

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

**Meeting to be held in the Civic Centre (Committee Room No. 1) on
Friday 31 March 2017 at 1.30pm**

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1.	Receipt of Declarations of Interest (if any)	
2.	Apologies	
3.	Minutes of the Meeting of the Committee held on 10 February 2017 (Copy attached.)	1
4.	Risk and Assurance Map 2016/2017 – Update Report of the Head of Assurance, Procurement and Performance Management (copy attached). <i>Please note that appendices 1-5 will be printed separately.</i>	7
5.	Risk and Assurance Map 2017/2018 Report of the Head of Assurance, Procurement and Performance Management (copy attached). <i>Please note that appendices 2-3 will be printed separately.</i>	13
6.	Proposed Forward Plan of Reports 2017/2018 Report of the Executive Director of Corporate Services (copy attached).	21
7.	Member Training and Development Report of the Executive Director of Corporate Services (copy attached).	25

For further information and assistance, please contact:

Gillian Kelly, Principal Governance Services Officer Tel: 0191 561 1041
gillian.kelly@sunderland.gov.uk

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ELAINE WAUGH
Head of Law and Governance

Civic Centre
Sunderland

22 March 2017

AUDIT AND GOVERNANCE COMMITTEE
Friday 10 February 2017

Present:

Mr G N Cook

Councillors O'Neil, Scullion, Speding, Wood, N. Wright and Mr M Knowles.

In Attendance:

Barry Scarr (Interim Executive Director of Corporate Services), James Magog (Chief Accountant), Gavin Barker (Mazars) and Hazel Mackel (Executive Governance Services Team Leader)

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

There were no apologies for absence.

Minutes

23. RESOLVED that the minutes of the meeting of the Committee held on 16 December 2016 be confirmed as a correct record.

Treasury Management Policy and Strategy 2017/2018 including Prudential 'Treasury Management' Indicators for 2017/2018 to 2019/2020

The Interim Executive Director of Corporate Services submitted a report informing the Committee of the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2017/2018. The report also presented the Prudential 'Treasury Management' Indicators for 2017/2018 to 2019/2020 and asked the Committee to provide comments to the Cabinet and Council on the proposed policy and indicators where appropriate.

The Chief Accountant stated that the Council was required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential Indicators (including specific Treasury Management Indicators) for the next three years to ensure that the Council's capital investment plans were affordable, prudent and sustainable. The Prudential Indicators were set out in Appendix 1 of the report and it was highlighted that the indicators were consistent with the Council's current commitments, plans and schemes to be approved at the Budget Council meeting on 1 March 2017.

The Council was also required to adopt a Treasury Management Policy and to set out a Treasury Management Strategy which comprised the Council's strategy for borrowing and the Council's strategy and policy for managing its investments. The Policy and Strategy had to be approved annually by the Council and the Audit and Governance Committee would receive quarterly updates on the performance of the Treasury Management function.

Members were directed to Appendix 2 of the report, the Treasury Management Policy Statement, which set out the Borrowing and Investment Strategies. The Chief Accountant reported that the Council continued to adopt best practice following CIPFA recommendations. He drew attention to the Council's Investment priorities; namely the security of its capital, the liquidity of its investments and that the Council aimed to achieve the optimum yield on its investments commensurate with the proper levels of security and liquidity. He explained that the Council had a detailed Lending List and criteria which must be observed when placing funds and these were determined using expert Treasury Management advice, view of money market conditions and using detailed rating agency information as well as using market intelligence. He added that limits were also placed on the amounts that could be invested with individual and grouped financial institutions based on the Lending List and detailed criteria which was regularly reviewed.

The Chief Accountant drew attention to the proposed Treasury Management Strategy Statement for 2017/2018 is set out in Appendix 3 of the report. He reported that there were no major changes being proposed to the overall Strategy in 2017/2018 which maintained the careful and prudent approach adopted by the Council in previous years. He advised that particular areas that informed the strategy included the extent of potential borrowing included in the Council's capital programme, the availability of borrowing, and the current and forecast world and UK economic positions, in particular forecasts relating to interest rates and security of investments.

The Chief Accountant stated that the Council's average rate of borrowing at 3.33% was low in comparison with other local authorities and the rate of return on investments of 0.83% was significantly higher than the benchmark rate of 0.23%. The Council's Treasury Management performance was also benchmarked with the majority of local authorities and was highly ranked for both its low average rate of borrowing and also for the rate of return achieved on its investments. Debt rescheduling undertaken by the Council in previous years had achieved significant savings in interest charges and discounts and these interest savings had been secured for many years to come. Market conditions were under constant review so that the Council could take a view on the optimum time to carry out further borrowing or debt rescheduling.

Appendix 5 to the report presented further detail on the global economic situation and underlined some potential threats moving forward and that the position and possible risks would continue to be monitored. The key word was uncertainty in view of the Brexit negotiations and the effects of the US presidential election and the affects would be closely monitored during the year. The Lending List Criteria and approved Lending List were also set out at Appendices 6 and 7 of the report.

Councillor Wood referred to the table on page 13 of the agenda which detailed the authorised limit for external debt and enquired whether there was a limit to the rate of increase as he had noted the gradual increase in borrowing over the period 2016 to 2020. The Chief Accountant explained that the increase reflected the Capital Programme of the Council and its borrowing commitments. He assured Members that the Council's external debt was continually monitored to ensure it remained prudent and affordable. The Interim Executive Director of Corporate Services advised that the increases had also been due to the larger Capital Schemes for the International Advanced Manufacturing Park (IAMP) and the Port Enterprise Area.

Councillor Wood then questioned how the operational boundary for external debt compared for the same time period. The Interim Executive Director of Corporate Services advised that the Council used reserves and internal resources rather than external borrowing due to low investment rates, meaning that external debt would be below the operational boundary. He added that the Council would undertake additional external borrowing in order to take advantage of low rates during the time period of the strategy.

In referring to the 0.5% increase in the Base Rate anticipated in the second quarter of 2019, Councillor Wood stated that was somewhat a long period of time to hope that the interest rates did not rise. The Interim Executive Director of Corporate Services agreed however external advisors had predicted that there would not be a shift in the interest rates during the Brexit negotiations.

Having been asked if there was a particular trend in relation to the Council's net deficit of £61.1 million, the Interim Executive Director of Corporate Services reported that there was an increase however it would be gradually as the Council had to manage its finances with significantly less government funding. This was likely to impact in the form of increased borrowing and reductions to reserves, with the result that the net borrowing position of the Council would increase.

Councillor Wood then asked if there would be any merit in employing external fund managers and was advised that the all funds were being managed by the in-house team. The Interim Executive Director of Corporate Services reported that as a prudent and a value for money approach had been taken in relation to the management of funds in accordance with best practice, he did not foresee a need to employ external fund managers. Should the Council appoint any external fund managers in the future, they would have to agree to strict investment limits and investment criteria and also be reported to Cabinet for agreement prior to any external fund manager being appointed.

Members having commended the report, it was:-

24. RESOLVED that: -

- (i) the proposed Annual Treasury Management Policy and Strategy for 2017/2018 (including specifically the Annual Borrowing and Investment Strategies) and the Prudential 'Treasury Management' Indicators 2017/2018 to 2019/2020 be noted; and
- (ii) the Council be advised that the Committee was satisfied that the arrangements for Treasury Management were in an excellent position for the next and future years.

External Auditor – Audit Progress Report

The external auditors', Mazars LLP, regular Audit Progress Report covering the period up to February 2017 was submitted.

In highlighting the report, Gavin Barker, Senior Manager, advised that the audit planning for the 2016/2017 audit year was well underway and the detailed Audit Strategy Memorandum would be presented to the Committee at its next meeting. He advised that the discussions were underway with officers to trial a new timetable for the accounts and audit in advance of the requirement for 2017/2018. The aim would be for the draft accounts to be certified by the end of May and the audit to be completed by the end of July rather than September. He explained that the shorter timescales would necessitate an additional meeting to be arranged in July and would circulate the draft accounts by email to the Committee for comments. He assured the Committee that he was confident that the new deadlines would be met.

Gavin reported that he had attended the meeting of the Governance Forum with the Chairs and Vice Chairs of Audit Committees and officers on Wednesday 8 February 2017. He highlighted that Paul Davies, Head of Assurance, Procurement and Performance Management lead a session on the development of an assurance framework. Other authorities had been very impressed with how Sunderland had continued to achieve an impressive assurance framework with reduced resources.

In conclusion, Gavin thanked the officers from Sunderland Council that attended the annual final accounts workshop for local authorities and hoped that they had found the information presented beneficial.

The Chairman commended the presentation given by Paul at the Governance Forum. He reported that the assurance framework dashboard had been five years in development and now enabled more focus on the real issues requiring attention rather than copious reporting processes. He had noted the compliments on the presentation from other attendees at the forum and was delighted that Sunderland was at the leading the way with innovative ways of working.

Councillor Wright commended the Interim Executive Director of Corporate Services and his team on the encouraging reports, particularly when they had been considered at the Scrutiny Coordinating Committee, despite the Council's difficult circumstances due to Government funding reductions.

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

25. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK
Chair

AUDIT AND GOVERNANCE COMMITTEE

31 March 2017

RISK AND ASSURANCE MAP 2016/2017 – UPDATE

Report of the Head of Assurance, Procurement and Performance Management

1. Purpose of Report

- 1.1 To enable the Audit and Governance Committee to consider the updated Risk and Assurance Map based on assurances gathered from a range of sources and work undertaken by the audit, risk and assurance service during the year; and the performance of Internal Audit.
- 1.2 For completeness, the report covers Internal Audit's key performance measures. The report covers work undertaken for the Council and Council owned companies.

2. Description of Decision

- 2.1 The Audit and Governance Committee are asked to note the report and consider the updated Risk and Assurance Map (the Map).

3. Background

- 3.1 In March 2016 the Committee approved the proposed Corporate Assurance Map for 2016/17 and the plans of work for Internal Audit and Risk & Assurance. In September 2016 the Committee approved a new Strategic Risk Profile which considers the risks to the Council in delivering its strategic priorities. A Corporate Risk Profile which considers the Council's operational risks was then approved in December 2016.
- 3.2 At the December Committee meeting members were also advised of the proposed new reporting arrangements for the Strategic and Corporate Risk profiles and the format of the revised Corporate Assurance Map. Example documents were provided for information but had not been populated with the assurances gathered at that time. This report sets out the assurances that have been gathered for the management of the risks in both the Strategic and Corporate Risk Profiles, the current risk scores for each risk, as they are considered to be at this point in time, and the resulting updated assurance map.

4. Risk and Assurance Map

- 4.1 As the Map shows assurance for both the strategic and corporate risk areas it was considered that to avoid confusion the Map should be renamed to be the Risk and Assurance Map. When devising the detailed arrangements to

support the Map it was clear that the current risk score and the assurance position in relation to the risk may be different. This is because the assurance position shows whether appropriate action is being taken to manage the risk even though the risk may not be fully mitigated or action being taken has not impacted sufficiently to reduce the risk score. If the actions being taken however are on target to be achieved and are expected to deliver the required results then the assurance position may be more positive. Therefore, the Map has been updated to show the current cumulative risk score for each risk area as well as the cumulative assurance position, and is shown at Appendix 1.

- 4.2 Members will see that a number of the key risk areas have changed as the assurance levels are now related to the specific risks within the Profiles rather than an overall view on a key risk area. Therefore some of the assurance levels are different to those reported previously.

Strategic Risk Areas

- 4.3 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile. The current risk scores and assurances provided are shown in detail at Appendix 2. Currently the cumulative risk scores are red which reflects the fact that the Council's Corporate Plan is new, contains longer term priorities, and the actions to address the risks are still ongoing. These will be updated on a quarterly basis with the relevant senior officers. The crosses in the assurance columns show where assurance is expected to be received from. Members will see that currently there is no assurance view for the strategic risk areas of Supporting Vulnerable Adults and Carers and Building Resilient Citizens and Communities.

Corporate Risk Areas

- 4.4 The middle section of the Map shows the cumulative risk scores and the assurance levels relating to the risks identified in the Corporate Risk Profile. The detail is shown in Appendix 3. The only risk area which has an assurance level of Red is Cyber Security. This is a new key risk area and the assurance on this relates to an audit undertaken by PricewaterhouseCoopers in 2015 which assessed the Council arrangements as being limited. It is acknowledged that the ICT unit have undertaken much work in this area since then and a further audit has been planned for 2017/18 to assess the current position.

Council Owned Companies

- 4.5 The bottom section of the Map shows the Assurance position in relation to Companies that are wholly owned by the Council and are part of the group for the financial statements. Currently the only relevant company is Sunderland Care and Support Ltd as services delivered by Sunderland Live Ltd. are now being managed through the Council.

Assurance from Internal Audit

- 4.6 The audits to be carried out this year and the detailed results of Internal Audit work are shown at Appendix 4, with the summary outcomes shown on the Map. Appendix 4 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level. Those audits shown in grey are those in previous years where it became not appropriate to complete the audit at that time or in that way.
- 4.7 A new corporate risk area of Commissioning has been added to the Map. The Internal Audit assurance level for this is Red based on 2 previous audits in this area. Further audit work regarding commissioning is planned for 2017/18.
- 4.8 The assurance level for Information Governance from Internal Audit remains limited, although significant work is being undertaken to improve the Council's approach to information governance. An assurance framework for information governance within the Council has been developed and is currently being populated with the assurances available from various sources. Once this is live a wider picture will be available. Security within the Civic Centre has been enhanced by the issue of lanyards for all staff to have their identity badges on display. Further audit work is being planned for 2017/18 to review the Council's compliance with requirements and its preparation for complying with the General Data Protection Regulations which come into force in May 2018.

Assurance from Risk and Assurance Team

- 4.9 Areas that the Risk and Assurance Team are currently involved in are shown below. Much of their work is ongoing over a period of time, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work within the last quarter has included:
- Major capital schemes such as the New Wear Crossing and the development stage of the SSTC Phase 3, the International Advanced Manufacturing Park, and enterprise zones.
 - Preparation for the set-up of the new company, Together for Children Sunderland Ltd.
 - Risks in relation ICT business objectives, including disaster recovery/business continuity.
 - Replacement of the SWIFT ICT system (Liquid Logic).
 - Information Governance.
 - Adults Safeguarding Board, and Personal Budgets/Direct Payments.
 - Risk management support for events, including the Tall Ships.
- 4.10 The Assurance rating/level provided regarding the overall Council's ICT arrangements remains Amber, although the assurance provided from the Risk and Assurance Team has moved from Red to Amber. A significant amount of work has been done to recover the Council's systems following

the ICT outage in September 2016. All systems are now running from Moorside on new infrastructure. The assurance level has not been moved to Green yet as the documentation for the new arrangements is currently being updated and a new disaster recovery testing plan is being developed. There has also been a recent failure of one of the new air conditioning units which did not result in an outage, a review of this is being undertaken. The assurance level will be kept under review as these developments continue.

- 4.11 Together for Children Sunderland Ltd goes live on 1st April 2017.

Assurance from others within the Council

- 4.12 Assurance provided from others within the Council is shown in the Risk Assurance Map.
- 4.13 Provision for all on-going financial pressures, including Children's Safeguarding, has been made within the budget planning for 2016/2017 and delivery of the savings plans is being closely monitored through the Implementation Board.

Assurance from Management

- 4.14 Arrangements are in place to obtain assurance from service management in a number of areas. Members will note that the majority of risk areas are shown as having substantial assurance.

Assurance from External Sources

- 4.15 The Map includes assurance from relevant external sources. The results of the Ofsted review in relation to Children's Safeguarding in 2015 are shown as Red against the strategic risk area Supporting Vulnerable Children and Families. A further full Ofsted review is expected to take place over the summer.
- 4.16 The results of the external reports in relation to the ICT Unit is shown as Limited Assurance being provided against both the Business Continuity and ICT key risk areas in the Risk and Assurance Map. An officer is attending the committee meeting to provide an update in relation to these arrangements.

Overall

- 4.17 The overall assurance levels are either Green or Amber apart from Cyber Security.
- 4.18 The Risk and Assurance Map was considered by the Chief Officer Group on Tuesday 14th March 2017 and the issues raised above highlighted.

5. Internal Audit Performance

5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 5.

5.2 Performance is on target for KPI's apart from:

- The percentage of significant risk recommendations implemented by the due date stands at 97% against a target of 100%. This results from work in relation to the use of email as set out in paragraph 4.4. Although compliance with the policies has improved there is still one significant recommendation outstanding which related to the setting up of GCSX accounts for relevant staff. Action is being taken to address this issue by the Directorates concerned.
- The percentage of medium risk recommendations implemented for the Council and Schools is shown below.

Area	Implementation Rate
Council services	89%
Schools	78%

6. Conclusions

6.1 This report provides an update on the assurance provided in the Risk and Assurance Map, work ongoing in relation to the Internal Audit and Risk & Assurance Teams and performance targets for Internal Audit.

6.2 Results of the work undertaken so far during the year have not highlighted any issues which affect the overall opinion that the Council continues to have in place an adequate system of internal control.

7. Recommendations

7.1 The Audit and Governance Committee are asked to note the report and consider the updated Risk and Assurance Map.

AUDIT AND GOVERNANCE COMMITTEE

31 March 2017

RISK AND ASSURANCE MAP 2017/2018

Report of the Head of Assurance, Procurement and Performance Management

1. Purpose of Report

- 1.1 To enable the Audit and Governance Committee to consider and comment on the proposed Risk and Assurance Map (covering the Council and its wholly owned companies) and the supporting plans for the Internal Audit and Risk and Assurance teams for 2017/2018.
- 1.2 For completeness, the report covers Internal Audit's key performance measures. The report does not set out the work undertaken for the Tyne and Wear Fire and Rescue Service and Academy Schools which the Council provides services to.

2. Background

- 2.1 In December the Audit and Governance Committee was asked for its comments in relation to a range of potential areas of work to support the Risk and Assurance Map for the coming year. The comments made have been considered when developing the Map and the supporting plans of work for Internal Audit and the Risk and Assurance Team.
- 2.2 This report presents the Risk and Assurance Map for 2017/18 and sets out where assurance will be obtained from, including the plans of work for Internal Audit and the Risk and Assurance team. Quarterly update reports will continue to be provided to Members throughout the coming year.

3. Recommendation

- 3.1 The Audit and Governance Committee is invited to consider and, if appropriate, make comment on the proposed Risk Assurance Map and the plans of work for the Internal Audit and Risk and Assurance teams.

Risk and Assurance Map 2017/18

1. Introduction

- 1.1 In order for the Council to ensure that it has robust arrangements for delivering its priorities, managing its affairs and completing its Annual Governance Statement with some certainty, it must have in place three key elements: good Governance, Risk Management and Assurance. The Council's Integrated Assurance Framework provides a comprehensive view on the arrangements in place within the Council.
- 1.2 The Framework brings together assurance from service management, specialist functions which have a corporate role within the Council, the Risk and Assurance Team, Internal Audit and External Bodies.
- 1.3 This report also sets out the performance measures for Internal Audit at Appendix 1.

2. Risk and Assurance Map

- 2.1 The proposed Risk and Assurance Map for 2017/18 is shown at Appendix 2. This highlights those areas for which assurance will be provided, where the assurance is expected to be obtained from and the current assurance level based on work undertaken previously.
- 2.2 As previously, the Map is split into three parts, Strategic Risk Areas which align with the Corporate Plan priorities, Corporate Risk Areas which represent the risk areas that need to be managed for the Council to maintain a strong system of internal control, and companies owned by the Council.
- 2.3 Where assurance is expected to be provided from a particular source this is marked with an X. As in previous years the level of assurance provided will be updated based on the results of the work undertaken during the year and the assurance gathered from the various sources.
- 2.4 The current assurance position in relation to the corporate risk areas is either Amber or Green in all cases apart from Cyber Security. As described in a previous report on this agenda, this is due to an audit carried out in 2015. The ICT Unit has developed the Council's arrangements in this area recently and further audit work is planned for 2017/18 to assess the current position. A Review will also be undertaken of the Council's disaster recovery/business continuity arrangements following the significant amount of work undertaken to recover the systems following the ICT outage in September 2016.
- 2.5 The Map has been prepared based on the work undertaken and reported previously and the planned activity has been developed in consultation with the Chief Executive, all Executive and Corporate Directors and key offers across the Council.
- 2.6 The work to be undertaken by Internal Audit and the Risk and Assurance team in support of the Map is shown at Appendix 3. The appendix shows all

of the work that contributes to providing assurance against each risk area (some work provides assurance to more than one risk area).

- 2.7 This work to be undertaken by the Risk and Assurance Team is a high level plan as much of the work of the team cannot be planned in detail. The team will be involved in providing support, challenge and assurance to all of the major projects ongoing, especially those considering alternative service delivery models, transformation and other key projects which contribute to the Council's achieving its strategic priorities and achieving its efficiency savings.

3. Key Areas of Activity

- 3.1 As in previous years the level of change ongoing within the Council continues to be significant. The Risk and Assurance Team will continue to provide support and assurance in relation to key projects where there are major changes to services and where alternative models of delivery are being planned.
- 3.2 A significant amount of work is on-going within the Council in relation to economic development in the form of infrastructure projects, improving skills and creating jobs for the people of Sunderland. Support will continue to be provided to this work during the planning and implementation phases.
- 3.3 Internal audit work will review how the Council is managing its workforce planning arrangements, given the significant reduction in staff numbers. This will include the implementation of the Apprenticeship levy. Audit work will also include a review of how well the Council commissions its services and will provide support to the development of contract management arrangements across the Council. Both of these areas are key as the Council provides less services directly and procures them from external organisations.
- 3.4 The cycle of audits of key systems and counter fraud work will continue based on the Corporate Risk Profile and an assessment of fraud risks.
- 3.5 The work of the Risk and Assurance team includes obtaining assurance on the progress in relation to the actions identified to manage risks in the Strategic Risk profile. Key areas of work for the team are as follows:
- Economic regeneration such as the International Advanced Manufacturing Park, Enterprise Zone, the New Wear Crossing and the SSTC phase 3
 - Adult Social Care
 - Key events such as the Tall Ships

4. Reporting Protocols

- 4.1 A quarterly progress report will be presented to the Committee. The update reports will indicate the level of assurance provided and any major findings arising from the work undertaken. Any areas requiring improvement will be highlighted to Members for them to consider, and highlighted to the relevant Executive Director.
- 4.2 An Annual Report (including the year end Risk and Assurance Map) will be prepared for the Executive Management Team and Audit and Governance Committee in order to provide assurance or otherwise, and enable the Annual Governance Statement to be completed.

Appendix 1

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2017/18		
Efficiency and Effectiveness		
Objectives	KPI's	Targets
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the corporate risk areas 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date 4) Cost per £m Turnover	1) All corporate risk areas covered over a 3 year period 2) 90% 3) 82% 4) Lower than average within CIPFA Benchmarking Club
Quality		
Objectives	KPI's	Targets
1) To maintain an effective system of Quality Assurance 2) To ensure recommendations made by the service are agreed and implemented	1) Opinion of External Auditor 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	1) Satisfactory opinion 2) 100% for high and significant. 90% for medium risk
Client Satisfaction		
Objectives	KPI's	Targets
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported

AUDIT AND GOVERNANCE COMMITTEE

31 March 2017

Proposed Forward Plan of Reports for 2017/18

Report of the Executive Director of Corporate Services

1. Purpose of Report

- 1.1 To enable the Committee to consider and comment on the proposed Forward Plan of reports for 2017/18.
- 1.2 During the year there will be 4 quarterly meetings – at which the Committee will consider the Risk and Assurance Map alongside other reports. An additional meeting is scheduled for February in order to consider the Treasury Management Policy and Strategy for the following financial year so that it can be agreed by Cabinet in February and then by Council in March of each year in line with the regulations and best practice.

2. Recommendations

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

**Forward Plan of Reports
Audit and Governance Committee 2017/18**

Month	Brief Description	Report of
21 st July 2017	Annual Review of Governance Arrangements / Annual Governance Statement 2016/17 (including Annual Report covering work of Internal Audit and Risk and Assurance teams)	Executive Director of Corporate Services
	Risk and Assurance Map – Update 2017/18	Head of Assurance, Procurement and Performance Management
	Annual Report on the Work of the Committee	Executive Director of Corporate Services
	Audited Statement of Accounts 2016/17	Executive Director of Corporate Services
	Treasury Management Annual Review 2016/17	Executive Director of Corporate Services
	Treasury Management 2017/18 - First Quarterly Review	Executive Director of Corporate Services
	Audit Completion Report 2016/17	External Auditor
29 th September 2017	Risk and Assurance Map – Update 2017/18	Head of Assurance, Procurement and Performance Management
	Treasury Management 2017/18 – Second Quarterly Review	Executive Director of Corporate Services
	Annual Audit Letter 2016/17	External Auditor
	Audit Progress Report	External Auditor
15 th December 2017	Treasury Management 2017/18 – Third Quarterly Review	Executive Director of Corporate Services
	Risk and Assurance Map – Update 2017/18	Head of Assurance, Procurement and Performance Management
	Corporate Assurance Map Consultation 2017/18	Head of Assurance, Procurement and Performance Management
	Audit Progress Report	External Auditor
2 nd February 2018	Treasury Management Strategy and Policy for 2017/18 including Treasury Management Prudential Indicators for 2018/2019 to 2020/2021	Executive Director of Corporate Services
	Audit Progress Report	External Auditor
23 rd March 2018	Risk and Assurance Map – Update 2017/18	Head of Assurance, Procurement and Performance Management
	Risk and Assurance Map – 2018/19 (including Internal Audit Plan, and Risk and Assurance team plan)	Head of Assurance, Procurement and Performance Management

**Forward Plan of Reports
Audit and Governance Committee 2017/18**

Month	Brief Description	Report of
	Proposed Forward Plan of Reports 2018/19	Executive Director of Corporate Services
	Member Training and Development	Executive Director of Corporate Services
	Audit Strategy Memorandum 2017/18	External Auditor
	Audit Progress Report	External Auditor

Note: Other ad-hoc reports/items shall be added to the Agenda where considered necessary

AUDIT AND GOVERNANCE COMMITTEE

31 March 2017

MEMBER TRAINING AND DEVELOPMENT

Report of the Executive Director of Corporate Services

1. Purpose of Report

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

2. Training / Development Requirements

- 2.1 The agreed forward plan of reports that are to be presented to the Committee throughout the year is included on the agenda for this meeting. This may provide members with a reference for any areas for which they would like to receive further training / awareness sessions. Due to the significant changes that are currently ongoing and being considered across the Council it is proposed that an update be provided at the beginning of the next committee meeting.
- 2.2 Members will be aware that the timetable for the preparation and audit of the 2016/17 statement of accounts is being brought forward. The unaudited statement of accounts and the results of the annual governance review will be forwarded to members by the 31st May 2017. The first meeting of the Committee will be 21st July 2017 where the audited statement of accounts will be presented. It is therefore proposed that a briefing session be arranged for members prior to them receiving the statement of accounts so that they can be made aware of presentational changes and any key issues.

3. Recommendations

- 3.1 Members are asked to consider the areas for which they would like to receive training or awareness sessions, and:
- Agree to receive an update on significant changes taking place or being proposed at the next Committee meeting.
 - Agree to receive a briefing in advance of receiving the 2016/17 statement of accounts.
 - Suggest any further areas for training / awareness sessions required.

AUDIT AND GOVERNANCE COMMITTEE

31 March 2017

PUBLIC SECTOR AUDITOR APPOINTMENTS

Report of the Executive Director of Corporate Services

1. Purpose of Report

- 1.1. In September 2016, the Committee agreed that the Executive Director of Corporate Services, in consultation with the Chair of the Committee, would make a recommendation to Council regarding the preferred option for the appointment of the Council's external auditor. This report provides an update on the position for member's information.

2. Background and Next Steps

- 2.1. Members may recall that the contract with the Council's current external auditors, Mazars, is due to come to an end on 31 March 2018. The Council therefore has to arrange for external auditors to be appointed thereafter.
- 2.2. The report in September 2016 set out the various options that can be followed for the appointment and suggested that the preferred option would be to opt into an arrangement being put in place by Public Sector Appointments Ltd (PSAA) who would procure and appoint external auditors for all local authorities that joined this arrangement. The available options were reported to Council in January 2017 and the decision was made to join the PSAA arrangement. This was subsequently confirmed to PSAA and the Council is now awaiting the results of the procurement and appointment process.
- 2.3. Once the appointment is made a further report will be brought back to the Committee.

3. Recommendations

- 3.1. Members are asked to note the updated position.

Audit Strategy Memorandum

Sunderland City Council



For the year ending 31 March 2017



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

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

Executive summary

Purpose of this report

The Audit Strategy Memorandum sets out our audit plan in respect of the audit of Sunderland City Council ('the Council') for the year ending 31 March 2017, and forms the basis for discussion at the Audit and Governance Committee meeting on 31 March 2017.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process. We have determined that the Audit and Governance Committee is those charged with governance for the purpose of our audit.

Timing of our work	Our audit will be delivered in four main phases as outlined in page 10 of this report. We are planning to complete the audit by 31 July 2017, ahead of the statutory deadlines being formally brought forward from next year. The statutory deadline for the completion of our audit work in 2016/17 is 30 September 2017.
Financial Statements audit	<p>Significant risks</p> <p>We have identified the following areas on which we will carry out specific audit procedures to mitigate the risks of material misstatements in the Council's financial statements:</p> <ul style="list-style-type: none">• management override of controls; and• valuation of the defined benefit pension scheme. <p>Materiality</p> <p>At the planning stage of the audit we have set materiality for the financial statements as a whole at £7.5m. In reporting the results of our work we do not report identified misstatements below a clearly trivial level. We have set this level at £225k.</p> <p>Group accounts</p> <p>The Council prepares group accounts, which consolidate the Council's accounts, those of its two local authority trading companies, Sunderland Care and Support Ltd and Sunderland Live Ltd, and its share of two joint ventures, Siglion LLP and Sunderland Lifestyle Partnership Ltd. None of these entities are significant components, and we have not identified any significant risks in relation to the components. Group materiality has been set at £7.57m at the planning stage, and the clearly trivial level is £227k.</p>

**Value for Money
conclusion**

The work we carry out to form a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources is summarised on pages 12 and 13. We have identified two significant risks in respect of our VFM work:

- responding to financial pressures; and
- OFSTED's assessment of children's safeguarding services.

Independence

We have considered any actual, potential or perceived threats to our independence on page 17. We have not identified any such threats at this stage of the audit.

Audit scope and approach

The scope of our work

The detailed scope of our work as your appointed auditor for 2016/17 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 ('the 2014 Act') and are summarised below.

Opinion on the financial statements

We are responsible for forming and expressing an opinion on the financial statements. Our audit is planned and performed to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

Value for Money conclusion

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our Value for Money work in greater detail later in this report.

Whole of Government Accounts (WGA)

We report to the NAO on the consistency of the Council's financial statements with its WGA submission.

Electors' rights

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 consider any objection made to the accounts by an elector. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our response to the risk of fraud

International Standards on Auditing (ISAs) require us to obtain reasonable assurance that the financial statements are free from material fraud and/or error. There are a range of ways in which fraud may arise in the context of your financial statements and we formally consider the risk of fraud as part of our planning work and design appropriate procedures to mitigate risks identified. We maintain an appropriate level of professional scepticism throughout the audit and are mindful that a material misstatement due to fraud is possible, however, our audit should not be relied upon to identify all such misstatements.

Management and the Audit and Governance Committee, as those charged with governance, also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

Our enquiries will focus on:

- what role the Audit and Governance Committee has in relation to fraud and how it is kept informed of fraud related matters by management;
- what anti-fraud measures you have in place and how your policies and procedures are monitored; and
- whether you are aware of any actual, alleged or suspected fraud.

We will formally write to you, in your role as those charged with governance, making the enquiries above, during the audit.

Our use of experts and other auditors

Management and auditor experts

There are material entries in your financial statements which are provided by management experts. For some of these entries, we will use our own expert to provide us with the assurance we require in relation to the work of your expert.

Appendix A summarises management's experts and our planned audit approach to obtaining assurance over their work.

Other auditors

In previous years, we have sought to rely on assurances provided by the auditor of the Tyne & Wear Pension Fund (EY) in relation to the Council's pension disclosures. Going forward we will be seeking to reduce or eliminate the need for such assurances, by performing additional procedures as part of our audit. However, we have identified that this year we will need to seek some assurances in relation to the data used in the recent triennial revaluation of the fund.

Internal audit

Where appropriate, we will seek to rely on work performed by internal audit where it provides us with the required assurance. We will meet with internal audit to discuss their work programme and findings, and factor this in when determining the most efficient testing strategy.

Where we intend to rely on the work of internal audit, we will evaluate their work and perform our own audit procedures to determine its adequacy for our audit.

Group accounts

The Council prepares group accounts, which consolidate the Council's accounts with those of its subsidiaries and joint ventures:

- Sunderland Care and Support Ltd (line by line consolidation);
- Sunderland Live Ltd (wholly owned and a line by line consolidation);
- Siglion LLP (a joint venture, consolidated on an equity basis using the Council's share of equity at 50%); and
- Sunderland Lifestyle Partnership Ltd (also a joint venture, consolidated on an equity basis using the Council's share of equity at 50%).

None of these entities are significant components, and we have not identified any additional significant risks for group accounts purposes in relation to the components.

We have planned our 2016/17 group accounts audit to include:

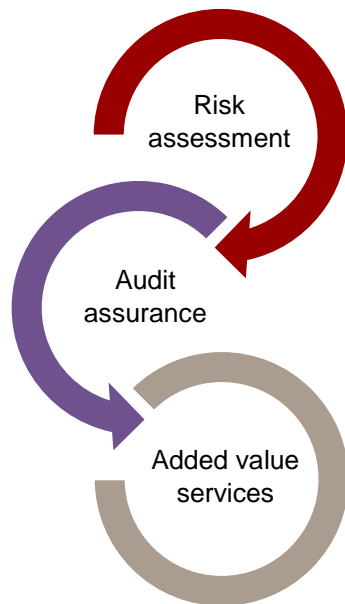
- liaising with the auditors of the other entities, where appropriate, to obtain any necessary information, including evidence of suitable qualifications and ethical considerations by the auditor, and copies of any draft or audited financial statements that are available, and taking into account any issues and risks that have been identified by these component auditors;
- undertaking reasonableness checks on the information to be included in the statements in relation to the entities. We will also assess the controls that management have put in place over the information to be included in the group accounts and assess the potential impact on our audit work;
- updating our understanding of how the Council prepares its group statements and manages the consolidation process; and
- the audit of the group accounts, ensuring appropriate consolidation adjustments and disclosures of the information provided by the other entities.

For members' information, Mazars LLP is the external auditor of Sunderland Care and Support Ltd, and provides accounts preparation and tax services to this subsidiary of the Council.

Group materiality has been set at £7.57m at the planning stage, and the clearly trivial level is £227k.

Audit efficiency and our use of IT

Innovative and integrated use of IT drives the efficiency and effectiveness of our audit. Your audit team uses the latest IT-based audit solutions and is supported by a team of IT auditors each of who have extensive knowledge of the public sector and providing assurance and advisory services across the public sector.



We know that all organisations are different and face different risks. Our audit platform is modern and flexible and allows us to tailor our audit approach to the specific risks relevant to the Council, while ensuring compliance with underlying auditing standards.

We focus on the risks to your business continuity and those that give rise to a risk of material misstatement in the financial statements. Your audit team has access to a full suite of data analytics tools which allow them to determine the most effective and efficient testing strategy using IT-audit techniques where appropriate.

Significant risks and key judgements

Identified significant risks

As part of our planning procedures we have considered whether there are risks of material misstatement in the Council's financial statements that require special audit consideration. Although we report identified significant risks at the planning stage of the audit, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to mitigate these risks. Where we identify any significant risks in addition to those set out below, we will report these to the Audit and Governance Committee as part of our Audit Completion Report.

Significant risk	How we will mitigate the risk
<p>Management override of control</p> <p>In all entities, 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. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We will address this risk through performing audit work on:</p> <ul style="list-style-type: none"> • consideration and review of accounting estimates impacting on amounts included in the financial statements; • consideration and review of any unusual or significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
<p>Pension Entries</p> <p>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 include estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we will:</p> <ul style="list-style-type: none"> • evaluate the management controls in place to assess the reasonableness of the figures provided by the Actuary; and • consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.

Key areas of management judgement

In addition, we have identified accounting for Property, Plant and Equipment as a key area of management judgement which we will focus on during our audit:

Key area of management judgement	Our planned audit approach
<p>Property, Plant and Equipment (PPE)</p> <p>PPE values and related accounting entries are based on valuations provided by your in-house valuer. This includes key judgements in relation to:</p> <ul style="list-style-type: none">• asset classifications;• identifying an appropriate valuation basis for each class of assets;• determining appropriate asset values;• assessments of the estimated useful lives of assets;• recognition of impairments or other significant changes in asset values; and• making the correct distinction between revenue and capital expenditure.	<p>We will review the arrangements in place for:</p> <ul style="list-style-type: none">• instructing the valuer and relying on their work;• maintaining an accurate fixed asset register;• establishing estimates of asset lives; and• identifying impairments. <p>We will also carry out tests of detail on capital transactions, balances and disclosures in the accounts.</p>

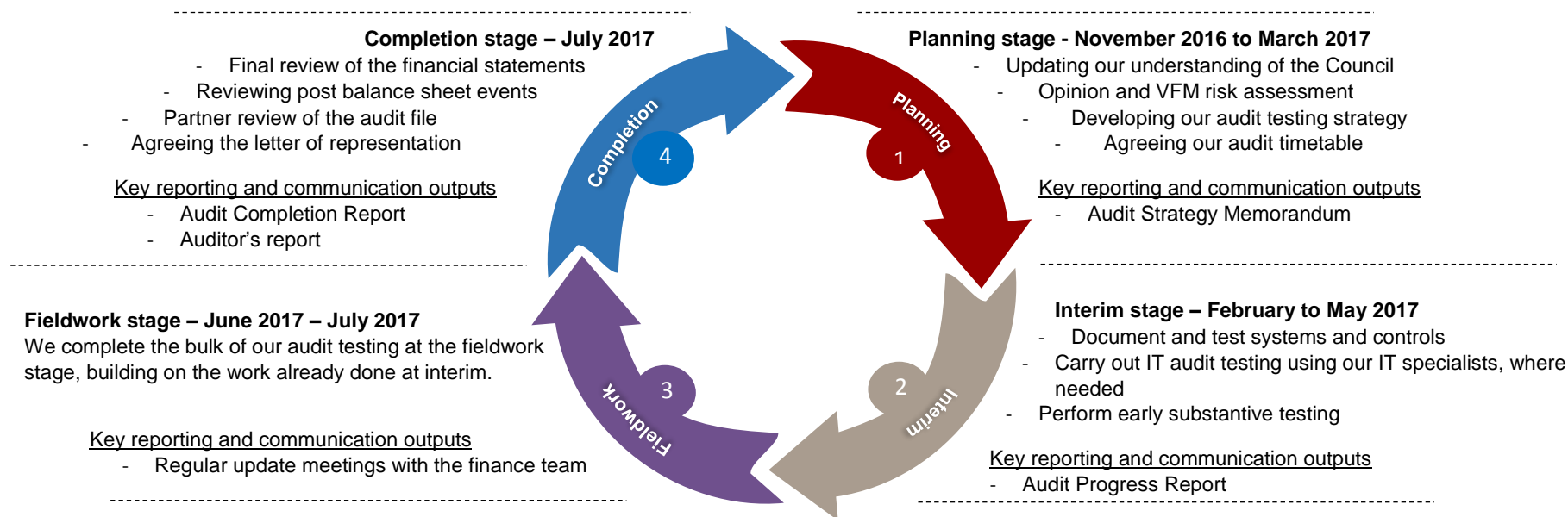
Timetable and communication

Our approach to communication

International Standards on Auditing require us to communicate a number of matters with you at various points during the audit cycle. Later in this section we outline exactly how we will communicate with the Audit and Governance Committee as those charged with governance. As well as being an integral part of our responsibilities under auditing standards, we see two-way communication with the Audit and Governance Committee and the Council's staff as being critical to building a robust knowledge of your business, the risks and challenges you face and the plans you have in place to meet those challenges.

Audit timetable

The diagram below outlines the main phases of your audit, when each will be carried out and the outputs that you will receive at each stage. This is underpinned by a 'no surprises' approach to communication that ensures management and the Audit and Governance Committee are kept aware of significant issues on a timely basis. We intend to issue our Audit Strategy Memorandum in March 2017, our Audit Completion Report in July 2017 and our Annual Audit Letter in September 2017.



Key communication points

ISA 260 'Communication with those charged with governance' and ISA 265 'Communicating deficiencies in internal control to those charged with governance and management', require us to communicate a number of matters to you. These matters are set out below.

Matter to be communicated	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Confirmation of our independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Conclusions on the significant audit risks and areas of management judgement		✓
Summary of unadjusted misstatements		✓
Management representation letter		✓
Our proposed audit report		✓

In addition to the matters outlined above which we are required to communicate under auditing standards, we also communicate regularly with the Audit and Governance Committee through our Audit Progress Reports, which are presented at each meeting. We also report to the Council on an annual basis to summarise our work and main conclusions through our Annual Audit Letter.

Value for Money Conclusion

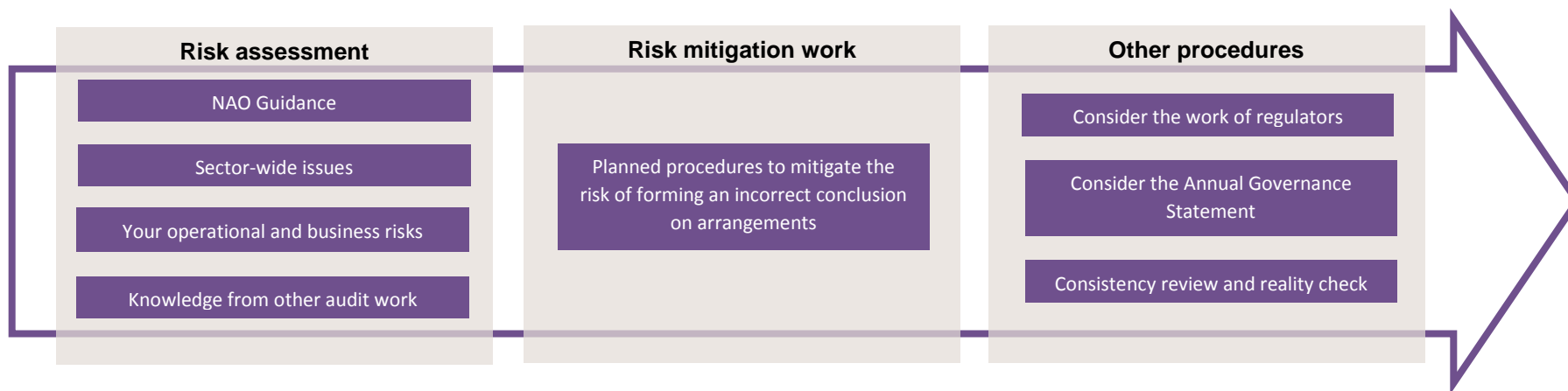
Our approach to Value for Money work

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.

A summary of the work we undertake to reach our conclusion is provided below.



Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a risk to the VFM conclusion exists. Risk, in the context of our VFM 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. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For 2016/17, we have identified two significant risks for our VFM conclusion.

Value for Money conclusion risk	Work we intend to carry out
<p>Responding to financial pressures</p> <p>The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements, including transformation activity, working with partners and use of 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>	<p>We will review budget monitoring and reporting, focusing on areas where action plans are in place to make savings and improvements, and to minimise any adverse impact on service delivery. We will also consider those areas such as social care where there are particular financial pressures. We will review the plans that are being developed to deliver future savings and improvements.</p>
<p>OFSTED's assessment of children's safeguarding services</p> <p>The Council does not make the required improvements to children's services, following OFSTED's assessment of services as 'inadequate' in July 2015, or does not make the improvements rapidly enough.</p>	<p>We will consider the progress made by the Council in relation to children's services, including the planned establishment of a children's company from 1 April 2017. We have issued an 'except for' qualification in relation to children's safeguarding service in both the 2014/15 and 2015/16 audits. Ultimately, the conclusion in this area requires an expert judgment and we will only be able to revise our assessment that an 'except for' qualification is not needed when OFSTED fully update their assessment and services are no longer assessed as inadequate. OFSTED have not yet updated their full assessment.</p>

Fees

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Ltd (PSAA) as communicated to you in our fee letter on 11 April 2016.

Area of work	2016/17 proposed fee	2015/16 final fee
Code audit work	£135,774	£135,774
Housing Benefit Subsidy certification	£7,725	£9,309

All fees exclude recoverable VAT

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we can be separately engaged by the Council to carry out additional work. In 2015/16, we undertook £11,190 of such work as set out in the table below. To date, we have not been commissioned to carry out any work as part of the 2016/17 audit. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in Appendix B.

Area of work	2016/17 proposed fee	2015/16 final fee
Skills Funding Agency Grant Claim Work	£0	£3,550
Teachers' Pensions Return	To be agreed	£2,750
Market Analysis for Sunderland Care and Support (SCAS) Mutualisation & Research into commissioning intentions for care and support services in the North East region	£0	£4,890
Total non-audit work	£0	£11,190

All fees exclude recoverable VAT

Sunderland Care and Support Ltd

In the interests of transparency, Mazars LLP is also the auditor of Sunderland Care and Support Ltd, one of the Council's trading companies. In addition, the firm provides accounts preparation and corporation tax services to the company. The total fees relating to audit, accounts preparation and tax work are £23,889 plus VAT for the 2016/17 financial year (£23,307 plus VAT for 2015/16).

Our team



Partner name – Mark Kirkham

Email: Mark.Kirkham@Mazars.co.uk

Phone: +44 (0)113 387 8850

Bio: Mark has been a partner at Mazars since 2015 and has been an audit engagement lead since 2002. Mark has extensive experience in a number of sectors, including local government.



Manager name – Gavin Barker

Email: Gavin.Barker@Mazars.co.uk

Phone: +44 (0)191 383 6300

Bio: Gavin is a senior manager with 28 years public sector audit experience. He transferred to Mazars from the Audit Commission in 2012 and has been involved with the Sunderland City Council audit for a number of years. His other clients include Tyne & Wear Fire and Rescue Authority and Selby District Council. On a voluntary basis, Gavin is also Treasurer and trustee of a Newcastle-based charity that supports people with carer responsibilities.



Team-leader name – Ian Rutter

Email: Ian.Rutter@Mazars.co.uk

Phone: +44 (0)191 561 1919

Bio: Ian is an Assistant Manager with over 16 years of external audit experience. Ian also joined Mazars in 2012 and works with Gavin on a number of the Sunderland-based audits undertaken by the firm.

In accordance with our internal policies for audit quality and risk management, we consider the audit of the Council to be a 'major audit'. As a result, and in line with the requirements of International Standards on Quality Control (ISQC) 1, the firm has appointed an Engagement Quality Control Reviewer (EQCR). This will bring an additional level of quality control to the engagement team.

Appendix A – Use of experts

The Council uses experts to provide entries in its financial statements. The table below outlines the areas of the financial statements where we expect the Council to use experts and an explanation of the approach we will take to obtaining assurance over those entries.

Financial statement area	Management's expert	Planned audit approach
Property, Plant and Equipment	Sunderland City Council's internal valuer	We will assess the reasonableness and consistency of the valuer's report, including comparison with our own (via NAO) appointed expert - Gerald Eve.
Financial Instruments	Capita	We will evaluate the results and information provided by the expert, and consider the information provided in relation to Capita via NAO.
Disclosures relating to the Tyne & Wear Pension Fund, which is a Local Government Pension Scheme (LGPS)	Aon Hewitt (actuary)	We will evaluate the results and information provided by the actuary and compare this with our own (via NAO) appointed expert – PWC, who carry out a specific review of the actuarial assumptions used by the main actuaries appointed to local government pension schemes, including Aon Hewitt. If needed, we will consult Mazars own in-house pension specialists for further advice

Appendix B – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing, that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you, and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement, there are no relationships between us, and any of our related or subsidiary entities, and you, and your related entities, creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with either Mark Kirkham or Gavin Barker.

Prior to the provision of any non-audit services, Mark Kirkham will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. No threats to our independence have been identified.

Appendix C - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning our audit, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

Appendix D – Our added value

Our primary responsibilities as the Council's external auditor are outlined in the main body of this report. As your external auditor we are ideally placed to provide added value in delivering those responsibilities and the diagram below provides a summary of how we do this.



Audit Progress Report

Sunderland City Council



March 2017



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Audit progress

2016/17 audit planning

We have now completed our 2016/17 planning and the results are reflected in the Audit Strategy Memorandum included as a separate agenda item for discussion at the Audit and Governance Committee on 31 March 2017.

Our planning included:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering financial performance;
- assessing internal controls, including reviewing the control environment;
- evaluating and testing the IT control environment;
- assessing the risk of material misstatement arising from the activities and controls within the information systems; and
- completing walkthrough tests on the key controls within the material financial systems.

As part of our work, we took into account the most recently published updated VFM guidance for local government bodies (in essence, no significant change). <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

We held planning meetings with senior managers to inform our planning risk assessments and to better understand the priorities and challenges the Council faces. We also discussed the previous year's audit and considered any areas for continuous improvement.

As part of our commitment to quality, team members have already attended our annual audit training conference which included technical issues in respect of the local government sector and feedback from quality reviews to take into account in the coming year. For example, the workshop covered the new format for the Comprehensive Income and Expenditure Statement to be used in 2016/17.

Bringing forward the accounts and audit timetable

We have continued to work with officers to streamline arrangements to enable us to bring forward the 2016/17 accounts and audit timetable. Officers plan to produce the draft accounts requiring certification by the end of May 2017 and we aim to complete the audit by the end of July 2017.

We have discussed any emerging technical issues early to resolve them, we have shared a streamlined list of working paper requirements, and we have carried out early substantive testing to reduce the volume of audit work that will be required in June and July 2017.

The early work and discussions with officers have been fruitful and our preparations have gone well.

Issues arising

At this stage of our audit work, we have no significant deficiencies in internal control to report to you.

National publications and other updates

National publications and other updates	
1.	Health and Social Care Integration, National Audit Office, February 2017
2.	Housing in England: overview, National Audit Office, January 2017
3.	Auditor General Guidance Note AGN/01, National Audit Office, December 2016
4.	Highways Network Asset briefing, CIPFA, January 2017
5.	Oversight of audit quality: quarterly compliance reports 2016/17, Public Sector Audit Appointments Ltd

1. Health and Social Care Integration, National Audit Office, February 2017

The NAO has recently published a report on health and social care integration. The report highlights that progress with integration of health and social care has, to date, been slower and less successful than envisaged and has not delivered all of the expected benefits for patients, the NHS or local authorities. As a result, the government's plan for integrated health and social care services across England by 2020 is at significant risk.

In the face of increased demand for care and constrained finances, while the Better Care Fund, the principal integration initiative, has improved joint working, it has not yet achieved its potential. The Fund has not achieved the expected value for money, in terms of savings, outcomes for patients or reduced hospital activity, from the £5.3 billion spent through the Fund in 2015/16.

The Department of Health and the Department for Communities and Local Government have identified barriers to integration, such as misaligned financial incentives, workforce challenges and reticence over information sharing, but are not systematically addressing them. Research commissioned by the government in 2016 concluded that local areas are not on track to achieve the target of integrated health and social care by 2020.

The report also found that NHS England's ambition to save £900 million through introducing seven new care models may be optimistic. The new care models are as yet unproven and their impact is still being evaluated. While the Departments and their partners have set up an array of initiatives examining different ways to transform care and create a financially sustainable care system, their governance and oversight of the initiatives is poor.

In addition, no compelling evidence was found to show that integration in England is yet leading to sustainable financial savings or reduced acute hospital activity. While there are some good examples of integration at a local level, evaluations have been inhibited by a lack of comparable cost data across different care settings, and difficulty tracking patients through different care settings.

<https://www.nao.org.uk/report/health-and-social-care-integration/>

2. Housing in England: Overview, National Audit Office, January 2017

The NAO has recently published an overview of the housing market in England, the Department for Communities and Local Government's (DCLG) housing strategy and the overall housing policy landscape. The need for housing in England has in recent years grown faster than its supply.

Total estimated government spending on housing in England was approximately £28 billion in 2015/16. The most significant element of this is housing benefit. In 2015/16 there were 4.1 million claimants in England, costing around £20.9 billion. Two of DCLG's four strategic objectives for this Parliament are focused on housing: increasing home ownership, and increasing the supply of homes, with an ambition of delivering a million new homes in England by 2020.

The report finds that housebuilding has not kept pace with need, and this is particularly acute in London. It notes that DCLG is reliant on the market to achieve its housing objectives and it is not yet clear what impact the result of the referendum on Britain's membership of the European Union will have on the market. The report also finds that housing has become more affordable for existing homeowners, whereas by contrast housing has become less affordable for first-time buyers, and social housing rents have been increasing faster than earnings since 2001/02. Homelessness has also increased over the past five years. At the end of March 2016, 71,500 homeless households in England were in temporary accommodation, up from around 48,000 in 2010/11.

Various public bodies have responsibilities for housing, often using housing as a means of achieving other objectives. In addition, changes made in one area of housing policy can have impacts in other areas. In July 2015, for example, the government announced a reduction in the rents housing associations and local authorities could charge of 1% per year. This reduced the ability of housing associations to finance the construction of new housing.

<https://www.nao.org.uk/report/housing-in-england-overview/>

3. Auditor General Guidance Note AGN/01, National Audit Office, December 2016

The National Audit Office (NAO) issues guidance to auditors of public sector bodies. The main revision to the General Guidance note is to update explanatory and supplementary guidance on meeting the requirements in the Code of Audit Practice to safeguard integrity, objectivity and independence in the conduct of local audit. The Annex to the guidance also illustrates how the requirements of the Financial Reporting Council's (FRC) ethical standard on financial, business, employment and personal relationships apply to audits of local public bodies.

The guidance note and its Annex is addressed to local auditors however it is recommended that audit teams ensure that their audited bodies are aware of the need for auditors to comply with relevant ethical requirements and also that those charged with governance are briefed as appropriate on the requirements of the FRC's ethical standard.

We confirm that we have taken into account the updated guidance and fully comply with the FRC's ethical standard.

<https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

4. Highways Network Asset briefing, CIPFA, January 2017

The latest briefing covers the postponement of the introduction of the new measurement requirements for Housing Network Assets until the 2017/18 financial statements (subject to the full confirmation of that decision at the March 2017 meeting of CIPFA/LASAAC). It also reminds relevant authorities to review and reassess their plans for implementing the changes in accordance with the extended timetable.

<http://www.cipfa.org/policy-and-guidance/highways-network-asset-briefing>

5. Oversight of audit quality: quarterly compliance reports 2016/17, Public Sector Audit Appointments Ltd

The latest 2016/17 monitoring report (quarter 3) highlights full compliance with the Regulator's standards for Mazars LLP.

<http://www.psaa.co.uk/audit-quality/principal-audits/mazars-audit-quality/>

Contact details

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

www.mazars.co.uk

Mark Kirkham
Partner
0191 383 6300

mark.kirkham@mazars.co.uk

Gavin Barker
Senior Manager
0191 383 6300

gavin.barker@mazars.co.uk

Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

