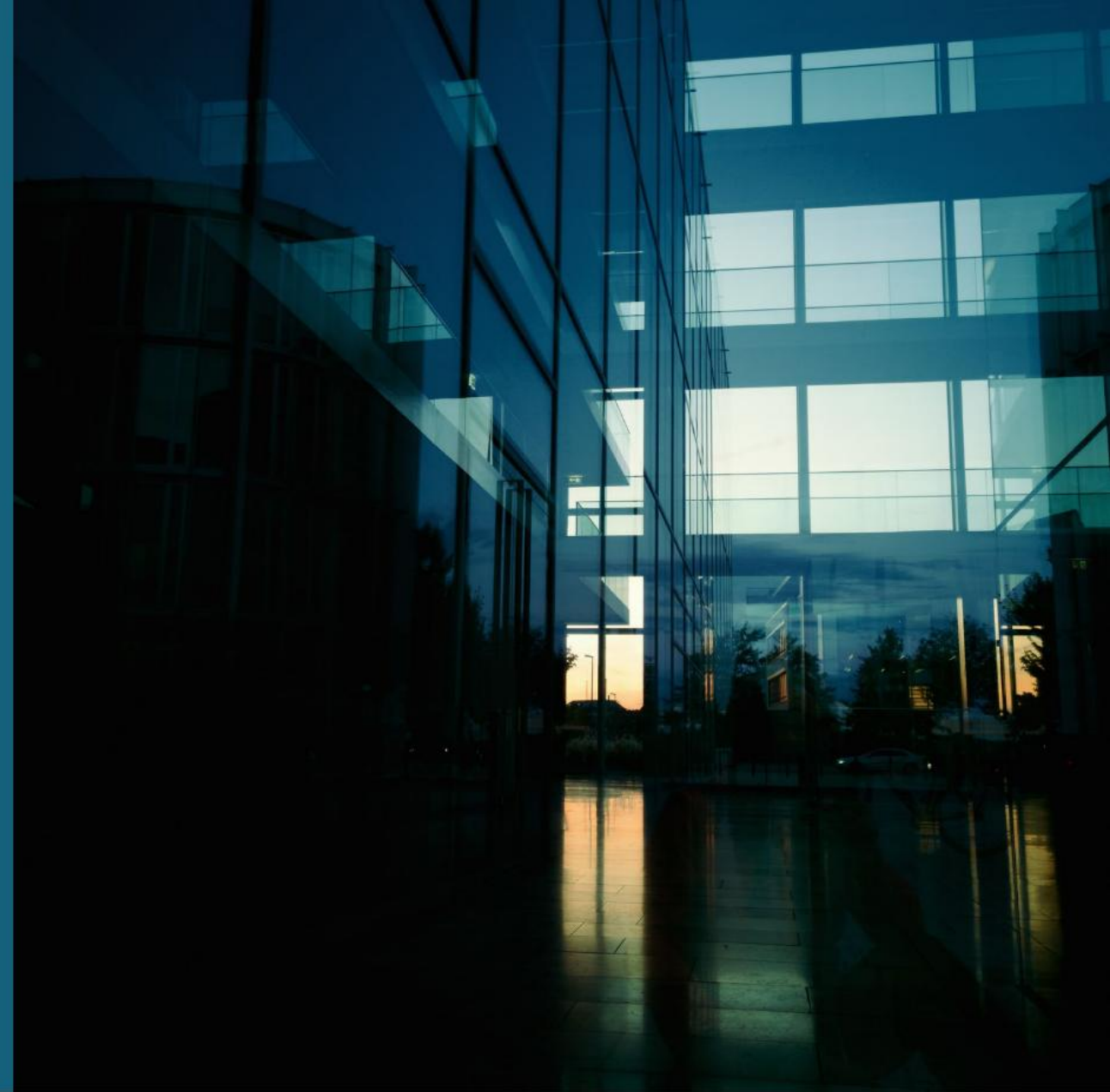


# Audit Completion Report

Sunderland City Council  
Year ended 31 March 2022

October 2022



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Audit and Governance Committee Members  
Sunderland City Council  
City Hall  
Plater Way  
Sunderland  
SR1 3AA

12 October 2022

Dear Committee Members

## **Audit Completion Report – year ended 31 March 2022**

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 29 April 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We noted in our Audit Strategy Memorandum that our risk assessment in respect of our VFM work was not complete; following completion of this risk assessment, we did not identify any significant risks of weaknesses in arrangements.

We would also like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07813 752 053.

Yours faithfully

A handwritten signature in blue ink, appearing to read "C Waddell".

Cameron Waddell  
Partner  
Mazars LLP

Mazars LLP  
Bank Chambers  
26 Mosley Street  
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# 01

Section 01:

**Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 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 on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls (Council and Group);
- Net defined benefit liability valuation (Council and Group);
- Valuation of property, plant and equipment (Council only); and
- Accounting for Private Finance Initiative (PFI) arrangements (Council only – enhanced risk).

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022, other than some areas of Property, Plant and Equipment and other transaction testing plus also our receipt and consideration of the pension fund auditor assurance.

At the time of preparing this report, matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the matters outstanding through issuance of a follow-up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



### Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements, however, this is subject to the conclusion of matters in relation to infrastructure which remain outstanding at the time of issuing this report; further detail is set out in sections 2 and 4.



### Value for Money

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.



### Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



### 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. No questions or objections have been received.









# 02


Section 02:


**Status of the audit**


## 2. Status of the audit

Our work is on-going; there are currently no matters of which we are aware that would require modification of our audit opinion, other than infrastructure, subject to completion of work in the areas detailed below.

Audit area	Status	Description of the outstanding matters
Infrastructure		We have highlighted to this Committee previously outstanding national matters in relation to infrastructure; as a result of these, we have not yet issued our formal certificate for 2020/2021.  As of early October 2022, national issues remain unresolved in relation to the material accuracy of infrastructure balances, impacting on all highways authorities, therefore, we cannot complete our work and give our opinion for 2021/2022 until these are resolved. Options being considered include a limitation of scope in our auditor's report.
Net defined benefit liability (pensions)		Receipt and consideration of assurance from the Pension Fund auditor.
Property, Plant and Equipment		Completion of work.
Transaction testing		Various areas of transaction testing remain to be completed.
Other		Completion of various other work including two outstanding direct confirmations for Council investments.
Closing procedures		Review of the revised financial statements and consideration of any post balance sheet events.

 Likely to result in material adjustment or significant change to disclosures within the financial statements.

 Potential to result in material adjustment or significant change to disclosures within the financial statements.

 Not considered likely to result in material adjustment or change to disclosures within the financial statements.

# 03

## Section 03: **Audit approach**

# 3. Audit approach

## Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in April 2022. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

Our provisional materiality at the planning stage of the audit was set at £14.518 million for the Group and £13.506 million for the Council using a benchmark of 2% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements is £16.172 million and £15.324 million for the Group and Council respectively, using the same benchmark.

## Use of experts

Changes to our planned approach since issuing our Audit Strategy Memorandum are shown in italics below.







Item of account	Management’s expert	Our expert
Defined benefit net liability	AON Hewitt (Actuary)	Report commissioned by the National Audit Office from PwC in respect of actuaries nationally.
Property, Plant and Equipment (PPE)	Internal Valuer	We take into account relevant information available from third parties. <i>We have also engaged our own internal valuation expert to review specified Council assets.</i>
Shared Waste Private Finance Initiative (PFI) facility	Hilco Appraisal Ltd	No expert assessed as being required.
Financial instrument disclosures	Link Asset Services	No expert required.



# 3. Audit approach

## Group audit approach

Our group audit approach remains unchanged.

Group component	Approach adopted	Key points or other matters to report
Sunderland City Council (the parent)		The Council has disclosed the financial performance of its interests in other entities in Note 33 Related Party Transactions.
Together for Children (TfC)		Full scope audit – reliance on the component auditor. The component auditor is Robson Laidler LLP, who also audits all the remaining components, bar SLP which is audited by RSM LLP.
Sunderland Lifestyle Partnership (SLP)		Specified audit procedures in respect of the consolidation adjustments for the leisure assets, due to them being valued on a different basis in the component's accounts. Note 33 sets out the additional support provided to SLP in 2021/22.
Sunderland Care and Support Limited (SCAS)		No matters to report.
Siglion Ltd		No matters to report.
IAMP LLP		No matters to report.



**Full audit**  
Performance of an audit of the component's financial information prepared for group reporting purposes using component materiality



**Audit of balances and/or disclosures**  
Performance of an audit of specific balances and/or disclosures included in the component's financial information prepared for group reporting purposes, using component materiality



**Specific audit procedures**  
Performance of specific audit procedures on the component's financial information



**Review procedures**  
Review of the component's financial information prepared for group reporting purposes using the component materiality assigned



**Desktop analytical review procedures**  
Desktop analytical review procedures carried out on non-significant consolidated components



# 04

## Section 04: **Significant findings**

# 4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other 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.

## Significant risk – management override of controls

Management override of controls	Description of the risk
	<p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>
	<p><b>How we addressed this risk</b></p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"><li>• accounting estimates impacting amounts included in the financial statements;</li><li>• consideration of identified significant transactions outside the normal course of business; and</li><li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>
	<p><b>Audit conclusion</b></p> <p>There are no significant issues arising from our work that we are required to report to you.</p>

## 4. Significant findings – significant risk: net defined benefit liability (pensions)

Net defined benefit liability (pensions)	<b>Description of the risk</b>
	The financial statements contain material pension entries in respect of the 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.
	<b>How we addressed this risk</b>
	<p>We:</p> <ul style="list-style-type: none"><li>critically evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements;</li><li>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>critically assessed the competency, objectivity and independence of the Actuary;</li><li>liaised with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively;</li><li>compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office;</li><li>agreed data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements; and</li><li>critically reviewed the component auditor's work in respect of Together for Children's pensions liability which is consolidated in the group financial statements.</li></ul>
	<b>Audit conclusion</b>
	<p>We discussed with management the material variance between estimated assets used by the Actuary and the actual assets at the year-end based on the draft Pension Fund accounts. It became apparent that due to the timing of the Actuary's report production, that it was not based on the latest valuation data used by the Pension Fund, therefore, the Council requested a revised pensions report. This resulted in a reduction to the net pensions liability, due to increased assets, of £27.170m.</p> <p>We critically reviewed the consolidated pensions liabilities for Together for Children and Sunderland Care and Support and challenged management in respect of variances.</p> <p>Our work is on-going, with the following key areas outstanding:</p> <ul style="list-style-type: none"><li>receipt and consideration of the assurance from the Pension Fund auditor; and</li><li>our work on the revised Actuary's report is not fully completed.</li></ul> <p>We will provide an update on outstanding matters to the Committee via our formal follow-up letter, which will include an updated summary of misstatements, if required.</p>

# 4. Significant findings – significant risk: valuation of property, plant and equipment

Valuation of property, plant and equipment (PPE)	<b>Description of the risk</b>
	The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (including the Council's PFI shared waste facility). The Council employs valuation experts to provide information on valuations, however, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment (PPE) due to the significant judgements and number of variables involved.
	<b>How we addressed this risk</b> <p>We:</p> <ul style="list-style-type: none"><li>critically assessed the Council's arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated;</li><li>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 Valuers, including the PFI shared waste facility;</li><li>considered the competence, skills and experience of the Valuers and the instructions issued to the Valuers;</li><li>substantively tested capital expenditure additions and disposals during the year;</li><li>substantively tested the Council's property, plant and equipment to gain assurance that they exist and are owned by the Council;</li><li>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>carry out procedures to gain assurance over the consolidation adjustments for group accounts which impact on property, plant and equipment and associated financial statement areas; and</li><li>where necessary, performed further audit procedures on individual assets to ensure the basis of valuations is appropriate.</li></ul>
	<b>Audit conclusion</b> <p>In addition to our planned work, we critically reviewed the valuation of the new City Hall, which became operational in 2021/22, with input from our internal valuation expert. Our review did not identify any material issues.</p> <p>There have been no significant issues arising from our testing that we are required to report to you; at the time of writing this report, our work is almost complete. We will update this Committee of any updated issues upon conclusion of our work.</p>



# 4. Significant findings – enhanced risk: PFI arrangements

## Enhanced risk

Accounting for PFI arrangements	<p data-bbox="262 391 397 422"><b>Description</b></p> <p data-bbox="262 445 1077 476">The Council has three private finance initiative (PFI) arrangements, covering:</p> <ul data-bbox="262 494 764 625" style="list-style-type: none"><li data-bbox="262 494 764 525">• Sandhill View (multi-use community facility);</li><li data-bbox="262 542 494 574">• street lighting; and</li><li data-bbox="262 591 542 622">• a shared waste facility.</li></ul> <p data-bbox="262 642 1490 674">The method of accounting for PFI assets and liabilities is complex, therefore, this increases the risk of misstatement.</p>
	<p data-bbox="262 694 851 725"><b>How our audit addressed this area of enhanced risk</b></p> <p data-bbox="262 728 308 759">We:</p> <ul data-bbox="262 776 1164 953" style="list-style-type: none"><li data-bbox="262 776 1164 808">• reviewed the Council’s adopted approach for accounting for its PFI arrangements;</li><li data-bbox="262 825 1126 856">• reviewed any changes from prior years to the long term financial models used;</li><li data-bbox="262 873 963 905">• critically reviewed the assumptions made by management; and</li><li data-bbox="262 922 901 953">• assessed the completeness and accuracy of disclosures.</li></ul>
	<p data-bbox="262 971 458 1002"><b>Audit conclusion</b></p> <p data-bbox="262 1019 991 1051">We obtained the assurance sought, with no significant issues arising.</p>

# 4. Significant findings

## Qualitative aspects of the Council’s accounting practices

We have reviewed the Council’s accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council’s circumstances.

Draft financial statements were received from the Council on 18 July 2022, ahead of the revised statutory deadline of 31 July 2022 and were of an excellent quality, supported by comprehensive and clear working papers. The finance team has again worked closely with us and has been very responsive in addressing queries throughout the audit period. The platform used for sharing working papers and logging queries has again facilitated the smooth completion of the audit.

## Significant matters discussed with management

Assurance was obtained in respect of the matters detailed below, with issues arising summarised in the referenced sections, subject to completion of outstanding work.

- Infrastructure:** as a reminder, we have highlighted previously to this Committee the national outstanding issue in relation to infrastructure balances held by all highway authorities, including this Council. This is a national issue, impacting on most councils. The issue relates to likely overstatement of infrastructure balances, due to balances not being sufficiently depreciated, in part due to insufficient historic records of infrastructure expenditure being maintained. Due to the above, our certificate on the 2020/21 audit has not yet been issued, with the certificate formally ‘closing’ the audit. We have highlighted previously to this Committee the on-going CIPFA consideration of this issue, as the public sector accountancy body, with consultations earlier this year. As of early October 2022, no firm decisions have been arrived at. Consideration is being given to reporting ‘limitation of scope’ in relation to infrastructure, in order to avoid further delays to audit opinions. Mazars is working with the National Audit Office and liaising with other firms in this respect.
- Pensions:** we discussed with management the material variance between estimated assets used by the Actuary and the actual assets at the year-end based on the draft Pension Fund accounts. It became apparent that due to the timing of the Actuary’s report production, that it was not based on the latest valuation data used by the Pension Fund, therefore, the Council requested a revised pensions report. This resulted in a reduction to the net pensions liability, due to increased assets, of £27.170m. Further details are set out under the significant risk section 4.

- Newcastle Airport shares £16.508m as at 31/3/2022:** one of the Council’s in the North East acts on behalf of other Councils with Airport shares – South Tyneside MBC. We understand the latter obtained an external valuation of the Airport shares; however, this cannot yet be shared with us. The Council has based its valuation as at 31 March 2022 on updated EBIDTA estimates (earnings before interest, taxes, depreciation and amortisation). We understand that management’s estimate does not differ materially to the range estimated by the external expert.

## Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

## 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 2021/22 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. No such objections have been raised.



# 05

Section 05:

**Internal control recommendations**

# 5. Internal control recommendations

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal controls or 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 categories detailed overleaf.

## 2021/22 internal control recommendations

We have not raised any recommendations in respect of 2021/22.

## 2020/21 internal control recommendations – follow-up

We have documented our follow-up of prior year recommendations in this section, namely:

- School bank reconciliations (medium priority)
- Evidencing the year-end Treasury Management reconciliation (medium)
- Access to the asset management system (low)
- Salix loans and issues with accuracy of confirmations (low)

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.	0
3 (low)	In our view, internal controls should be strengthened in these additional areas when practicable.	0



# 5. Internal control recommendations

## Follow-up of prior year deficiencies in internal control – Level 2

### Description of deficiency – school bank reconciliations

Testing identified that the year-end bank reconciliation for one school was not actually done at the year-end; instead, the school did a bank reconciliation during March, which reconciled back to the February bank statement.

Compensating controls are in place, via the Council, however, the year-end bank reconciliation is a key control, therefore, should be done at the year-end for all schools.

### Potential effects

Risk of fraud and or material misstatement.

### Recommendation

Ensure bank reconciliations are carried out for all schools at the year-end.

### Management response

We will ensure appropriate additional controls are put in place for reconciling the 31 March balances.

### 2021/22 follow-up

Based on our work in 2021/22, the above issue remains, however, the Council has put in place sufficient compensating controls.

## Follow-up of prior year deficiencies in internal control – Level 2

### Description of deficiency - evidencing the year-end treasury management reconciliation

Formal evidence of the review of the year-end treasury management reconciliation was not retained. This was raised as a recommendation in prior years and had been actioned, however, was overlooked in 20/21 following a change in key officers. Testing did not identify any unusual reconciling items and the reconciliation was carried out; however, evidence of the second person's review of it was not retained.

### Potential effects

Risk of fraud and or material misstatement.

### Recommendation

Ensure evidence is retained of the second person's review of the year-end Treasury Management reconciliation.

### Management response

This has already been actioned.

### 2021/22 follow-up

Evidence has been retained based on our walkthrough and year-end reconciliation review.

# 5. Internal control recommendations

## Follow-up of prior year deficiencies in internal control – Level 3

### Description of deficiency - asset management system access

Our testing of IT general controls identified that there is no formal policy in place for approving new starters' access to the asset management system, Technology Forge, with requests being made via the Application Manager. As the users have expanded considerably during 2020/21 (from 20 users to 88 users), there is a risk that unauthorised users may be able to gain access.

### Potential effects

Unauthorised access to the asset management system.  
Data manipulation.

### Recommendation

The Council should implement a formal policy to ensure authorisation is given and recorded for any new users to the application.

### Management response

This is already being actioned, with the Application Manager designing a pro-forma for new starters to capture/document their system requirements and evidence approval of access.

### 2021/22 follow-up

As set out above, this was actioned last year.

## Follow-up of prior year deficiencies in internal control – Level 3

### Description of deficiency - Salix loans and issues with accuracy of confirmations

For the third year in a row, the direct confirmation we obtained from Salix differed to the Council's records.

Testing identified that there were loans on the Salix confirmation that had been omitted from the Council's balance sheet, with a trivial balance of £0.265m. Controls should ensure all relevant loans are captured.

The Council should engage with Salix as part of their loan agreements with them, to underline the importance of accurate year-end direct confirmations e.g. ensuring Salix does not provide details of loans that have matured before the year-end, and also the timeliness of providing a direct confirmation to us.

### Potential effects

Risk of fraud and or material misstatement.

### Recommendation

The Council should engage with Salix, as part of their loan agreements with them, to try and resolve the historic issues with Salix direct confirmations showing incorrect information and also not being timely.

The Council should also revisit controls in place for ensuring all loans are recognised on its balance sheet, where appropriate.

### Management response

This will be addressed throughout 2021/22 and further checks introduced at the year-end.

### 2021/22 follow-up

Trivial differences identified in 2021/22, with no indication of material misstatement. The Council has still followed-up these trivial differences, as part of understanding why they have arisen - as part of ensuring it doesn't ever result in a material difference. We are satisfied there is no indication of material misstatement, whether due to fraud or error.

# 06

Section 06:

## **Summary of misstatements**

## 6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £0.436 million and £0.405 million for the Group and Council respectively.

The first table overleaf 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.

The second table outlines the misstatements identified during the prior year audit which were not adjusted for and are carried forward misstatements.

The third table outlines the misstatements that have been adjusted by management during the course of the audit.

The table below summarises all errors.

### Summary of unadjusted and adjusted misstatements

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Unadjusted misstatements identified during the 2021/22 audit	799	3,340		-4,139
2	Unadjusted misstatements identified during the 2020/21 audit which remain carried forward	1,610		-1,610	
	<b>Sub-total unadjusted misstatements: current year and prior year</b>	<b>2,409</b>	<b>3,340</b>	<b>-1,610</b>	<b>-4,139</b>
3	Adjusted misstatements		27,170		-27,170

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### 1. Unadjusted misstatements – current year

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Dr: Group Property, Plant and Equipment – Assets under Construction Cr: Group Debtors	6,721 -6,721			
	Being the misclassification of Siglion Work In Progress (i.e. developments).				
2	Dr: Debtors Cr: Gross income	799			-799
	Being the extrapolated error from our 'cut-off' testing of transactions.				
3	Dr: Net pensions liability Cr: Remeasurement of net defined benefit liability		1,950		-1,950
	Being the estimated misstatement of Together for Children & Sunderland Care and Support pensions liabilities due to there being a difference between the Actuary's estimate of Pension Fund assets and actual Pension Fund assets per the draft Pension Fund accounts.				
4	Dr: Creditors Cr: Gross expenditure		1,390		-1,390
	Being the extrapolated error from Creditors testing, arising from one item in our residual sample being mainly in relation to 2022/23, so only part of the invoice should have been included in 2021/22.				
<b>Total unadjusted misstatements – current year</b>		<b>799</b>	<b>3,340</b>		<b>-4,139</b>

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### 2. Unadjusted misstatements – prior year

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Dr: Property, Plant and Equipment Cr: Revaluation Reserve / Capital Adjustment Account	1,610		-1,610	
	<b>Total unadjusted misstatements – prior year</b>	<b>1,610</b>		<b>-1,610</b>	

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## 6. Summary of misstatements

### 3. Adjusted misstatements

	Assets	Liabilities	Reserves	Income Statement
	(£'000)	(£'000)	(£'000)	(£'000)
1				
Dr: Net cost of services				10
Cr: Financing & Investment income & expenditure				-10
Dr: Net pensions liability		27,170		
Cr: Remeasurement of the net defined benefit liability				-27,170
Being the decrease in the net defined benefit liability due to the Actuary's estimate of Pension Fund assets differing to the Pension Fund draft accounts.				
<b>Total adjusted misstatements – current year</b>		<b>27,170</b>		<b>-27,170</b>

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## 6. Summary of misstatements

### Disclosures

#### Disclosure amendments

Audit work identified a small number of amendments to disclosures. The most significant are summarised below, split into adjusted and unadjusted.

##### Adjusted disclosures

- **Note 13 Property, Plant and Equipment (PPE) revaluations table:** amendment to move £1.429m from Other Land and Buildings to Community Assets; impacting also on the main PPE table.
- **Note 16 financial instrument gains and losses:** amendment to include impairment losses for trade debtors.
- **Note 38 Termination Benefits:** amendment to two exit package bandings to reflect amounts paid (no net impact – disclosure classification only, with corresponding similar amendment to the Group Termination Benefits note).
- **Group Note 4 Pensions:** amendment to disclosure as a result of error (no net impact). N.b. this is over and above the amendment to the Council's net pensions liability which impacts also on the consolidated Group liability.
- **Group Note 7 Exit Packages:** amendment to comparators so that they are consistent with the audited accounts.
- **Group Note 8 Officers' remuneration:** amendment to comparators so that they are consistent with the audited accounts.
- **Group debtors and creditors:** the Council has included Group debtors and creditors disclosure notes in the revised accounts.

##### Unadjusted disclosures

- **Note 2 accounting standards issued but not yet adopted:** the Council has disclosed IFRS 16 leases in this note, however, it is not technically required given implementation of this standard has been deferred until 2024/25.
- **Note 38 Termination Benefits and Note 29 Officers' Remuneration:** non-material difference between the estimated and actual exit package for one individual.

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# 07

## Section 07: **Value for Money**

# 7. Value for Money

## Approach to Value for Money

We are required to consider 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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - how the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - how the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - how the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.

## Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2022. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however, we continue to undertake work on the Council's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.



# Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

# Appendix A: Draft management representation letter

Mr Cameron Waddell  
Partner  
Mazars LLP

Date:

*Please note this is a draft management representation letter, containing required representations up to and including 12 October 2022; any changes will be highlighted in our follow-up letter.*

## Sunderland City Council and Group - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of Sunderland City Council (the Council) and Group for the year ended 31 March 2022 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 2021/22 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, 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 ourselves 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 you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Assistant Director of Finance (s151 officer) 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 and committee meetings, have been made available to you.



# Appendix A: Draft management representation letter

## 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’s financial position, financial performance and cash flows.

## Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council 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 had 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 contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council 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 has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.



# Appendix A: Draft management representation letter

## Fraud and error

I acknowledge my responsibility as Assistant Director of Finance(s151 officer) for the design, implementation and maintenance of internal control 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 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 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’s related parties and all related party relationships and transactions of which I am aware.

## Charges on assets

All the Council’s assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

## Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is, therefore, not considered necessary.

## 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 2021/22 in relation to the Council’s PFI schemes that you have not been made aware of.



# Appendix A: Draft management representation letter

**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.

**Going concern**

To the best of my knowledge there is nothing to indicate that the Council and Group will cease to 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 financial statements.

**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. *Please make sure an appendix is attached to the letter setting out unadjusted disclosures and misstatements.*

Yours faithfully

S151 Officer – Assistant Director of Finance

Signature:

Date: .....

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# Appendix B: Draft audit report

## Independent auditor’s report to the Members of Sunderland City Council

We anticipate issuing an unqualified opinion, without modification, on the financial statements, however, this is subject to the conclusion of matters in relation to infrastructure which remain outstanding at the time of issuing this report; further detail is set out in sections 2 and 4.



# 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.



# Appendix D: Other communications

Other communication	Response
Compliance with laws and regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any significant issues with respect to obtaining external confirmations.
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"><li>a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li><li>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li></ul>
Going concern	<p>We have not identified any evidence to cause us to disagree with the Executive Director of Corporate Services that Sunderland City Council will be a going concern, and, therefore, we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

# Appendix D: Other communications

Other communication	Response
Subsequent events	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
Matters related to fraud	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit and Governance Committee, confirming that</p> <ol style="list-style-type: none"> <li>they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li> <li>they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li> <li>they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:               <ol style="list-style-type: none"> <li>management;</li> <li>employees who have significant roles in internal control; or</li> <li>others where the fraud could have a material effect on the financial statements; and</li> </ol> </li> <li>they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.</li> </ol>

# Cameron Waddell, Partner

## **Mazars**

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.