and investment property valuations are reasonable;</li><li>• we critically assessed 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>• we considered the competence, skills and experience of the Valuer(s) and the instructions issued to the Valuer(s);</li><li>• we substantively tested capital expenditure additions and disposals during the year;</li><li>• we substantively tested the Council's property, plant and equipment and investment properties to gain assurance that they exist and are owned by the Council;</li><li>• we substantively tested 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>• we carried out procedures to gain assurance over the consolidation adjustments for group accounts which impact on property, plant and equipment and associated financial statement areas;</li><li>• we critically considered any material uncertainties expressed by the Valuer(s) used by the Council and considered any implications on our audit work; and</li><li>• where necessary, we performed further audit procedures on individual assets to ensure the basis of valuations is appropriate.</li></ul>

### Key observations and audit conclusion

#### **Effects of Covid-19 on the valuation of (Land and Buildings and Investment Property) assets, including the PFI waste facility**

*We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's assets (Land and Buildings /Investment Property) as at 31 March 2020. As disclosed in note 4, the Council's Valuers have been faced with an unprecedented set of circumstances and consider that less weight can be attached to market evidence which would usually be relied upon to inform valuations. The asset valuations have therefore been provided on the basis of 'material valuation uncertainty' and the Council's Valuers have stated that valuations should be considered with less certainty and a higher degree of caution than usual. Our opinion is not modified in respect of this matter.*

Continued overleaf



# 3. SIGNIFICANT FINDINGS (CONTINUED)

## Key audit matters (continued)

Key audit matter:  
Property, Plant and Equipment and Investment Property valuations

### Key observations – continued

#### PFI shared waste facility

The Council obtained a valuation for the shared PFI waste facility, the Council's second largest asset, from an external valuer, via the Lead Local Authority of the Partnership, due to the specialist nature of this asset; we similarly commissioned an external valuation. Our expert's assessment highlighted a difference in approach in respect of the valuation of the waste facility. Based on the range set out by our expert, we concluded this would not be a material difference.

Further additional work was required in order for us to gain sufficient and appropriate evidence.

#### Sample testing

Our sample testing identified various errors. Based upon an extrapolation these are not material. Issues identified included:

- errors in the calculation of the Bridges shopping centre valuation;
- an asset where the Council did not have formal evidence of ownership via Land Registry deeds; and
- other minor errors.

#### Significant matters discussed with management

We discussed with management arrangements in place for valuations and responding to audit queries. There have been issues with the timeliness of information provided, which the Council is seeking to address for future years. We note also the formal valuer's Report was not available until part-way through the audit; this key report should be available to management prior to the draft financial statements being approved.

#### OVERALL

As set out above, we draw your attention to the material uncertainty disclosed by the Council's Valuers in relation to land and buildings and investment properties, as disclosed in the financial statements.

We have not identified any material misstatement of the Group and Council's Property, Plant & Equipment and Investment Properties.

### 3. SIGNIFICANT FINDINGS (CONTINUED)

#### Significant risks

<b>Significant risk: management override of controls</b>	<b>Description of the significant risk</b> <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>
	<b>How we addressed this significant risk</b> <p>We addressed the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>
	<b>Key observations and audit conclusion</b> <p>There are no significant issues arising from our work that we are required to report to you.</p>

<b>Significant risk: risk of fraud in revenue recognition - fees, charges and other income</b>	<b>Description of the significant risk</b> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and grant income.</p> <p>However, we do not feel that sufficient scope exists to rebut this risk in respect of the recognition of fees, charges and other income. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>
	<b>How we addressed this significant risk</b> <ul style="list-style-type: none"><li>• we substantively tested fees, charges and other income to ensure they had been correctly classified and recognised;</li><li>• we tested journals; and</li><li>• we obtained direct confirmation of year-end bank balances and tested the reconciliations to the ledger.</li></ul>
	<b>Key observations and audit conclusion</b> <p>There are no significant issues arising from our work that we are required to report to you.</p>



# 3. SIGNIFICANT FINDINGS (CONTINUED)

## Significant risks - continued

Significant risk: valuation of short and long-term debtors	Description of the significant risk
	<p>There is an increased risk that the valuation of debtors, both short and long-term, will be impacted by the economic downturn.</p> <p>The Council's long-term debtors includes loans to other bodies and Newcastle Airport.</p> <p>The Council also has provided for the potential impairment of short-term debtors which may be impacted by the economic downturn.</p>
	<p><b>How we addressed this significant risk</b></p> <p>We:</p> <ul style="list-style-type: none"><li>critically reviewed the basis of valuation of short and long-term debtors, including the Council's assessment of expected credit losses (the latter including the Airport loans);</li><li>critically reviewed the adequacy of the impairment of debtors allowance;</li><li>challenged the assumptions made by the Council, in particular in light of the economic downturn.</li></ul>
	<p><b>Key observations and audit conclusion</b></p> <p>The Council made a minor amendment to its disclosure setting out its impairment of doubtful debt (Note 43) to clarify the historical experience of default, adjusted for market conditions at 31 March 2020.</p> <p>There are no significant issues arising from our work that we are required to report to you.</p>

## Areas of management judgement

Judgement: unquoted equity investment valuations	Description of the management judgement
	<p>The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, including those in Newcastle Airport and several joint ventures.</p> <p>The underlying accounting requirements are subject to change in 2018/19, which increases the risk in respect of these valuation judgements, therefore they have been assessed as enhanced risks.</p>
	<p><b>How our audit addressed this area of management judgement:</b></p> <ul style="list-style-type: none"><li>we critically reviewed the basis of valuation for the Council's unquoted equity investments; and</li><li>we assessed whether disclosures were in line with the Code of Audit Practice.</li></ul>
	<p><b>Key observations and audit conclusion</b></p> <p>There are no significant issues arising from our work that we are required to report to you.</p>

### 3. SIGNIFICANT FINDINGS (CONTINUED)

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

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting (the Code). We have considered the appropriateness of the use of the going concern assumption and have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council by 30 June 2020, ahead of the revised deadline of 31 August 2020 and were of a good quality and supported by comprehensive working papers.

#### Significant matters discussed with management

Over and above our challenge of management's judgements and assertions made in producing the financial statements, the following significant matters were discussed with management:

- the impact of COVID-19 on the Council's financial statements, including the potential impact on risks of material misstatement; due to the timing of when our Audit Strategy Memorandum was issued, we incorporated the impact of the economic downturn in our risk assessment reported in July 2020;
- the valuation of the Council's land & buildings and investment property, as reported elsewhere in this report, including the Valuer's material uncertainty statement, as disclosed in Note 4 of the financial statements, due to COVID-19;
- the valuation of the shared PFI waste facility, for which the Council engaged its own expert, via the Lead Local Authority of the Partnership, due to the specialist nature of the asset and therefore we similarly engaged an expert;
- the significant variances arising from the triennial valuation of the Pension Fund and consideration of the material uncertainty, due to COVID-19, expressed in respect of the Pension Fund property investments;
- The consistency of assumptions used by the Actuary for the Council and the Council's two subsidiaries with pension liabilities (Together for Children and Sunderland Care and Support);
- the external valuation and the assumptions made in the downward valuation of the Airport shares, as well as the expected credit loss for the Council's long-term loan notes to the Airport;
- the calculation of the impairment of debtors allowance and the impact of the economic downturn;
- the Council's assessment of whether there are any post balance sheet events; and
- the direct confirmation received from Salix for loans the Council had with them again differed to the value the Council had recorded; the Council provided evidence to show this was due to an error by Salix.

#### Significant difficulties during the audit

The impact of the COVID-19 pandemic on the audit has been significant. We have had the full co-operation of officers and Council management during what has been a challenging audit period. These challenges have been resolved through the dedication and excellent support from the Council.

#### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability 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 law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

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. There have been no objections or questions from local electors during the audit.

# 4. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is 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. We do this in order to design audit procedures to allow us to express an opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of internal controls, nor 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 controls 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.

Our findings and recommendations are set out below. 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
1 (high)	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
2 (medium)	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
3 (low)	In our view, internal controls should be strengthened in these additional areas when practicable.	0

The following section sets out the one current year recommendation, as well as follow-up of prior year recommendations.



# 4. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

## Description of deficiency - arrangements in place for asset valuations Level 2

The Valuer's formal year-end report is a key document, summarising the Valuer's approach and key assumptions. This report was not available until part way through the audit; as it is a key document, it should be available to management before the accounts are authorised for issue. In addition, the Council should consider the capacity within the property section to respond to audit queries promptly, given significant delays experienced this summer. We recognise the pressures during this period, however, there were significant delays in obtaining individual asset valuation reports, which should be readily available in an electronic format.

Other issues were identified from our testing, including:

- one piece of land, a car park, for which the Council did not have Land Registry deeds for all parts of the land. Whilst we are satisfied this asset belongs to the Council, formal evidence via Land Registry deeds should be in place;
- three assets where there was insufficient evidence of floor plans used in the valuation calculations; and
- two assets where the incorrect asset life had been input to the asset register when comparing the information provided by the valuer. There was no impact on the 2019/20 accounts as the incorrect figures would only affect future years' depreciation calculations.

## Potential effects

Management do not have sight of the formal year-end Valuer's report before authorising for issue the draft financial statements.

Insufficient evidence to support valuations, resulting in errors.

Delays to the audit opinion.

## Recommendation

Consider the capacity within the Property section in order to ensure that valuations are available on a timely basis, in particular the formal year-end Valuer's report.

Consider also the errors arising and strengthen controls in these areas e.g. review of assets to ensure evidence of floor plans is available and also that all relevant assets have been registered with the Land Registry.

## Management response

Management accept the issues set out which have arisen due to additional pressures resulting from significant capacity issues within property services, COVID-19 and additional requirements of the external auditors. Action has already been taken to put in place additional capacity to resolve these issues for future years.



# 4. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

## Follow-up of previous internal control points

We set out below an update on internal control points raised in the prior year.

### Description of deficiency - housing benefits system walkthrough **Level 2**

Our walkthrough of a new claim within the housing benefits system identified two errors, namely:

- evidence of Child Tax Credit income was not retained on the system as required; and
- the assessment of income incorrectly included a figure for the claimant’s capital, resulting in an underpayment of benefit.

We were able to obtain evidence for the Child Tax Credit income at the time of our walkthrough, however this should have been retained on file. We note the assessment of income for benefits is prone to error due to its complexity.

### Potential effects

Non-compliance with DWP subsidy requirements. Incorrect calculation of benefits.

### Recommendation

The Authority should consider strengthening quality assurance and training in relation to the assessment of income.

### 2019/20 update

No similar issues were identified based on our 2019/20 audit work.

### Description of deficiency – journal controls **Level 2**

Journals are a key control to prevent and detect fraud and / or error. Within the Council’s general ledger, the same person can input and authorise a journal.

There are various controls in place around journals, including a review of year-end journals over £1m by senior officers. This control should be extended to cover the full-year including any year-end journals post-March. It is also important that evidence is retained of this check i.e. a clear audit trail.

### Potential effects

Risk of fraud and / or error.

### Recommendation

The review of material journals should cover the full year, including the closedown period.

### 2019/20 update

This was actioned during the prior year.

# 4. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

## Description of deficiency – reporting actual versus planned savings at the year-end Level 2

The Council has robust monitoring arrangements for the delivery of savings required during the year. At the year-end, the Council reports its outturn position overall, which takes into account the achievement of savings. However, it is not clear which savings were achieved and which were compensated for by other budget underspends.

### Potential effects

Lack of clarity on savings, impacting on decision-making.

### Recommendation

The Council should expand existing monitoring reports on planned and actual savings to report on year-end outcomes.

### 2019/20 update

The Council refreshed its budget monitoring and reporting approach in 2019/20, with the aims of improved transparency and understandability.

## Description of deficiency – evidence of Treasury Management reconciliation review Level 3

A monthly reconciliation of the Treasury Management system to the general ledger is carried out. This is checked and authorised by a second person, however no evidence is retained of this review. Treasury Management is a key system, with highly material figures, therefore such evidence should be retained (this does not have to be via a hardcopy working paper, but could be electronic).

### Potential effects

Risk of fraud and / or error.

### Recommendation

Retain evidence of the approval of the monthly Treasury Management system reconciliation to the general ledger.

### 2019/20 update

This was actioned in the prior year.

# 4. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

## Follow-up of previous internal control points - continued

### Description of deficiency – completeness of bank account confirmations **Level 3**

Testing identified that the direct confirmation provided to us by the Council's bank had omitted one bank account in respect of a school. In this particular case, the letter we received listed all accounts (including schools) where there was a right of set-off in one section of the letter, but had then omitted one of the schools' actual bank balance in the earlier section of the letter in error. Whilst we were able to gain the assurance required, the completeness and accuracy of bank confirmations is an important source of assurance.

### Potential effects

Lack of assurance over bank accounts - a key area.

### Recommendation

The Council should liaise with its relationship manager at the bank to discuss the controls in place for ensuring bank confirmations provided are accurate and complete.

### 2019/20 update

This was actioned. There were some issues arising during the 2019/20 audit, namely:

- Schools bank confirmations: the bank confirmation provided this year did not list school bank accounts, therefore these were requested separately;' upon receipt, the assurance sought was obtained, with no issues arising as per the prior year.
- Closed bank accounts: a different issue arose this year, whereby the bank confirmation included an account balance of nil for an account which the Council records showed as 'closed'. The Council has addressed this discrepancy.
- Bank mandates out of date: in addition, issue arising from obtaining direct confirmations for investments (a linked issue) highlighted that the operational mandate held by the bank (Lloyds) was out of date, therefore assurance could not be provided to us until this was updated.



# 5. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.406 million (Group trivial threshold of £0.417 million).

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

There are no misstatements that have been adjusted by management during the course of the audit that we are required to report to you.

## Unadjusted misstatements 2019/20

		Assets	Liabilities	Reserves	Comprehensive Income and Expenditure Statement (CIES)
		£000s	£000s	£000s	£000s
1	Dr: Property, Plant and Equipment Cr: Assets Held for Sale (current) Dr: Revaluation Reserve / CIES* Cr: Property, Plant and Equipment	394 -394  171		   171	
	Being the net impact of various Property, Plant and Equipment errors. Including: <ul style="list-style-type: none"><li>understatement due to misclassification of assets as Assets Held for Sale - £0.394m;</li><li>understatement of the valuation of the Bridges shopping centre, due to an error in the calculation - £1.694m;</li><li>understatement due to various errors with an extrapolated value of £0.858m;</li><li>overstatement due to minor errors - £0.329m;</li><li>overstatement due to various errors, with an extrapolated value of £2.394m; and</li><li><i>overstatement of the shared waste PFI facility - TBC</i></li></ul> As this work is not yet fully complete, we cannot confirm the total value of misstatements at this stage.  **The £0.171m adjustment represents the net impact of both under- and overvaluations, some of which impact on the Revaluation Reserve and others that impact on the CIES. For simplification, we have shown the net adjustment against the Revaluation Reserve. In practice the adjustments would be split with the CIES and gross figures may be higher.				
2	Dr: Revaluation Reserve Cr: Capital Adjustment Account			2,458 -2,458	
	Being an error in the accounting treatment of revalued assets; this is due to spend on an existing asset, upon revaluation, not being offset as required against a previous revaluation loss. Error for prior years quantified as being £0.528m.				
	Total unadjusted misstatements	TBC	0	TBC	0

# 5. SUMMARY OF MISSTATEMENTS (CONTINUED)

## Unadjusted disclosures

- Note 31 Dedicated Schools grant:** the disclosure note highlights the deficit of £0.249 million for 2019/20, stating it will be funded from the available DSG resources for 2020/21, in line with the School Finance (England) Regulations 2020 that apply from 1 April 2020.  
In our view the disclosure is not appropriate as a Council can not set aside amounts that are not available. This means a negative earmarked reserve is not appropriate unless derived from a statutory authority. Whilst the School Finance (England) Regulations 2020 (applicable from 1 April 2020) set out that DSG deficits are to be funded from DSG resources and not the general fund, we do not consider this to statutory override to be available for accounting purposes in 2019/20. Therefore, although the current position may reflect the funding position, i.e. the deficit position will be funded from another source, this is different to the financial reporting position.  
Management's view is the disclosure reflects the reality of the Council's position and given the immaterial value they are not proposing to amend.

## Disclosure amendments

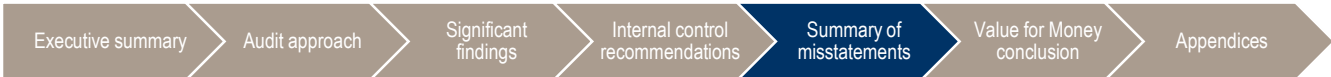
The Council has amended the disclosures for various minor points and presentational issues. The most significant disclosure amendments are summarised below.

### Single entity Council disclosure amendments

- Note 4 assumptions:** various amendments to clarify assumptions, including addition of narrative in respect of the material uncertainty due to COVID-19 in respect of the Pension Fund's property investments.
- Note 6 events after the balance sheet date:** amendment of narrative to clarify that there are no post balance sheet events (as required, the Council will keep this disclosure under review right up until when the opinion is signed, updating the disclosure note as appropriate).
- Note 12 Property, Plant and Equipment:** minor amendment to the disclosure note.
- Note 15 financial instruments:** minor amendments to clarify disclosures.
- Note 30 external audit costs:** amendment to include the additional fee charged for 2018/19.
- Note 43 nature and extent of risks of financial instruments:** minor amendments to clarify disclosures.

### Group disclosure amendments

- Group notes: capital commitments** – disclosure added for Group capital commitments, in relation to Siglion and IAMP.



# 6. VALUE FOR MONEY CONCLUSION

## Our approach to Value for Money

We are required to form a conclusion 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 conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision-making;
- sustainable resource deployment; and
- working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below, followed by:

- consideration of significant risks identified to our Value for Money conclusion (responding to financial pressures and Ofsted’s inspection of Children’s Services);
- our ‘reality check’; and
- our overall conclusion (as set out in Appendix B).

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making	<p>The Council has set out that its key priority continues to be the health and wellbeing of Sunderland residents, staff and businesses. Following the pandemic, the Council is refocusing its plans to focus on recovery, in particular the local economy and continued support to its communities, with the core ambitions of the City Plan remaining central to its plans in the recovery phase.</p> <p><i>City Plan</i></p> <p>The Council’s strategic approach is encapsulated in its City Plan. The City Plan ‘Sunderland 2019/2030’ replaces the existing Corporate Plan which covers up to and including 2019/20 and is the Council’s overarching strategic plan for the period 2019/2020 to 2029/2030 as well as for the city’s Strategic Partnership arrangements.</p> <p>As a result of COVID-19, Cabinet approved a Health Inequalities Strategy in July in order to have an evidence-based approach that engages the wider Council and partners, strengthening the recovery response to reduce the impact of Covid-19 on identified at key risk groups and reducing the impact on existing health inequalities.</p> <p><i>Decision-making</i></p> <p>The Council put in place delegated decision-making powers at the height of the lockdown and has committed to regularly reporting on their use. The Council’s report to the May 2020 Cabinet summarised the actions it had taken to date and would continue to keep under review, as part of ensuring governance arrangements remained both appropriate and effective.</p> <p><i>Medium-term financial strategy</i></p> <p>The Council has a robust medium-term financial strategy in place, supported by regular financial reporting in the year; it is currently updating its medium-term financial strategy to take account of the economic downturn. We comment further on the financial resilience of the Council in this section.</p>	Yes

## 6. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making	<p><i>Risk assurance and mapping</i></p> <p>The Council's system of internal control is subject to Internal Audit using an in-house function, and for 2019/20, the Council's internal auditors have given an opinion that there continues to be an adequate system of internal control.</p>	Yes
Continued	<p>The Council continues to develop its risk assurance and mapping, which provides a useful oversight of the activities of the Council, as well as encompassing its interests in other entities.</p> <p>An Audit and Governance Committee is in place to oversee the governance framework, including risk management and internal audit, and approval of the Council's financial statements.</p>	
Sustainable resource deployment	<p>The Council has continued to make good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions.</p> <p><i>Financial resilience</i></p> <p>The final revenue outturn for 2019/20 was an underspend of £0.496 million (prior year £0.682 million). The Council has maintained comparatively healthy levels of usable reserves; these have increased to £168.685 million as at 31 March 2020 (£154.022 million at 31 March 2019). Although these are earmarked for specific purposes, they do provide flexibility to manage the short to medium-term financial position.</p> <p>The Council continues to face a funding gap to address in coming years, therefore further savings and / or sources of additional income continue to be required. We comment on this further in the next section on VfM significant risks.</p> <p><i>Capital programme</i></p> <p>The Council has maintained a substantial capital programme of investment projects. The final outturn for 2019/20 was a capital spend of £120.813 million (prior year £80.9 million), and the capital programme for 2020/21 is £155 million.</p> <p>A major part of the Council's asset management strategy involves its interests in Siglion and it's joint venture with South Tyneside Council, IAMP (International Advanced Manufacturing Park). Progress by Siglion and IAMP has continued in 2019/20, with the notable completion of the site which became the North East Nightingale Hospital at the end of March 2020.</p> <p><i>Workforce development</i></p> <p>The Council has placed on record it's formal appreciation to both its staff and those of partner agencies, highlighting the outstanding levels of dedication, commitment, innovation and flexibility shown during this extraordinary period.</p> <p>The sudden changes to ways of working present both a challenge and an opportunity for organisations to make a cultural shift in ways of working.</p>	Yes

# 6. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>As set out earlier, the Council's City Plan sets out its strategic direction, as well as for its strategic partnership arrangements.</p> <p>Local Resilience Forum arrangements in the North East were formalised towards the end of March, with continued close working to ensure a coordinated response across the region.</p> <p>Continuing to build upon working arrangements with the local health economy is important, with work continuing in 2019/20 to develop the new 'All Together Better' alliance set up from 1 April 2019 in Sunderland which brings together health and social care professionals together in commissioning services in the most effective manner to support individuals.</p> <p>The Council continues to work closely with its various interests, namely:</p> <ul style="list-style-type: none"><li>• Together for Children (TfC);</li><li>• Sunderland Care and Support (SCAS);</li><li>• Sunderland Homes;</li><li>• Siglion;</li><li>• Sunderland Lifestyle Partnership; and</li><li>• International Advanced Manufacturing Park.</li></ul> <p>The Council has in particular worked closely with TfC and SCAS following COVID-19, recognising their core role in responding to the pandemic and supporting the residents of Sunderland.</p> <p>The use of separate entities and joint ventures by the Council to achieve its aims presents both opportunities and challenges. It is important that good governance arrangements continue to be maintained in respect of these various interests, as well as wider partnership working arrangements.</p>	<p>Yes – other than in respect of those aspects of Children's Services of rated as inadequate by Ofsted (see significant risks section overleaf)</p>

# 6. VALUE FOR MONEY CONCLUSION (CONTINUED)

## Significant Value for Money risks

The NAO’s guidance requires us to carry out work to identify whether or not a significant risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate.

In our Audit Strategy Memorandum, we reported that we had identified two significant Value for Money risks:

- responding to financial pressures; and
- Ofsted’s inspection of Children’s Services.

The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
<b>Responding to financial pressures</b>  The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements, including alternative models of service delivery.  Without robust budgetary control and delivery of its action plans, the Council’s financial resilience and service performance could deteriorate.	<p>We reviewed budget monitoring and reporting and we also considered the adequacy of plans that are developed to deliver savings and improvements.</p> <p>The Council set out it needed to deliver savings of approximately £17.36 million for 2019/20. It reported it had delivered £10.59 million or 61% of this target by the year-end, as compared to 85% in the prior year. However, the Council was able to mitigate the shortfall via other underspends, delivering an overall underspend of £0.496 million for 2019/20.</p> <p><i>Review of updated medium-term financial strategy</i> The Council is developing plans to meet the funding gap identified for future years and recognises this remains very challenging, in particular given the scale of savings already delivered to date and the impact of the pandemic.</p> <p>It is in the process of updating its medium-term financial strategy; this is a key part of ensuring it continues to have appropriate arrangements in place.</p>	<p>We obtained the assurance sought, with no significant issues arising.</p>

# 6. VALUE FOR MONEY CONCLUSION (CONTINUED)

## Significant risks (continued)

Risk	Work undertaken	Conclusion
<b>Ofsted inspection: Children's Services</b>	We considered the progress made by the Council in relation to Children's Services.	Children's Services has been rated as 'inadequate' by Ofsted.
There is a risk Council does not make the required improvements to Children's Services, or does not make the improvements rapidly enough.	<p>This requires an expert judgement, therefore, we have relied on the updated assessment of Ofsted made in July 2018. This concluded that whilst some improvement had been made, their overall assessment remained that Children's Services was 'inadequate'.</p> <p>We note the most recent Ofsted monitoring visit which reported in early 2020; this highlighted some areas of improved performance, but does not constitute a re-inspection. The table below shows the results of Ofsted's inspection results from 2015 and 2018.</p>	This will result in a qualification of our VFM conclusion, on an 'except for' basis (i.e. that adequate arrangements are in place, except for those aspects assessed as inadequate by Ofsted).

The table below summarises the outcome from the 2015 and 2018 Ofsted inspection results in respect of Children's Services.

Area		2015 Ofsted inspection results	2018 Ofsted inspection results
1.	Children who need help and protection	Inadequate	Inadequate
2.	Children looked after and achieving permanence	Inadequate	Requires improvement
2.1	Children looked after and achieving permanence - adoption performance	Inadequate	Good
2.2	Children looked after and achieving permanence - experiences and progress of care leavers	Inadequate	Requires improvement
3.	Leadership, management and governance	Inadequate	Inadequate



# 6. VALUE FOR MONEY CONCLUSION (CONTINUED)

## Reality check

Having completed our VfM conclusion work, we carried out a final 'reality check', which included consideration of our cumulative knowledge of the Council and, in particular:

- reports by statutory inspectorates, other regulators and external advisors;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

We do this to identify anything that would make us reconsider our conclusion. We did not identify any such matters.

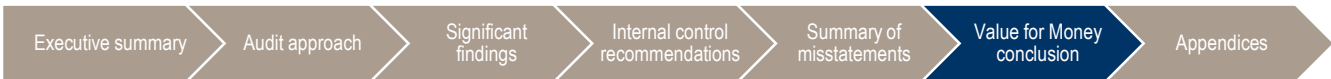
Area	Auditor assessment
Outputs by statutory inspectorates or other regulators	The Council had a Children's Services monitoring visit from Ofsted, which reported in February 2020. This highlighted some improvement, however, does not constitute a re-inspection.
Achievement of performance and other targets	Nothing arising from our consideration of the Council's performance, other than where already highlighted, which would impact on our VfM conclusion responsibilities.
Performance against budgets and other financial targets	<p>The Council achieved an underspend for the year of £0.496m and its earmarked reserves have increased from £154.022m to £168.685m.</p> <p>In light of the pandemic and economic downturn, the Council is revising its medium-term financial strategy.</p>

## Our overall Value for Money conclusion

On the basis of our work, with the exception of the matter reported below, we are satisfied that in all significant respects Sunderland City Council put in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The exception to this are the areas of Children's Services that were identified as 'inadequate' in Ofsted's report to the Council in July 2018.

The wording of the Value for Money conclusion is set out in our draft audit report in Appendix B.



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

To be provided to us on client headed note paper

[Client address]

[Date]

Dear Cameron

**Sunderland City Council - audit for year ended 31 March 2020**

This representation letter is provided in connection with your audit of the financial statements of Sunderland City Council ('the Council') and its Group for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

**My responsibility for the financial statements and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

**My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council and Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Executive Director of Corporate Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

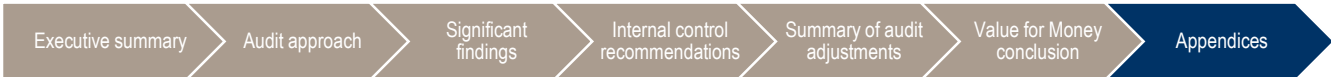
**Accounting records**

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council, Cabinet and committee meetings, have been made available to you.

**Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council and Group's financial position, financial performance and cash flows.

[continued]



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### (CONTINUED)

**Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used by the Council and Group in making accounting estimates, including those measured at current or fair value, are reasonable.

**Contingencies**

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability has been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no undisclosed contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

**Laws and regulations**

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council and Group have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

**Fraud and error**

I acknowledge my responsibility as Executive Director of Corporate Services for the design, implementation and maintenance of internal controls to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council and Group involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

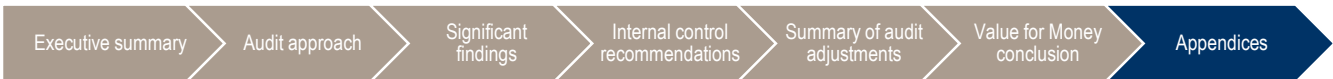
I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

**Related party transactions**

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council and Group's related parties and all related party relationships and transactions of which I am aware.

[continued]



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### (CONTINUED)

**Future commitments**

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

**Service concession arrangements**

I am not aware of any material contract variations, payment deductions or additional service charges in 2019/20 in relation to the Council's PFI schemes that you have not been made aware of.

**Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

**Newcastle Airport**

I confirm that the Council does not intend requiring Newcastle Airport to adhere to the original agreed long-term loan repayment schedule and that in assessing the expected credit loss recognised in the financial statements, I have considered the revised repayment schedule and have assessed it as being reasonable.

**Going concern**

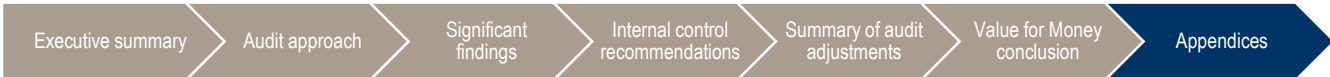
I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council and Group, including the impact of mitigation measures and uncertainties and am satisfied the going concern assumption remains appropriate and that no material uncertainty has been identified. To the best of my knowledge there is nothing to indicate the Council and Group will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

**Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. All uncorrected misstatements are included as an appendix to this letter [*this should mirror the final confirmed summary of misstatements to be reported in our follow-up report*].

Yours faithfully

Jon Ritchie  
Executive Director of Corporate Services



Independent auditor's report to the Members of Sunderland City Council

Report on the financial statements

Opinion

We have audited the financial statements of Sunderland City Council ('the Council') and its subsidiaries and joint ventures ('the Group') for the year ended 31 March 2020, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement and notes to the Council and Group financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31 March 2020 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

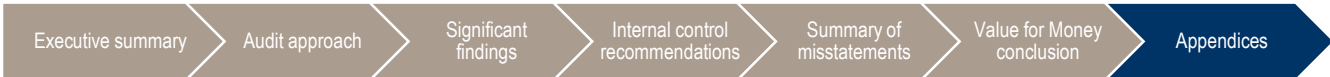
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council or the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

These key matters were relevant to our audit of the Group financial statements, insofar as the Group consolidates the Council's statements:



APPENDIX B

DRAFT AUDITOR’S REPORT (CONTINUED)

Key audit matter	Our response and key observations
<p><b>Property, plant and equipment and investment property valuations (Group and Council) - £1,076 million</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 and investment properties (including the Council’s PFI shared waste facility).</p> <p>The Council employs a valuation expert to provide information on valuations, however there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment and investment properties due to the significant judgements and number of variables involved.</p> <p>We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council’s assets (Land and Buildings /Investment Property) as at 31 March 2020.</p> <p>As disclosed in note 4, the Council’s valuers have been faced with an unprecedented set of circumstances and consider that less weight can be attached to market evidence which would usually be relied upon to inform valuations. The asset valuations have therefore been provided on the basis of ‘material valuation uncertainty’ and the Council’s valuers have stated that valuations should be considered with less certainty and a higher degree of caution than usual.</p>	<p><b>Our response</b></p> <p>How we addressed this key audit matter:</p> <ul style="list-style-type: none"> <li>we critically assessed the Council’s arrangements for ensuring that property, plant and equipment and investment property valuations are reasonable;</li> <li>we critically assessed 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>we commissioned our own expert’s review of the Council’s valuation of the PFI shared waste facility and critically reviewed the Council’s expert’s valuation;</li> <li>we considered the competence, skills and experience of the valuer(s) and the instructions issued to the valuer(s);</li> <li>we substantively tested capital expenditure additions and disposals during the year;</li> <li>we substantively tested the Council’s property, plant and equipment and investment property balances to gain assurance that they exist and are owned by the Council;</li> <li>we substantively tested 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>we carried out procedures to gain assurance over the consolidation adjustments for group accounts which impact on property, plant and equipment and associated financial statement areas;</li> <li>we critically considered the material uncertainties expressed by the valuer(s) used by the Council and considered the implications on our audit work; and</li> <li>where necessary, we performed further audit procedures on individual assets to ensure the basis of valuations is appropriate.</li> </ul> <p><b>Key observations</b></p> <p>As set out in the description of the key audit matter, we draw your attention to the material uncertainty disclosed by the Council in relation to land and buildings and investment properties, as disclosed in the financial statements. Our opinion is not modified in respect of this matter.</p> <p>We have not identified any material misstatement of the Group and Council’s Property, Plant &amp; Equipment and Investment Properties.</p>

# APPENDIX B

## DRAFT AUDITOR’S REPORT (CONTINUED)

Key audit matter	Our response and key observations
<p><b>Defined benefit liability valuation (Group and Council) - £575 million</b></p> <p>The financial statements contain material pension entries in respect of the retirement benefits.</p> <p>The calculation of these pension figures, both assets and 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>The risk has increased as a result of the economic downturn arising from COVID-19.</p>	<p><b>Our response</b></p> <p>How we addressed this key audit matter:</p> <ul style="list-style-type: none"> <li>• we critically evaluated the Council’s arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and</li> <li>• we challenged 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>• we critically assessed the competency, objectivity and independence of the Actuary;</li> <li>• we liaised with the auditors of the Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively;</li> <li>• we compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and</li> <li>• we agreed data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements.</li> </ul> <p><b>Key observations</b></p> <p>Subject to the completion of outstanding work, there are no material misstatements arising from our work that we are required to report to you.</p>



# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures, and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements of the Council and the Group as a whole as follows:

	Group	Council
Overall materiality	£13.898 million	£13.538 million
Basis for determining materiality	Materiality has been determined as 2% of gross expenditure at the surplus/deficit on provision of services level.	
Rationale for benchmark applied	Gross expenditure at the surplus/deficit on provision of services level was chosen as the appropriate benchmark as this is a key measure of financial performance for the Council and for users of the financial statements.	
Performance materiality (Note 1)	£10.840 million	£10.560 million
Reporting threshold – triviality (Note 2)	£0.417 million	£0.406 million
Specific materiality: officers' remuneration (25% of total)	n/a	£0.195 million
Specific materiality: officers' remuneration (bandings table)	Correct banding (£5,000 banding)	Correct banding (£5,000 banding)
Specific materiality: Exit Packages (25% of total)	£0.412 million	£0.303 million
Specific materiality: Members' allowances (25% of total)	n/a	£0.284 million

*Note 1: performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.*

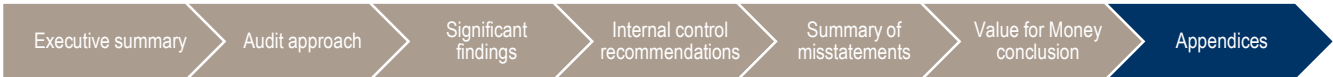
*Note 2: the triviality threshold is the level under which individual errors (unless cumulatively material) are not communicated to the Audit and Governance Committee and is based on 3% of overall materiality.*

### An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Executive Director of Corporate Services made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the Council and the sector in which it operates. We considered the risk of acts by the Council which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements. We focused on laws and regulations that could give rise to a material misstatement in the financial statements.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Council's accounting processes and controls and its environment, and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.



# APPENDIX B

## DRAFT AUDITOR’S REPORT (CONTINUED)

Our tests included, but were not limited to:

- obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error;
- review of minutes of Council meetings in the year; and
- enquiries of management.

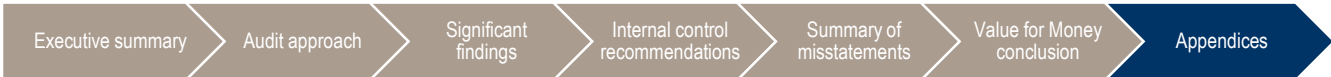
As a result of our procedures, we did not identify any key audit matters relating to irregularities, including fraud.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The Group consists of the Council and six other entities, four of which are 100% Council-owned subsidiaries as at 31 March 2020, other than the two joint ventures, Sunderland Lifestyle Partnership Limited and International Advanced Manufacturing Park LLP. Our approach to auditing the Group was based on our understanding of the Group structure and an assessment of the significance of individual components to the Group financial statements and is summarised in the following table:

Component	% of Group assets	% of Group liabilities	% of Group income	% of Group expenditure
The Council	94.8%	89.9%	78.0%	78.5%
Together for Children Limited	1.0%	4.2%	14.2%	13.7%
Sunderland Care and Support Limited	0.7%	2.6%	5.3%	5.0%
Siglion	3.3%	2.2%	1.0%	1.2%
Sunderland Homes Limited	0.0%	0.0%	0.0%	0.0%
International Advanced Manufacturing Park LLP (IAMP)	0.0%	0.9%	1.4%	1.4%
Sunderland Lifestyle Partnership Limited	0.2%	0.2%	0.1%	0.2%
Total	100%	100%	100%	100%

- **The Council:** full scope audit procedures were carried out on the Council.
- **Together for Children Limited (TfC):** Group audit instructions were issued to the auditor of TfC in respect of their full scope audit of the financial statements for the year ended 31 March 2020. Component materiality used is that as set by the component auditor which is below our maximum threshold.
- **Sunderland Lifestyle Partnership Limited (SLP):** the Council’s interest in this joint venture was assessed as a material but not significant component. This is due to the consolidation adjustment for the leisure assets carried out by the Council in producing the Group financial statements being material in terms of Group materiality. We carried out specific procedures on the consolidation adjustment made by the Council in preparing the Group statements as well as group analytical procedures.
- **Other Council interests:** analytical procedures were performed for the other Council interests consolidated in the Group financial statements and assessed as non-significant components, namely:
  - Sunderland Care and Support Limited;
  - Sunderland Homes Limited;
  - Siglion Limited; and
  - International Advanced Manufacturing Park LLP (joint venture).



# APPENDIX B

## DRAFT AUDITOR’S REPORT (CONTINUED)

We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement arising from the aggregated financial information.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under ‘Key Audit Matters’ within this report.

### Other information

The Executive Director of Corporate Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Responsibilities of the Executive Director of Corporate Services for the financial statements

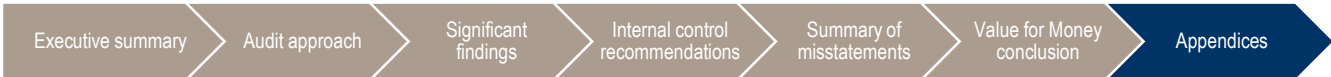
As explained more fully in the Executive Director of Corporate Services’ Responsibilities, the Executive Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Executive Director of Corporate Services is also responsible for such internal control as the Executive Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Executive Director of Corporate Services is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Executive Director of Corporate Services is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

### Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor’s report.



# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### Matters on which we are required to report by exception under the Code of Audit Practice

- We are required by the Code of Audit Practice to report to you if:
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
  - we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
  - we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.
- We have nothing to report in these respects.

### Conclusion on Sunderland City Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Qualified conclusion – except for

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, with the exception of the matter reported in the basis for qualified conclusion below, we are satisfied that, in all significant respects, Sunderland City Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

#### Basis for qualified conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

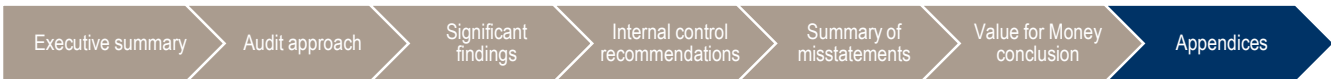
In seeking to satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. In July 2018, Ofsted reported its second inspection of services for children in need of help and protection, looked after children, care leavers and adoption performance. Ofsted concluded that the categories of 'children who need help and protection' and 'leadership, management and governance' remained inadequate. Therefore our conclusion is qualified in respect of those categories assessed as inadequate by Ofsted.

#### Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



# APPENDIX B

## DRAFT AUDITOR’S REPORT (CONTINUED)

**Other matters which we are required to address**

We were appointed as the Council’s auditor by Public Sector Audit Appointments Ltd, in its role as appointing person under the Local Audit (Appointing Person) Regulations 2015, on 14 December 2017. The period of total uninterrupted engagement, including previous renewals and reappointments of the firm, is eight years covering the audit of the financial year ending 31 March 2020.

The non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Council or its Group and we remain independent of the Council and its Group in conducting our audit.

Our audit opinion is consistent with the Audit Completion Report presented to the Audit and Governance Committee.

**Use of the audit report**

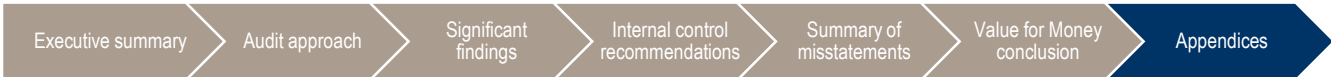
This report is made solely to the members of Sunderland City Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council’s Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

Cameron Waddell  
For and on behalf of Mazars LLP  
Salvus House  
Aykley Heads  
Durham  
DH1 5TS

Date:



# APPENDIX C

## INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

We also confirm we have received confirmation from the auditor's external experts regarding their independence.

