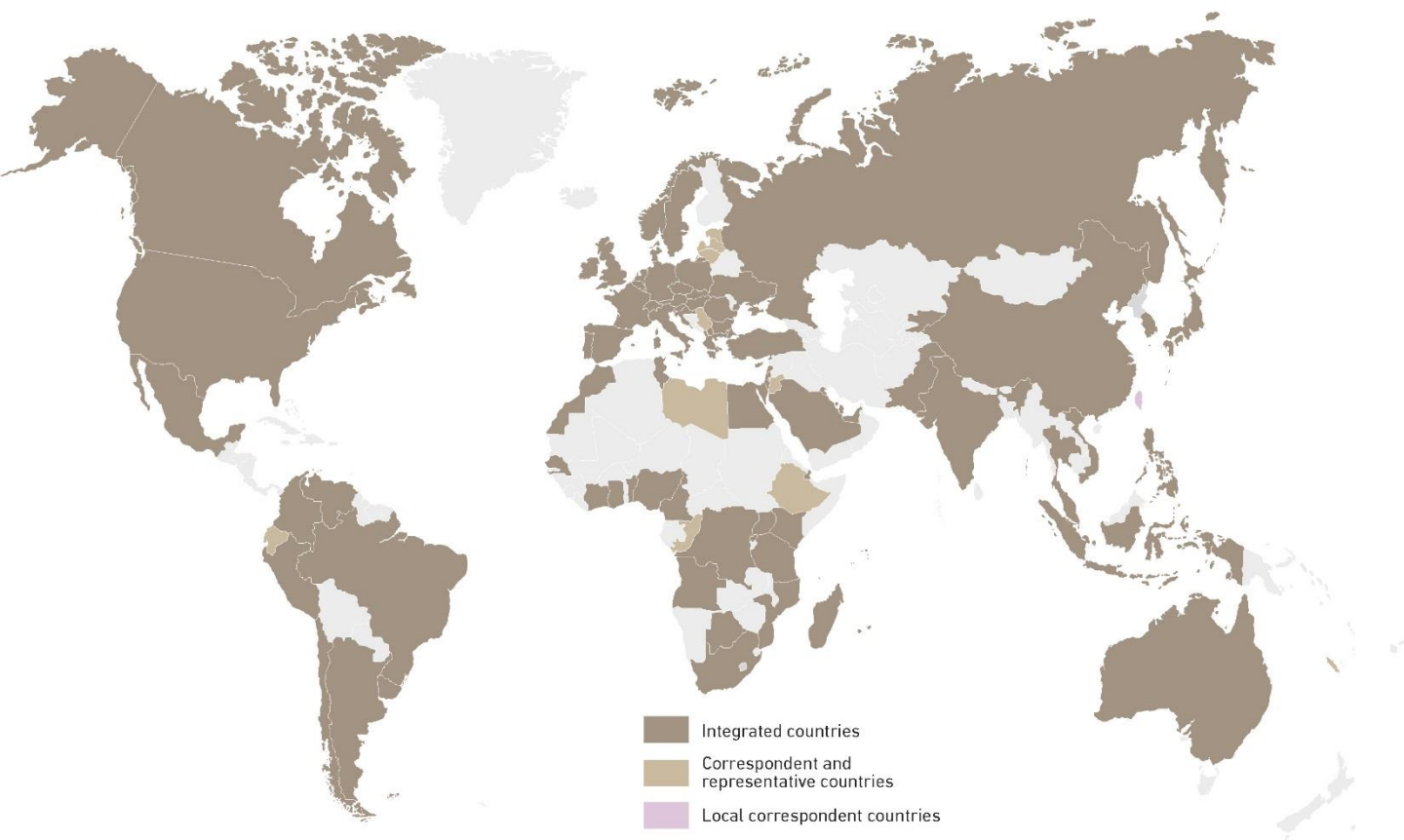


Audit progress report

Sunderland City Council

January 2020





CONTENTS

1. Summary
2. Housing benefits subsidy assurance work
3. Teachers' Pensions assurance work
4. Education and Skills Funding Agency sub-contracting assurance work
5. National publications

Contact us: www.mazars.co.uk

Partner: Cameron Waddell

Phone: 0191 383 6314

Mobile: 07813 752 053

Email: cameron.waddell@mazars.co.uk

Senior Manger: Diane Harold

Phone: 0191 384 6314

Mobile: 0797 151 3174

Email: diane.harold@mazars.co.uk

This document is to be regarded as confidential to Sunderland City Council. It has been prepared for the sole use of the Audit and Governance Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

1. AUDIT PROGRESS

Purpose of this report

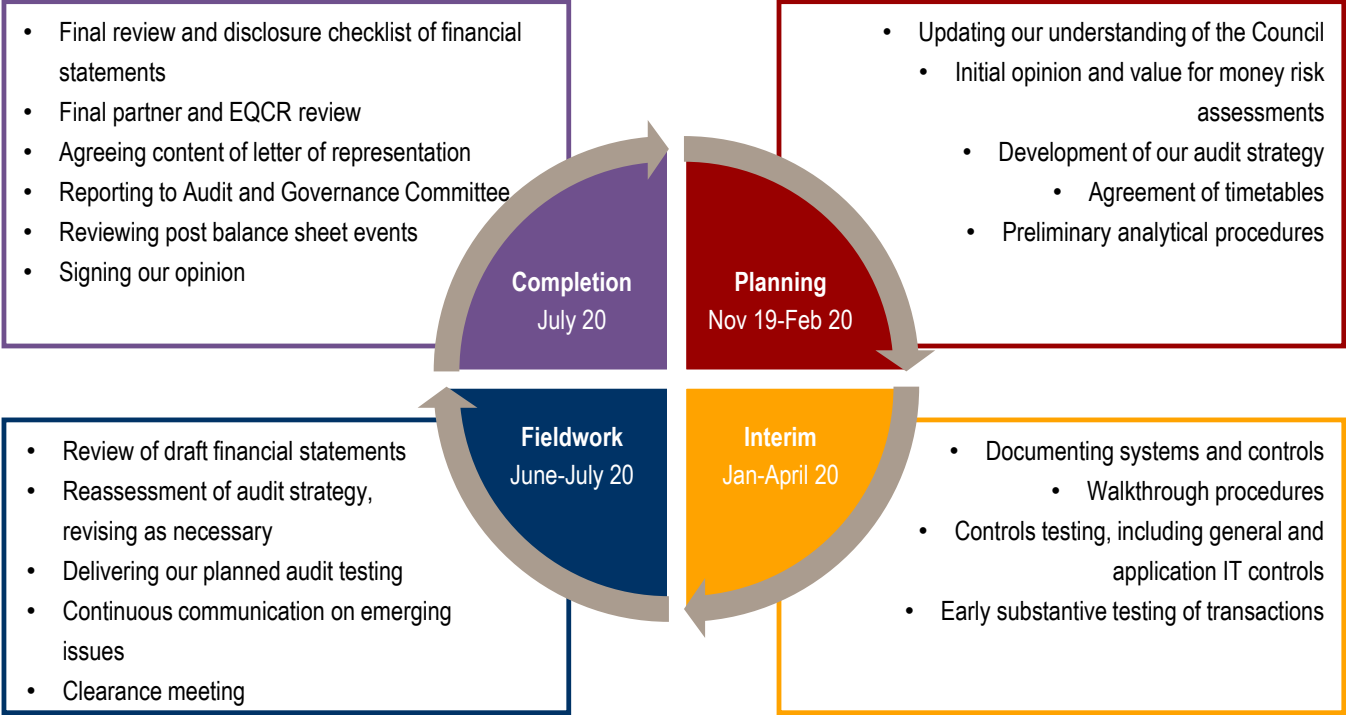
This report provides the Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditor as well as setting out any non-audit assurance work carried out and also summarising key national publications that may be of interest to Members.

Audit progress

Our key audit stages are summarised in the diagram shown below.

As in prior years, we will carry out our walkthroughs and interim testing in one visit, scheduled for January/February. Our Audit Strategy Memorandum for 2019/20 will be brought to the meeting of the Audit and Governance Committee in April 2020.

There are no significant matters arising from our audit work that we are required to report to you at this stage.



2. HOUSING BENEFITS SUBSIDY ASSURANCE

Non-audit work: independence considerations

We set out, in our annual Audit Strategy Memorandum for 2018/19, our assessment of anticipated non-audit work and any threats to our independence and objectivity. We confirm the assessment in the Memorandum, presented to the January 2019 Audit and Governance Committee, remains relevant in respect of the following pieces of 2018/19 non-assurance work, namely:

- housing benefits subsidy;
- Teachers' Pensions; and
- Education and Skills Funding Agency sub-contracting.

Non-audit work: housing benefits subsidy assurance

Our assurance work in respect of the housing benefits subsidy claim for 2018/19 is now complete. Work was completed and our report to the Department of Work and Pensions (DWP) was submitted on 29 November 2019.

Background to housing benefits subsidy assurance work

This is an 'agreed upon procedures' assurance engagement in respect of the Council's annual subsidy claim to DWP for housing benefits, as detailed in guidance issued by the DWP "Housing Benefits Assurance Process" (HBAP). The total subsidy claimed for 2018/19 was £112,059,484 (prior year £117,923,387).

The purpose of the engagement is to perform the specific test requirements determined by the DWP on the defined sample basis. The relevant requirements are set out in Modules of the HBAP reporting framework and we report the results of those procedures to the Council and the DWP. The guidance is made available on the government's website:

<https://www.gov.uk/government/publications/housing-benefit-assurance-process-hbap>

The work is split into:

- agreement of the subsidy claim to supporting working papers;
- initial testing (specified sample sizes) and extended testing (described as "40+" or 'CAKE – Cumulative Knowledge and Experience' testing where there are errors arising or anticipated based on the prior year; and
- reporting of results, including extrapolated errors, to DWP who then assess whether there will be any loss of subsidy.

Summary of testing results

Universal credit run-on awards

In our report to DWP, we highlighted an issue the Council had identified in respect of universal credit run-on awards, whereby the software had incorrectly treated these payments, resulting in errors. The Authority has carried out work in respect of the 468 cases of this sub-population and intends to amend the 2019/20 subsidy claim for this issue.

Rent allowance testing – error in uprating of a carer's allowance

Rent allowance testing identified an error in the uprating of a carer's allowance. We reported the extrapolated results of our testing, as required, in our report, along with details of other testing in this area arising from previous year errors.

Fees

	2017/18	2018/19
Housing benefits subsidy claim	£9,309*	£9,210

*Fees were set by Public Sector Auditor Appointments Limited in prior years.

3. TEACHERS' PENSIONS

Non-audit work: Teachers' Pensions assurance

Background

The Teachers' Pension Scheme (TPS) is a contributory pension scheme administered by Teachers' Pensions (TP) on behalf of the Department for Education (DfE). Councils are required to complete an annual return showing the level of teachers' pension contributions that should have been deducted and paid to TP within the financial year and obtain an independent reporting accountant's report, setting out 'agreed upon procedures'.

Results of agreed upon procedures

We submitted our report to TP by the deadline of 29 November 2019 and there were no significant issues arising. Total contributory salary per the return for 2018/19 was £31,772,226 (prior year £34,915,893).

Fees

	2017/18	2018/19
Teachers' Pensions return	£3,850	£3,920

4. SUB-CONTRACTING

Non-audit work: Education and Skills Funding Agency 2018/19 external assurance on subcontracting controls

Background

Sunderland City Council engaged Mazars LLP in November 2019 to provide an agreed upon procedures report in respect of Education and Skills Funding arrangements.

The Education and Skills Funding Agency (ESFA) funding agreement with Sunderland City Council contains a clause about an annual subcontracting assurance requirement. The clause requires lead providers, in this case Sunderland City Council, that subcontract more than a defined level of provision, to obtain a report from a registered auditor / reporting accountant that provides assurance on the arrangements in place to manage and control their subcontractors.

Results of agreed upon procedures

Based on the results of the agreed upon procedures carried out in December 2019 and there were no significant matters arising.

Fees

	2017/18	2018/19
Sub-contracting assurance	£3,550	£3,600

5. NATIONAL PUBLICATIONS

	Publication/update	Key points
Chartered Institute of Public Finance and Accountancy (CIPFA)		
1.	Local Government Financial Resilience index	Online data tool which measures local authorities against a range of indicators to assess their level of resilience.
2.	Financial Management Code	Guidance for good and sustainable financial management in local authorities.
3.	Prudential Property Investment	Guidance on prudent investments in commercial properties.
Local Government Association (LGA)		
4.	Behavioural Insights Programme	Funding awarded to Sunderland City Council for increasing rates of breastfeeding to improve health.
5.	Probity in planning: advice for councillors and officers making planning decisions	This 2019 guidance is an update to the 2013 version of the Local Government Association's Probity in Planning.
6.	Chief executives' 'must know' for children's services	How to avoid some of the more obvious and dangerous errors and challenges involved in leading one of the most sensitive, expensive and high-risk areas of local government.
7.	A Councillors' guide to procurement	The guide covers questions commonly asked by Councillors.
8.	Reaching out	Loneliness policy context and consideration of effective local delivery models.
9.	A Councillor's guide to digital connectivity	Key information for Councillors.
Mazars LLP		
10.	Annual Transparency Report, Mazars	Sets out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm.
11.	Mazars' response to the Brydon Review	Mazars' response to the latest review into the auditing profession which was published in December 2019.

5. NATIONAL PUBLICATIONS

1. Local Government Financial Resilience index, CIPFA, December 2019

The resilience index is an online data tool which measures local authorities against a range of indicators to assess their level of resilience against financial shocks and to support financial decision making. Upper tier authorities are judged against nine indicators including social care.

The indicators measured include:

- levels of reserves;
- change in reserves;
- reserves sustainability;
- interest payable/net revenue expenditure;
- gross external debt;
- social care ratio;
- fees and charges to service expenditure ratio;
- council tax requirement/net expenditure ratio; and
- growth above baseline.

The tool allows for year on year comparisons of each authority's performance, as well as comparisons with similar and neighbouring authorities. Trend analysis is also available for some of the indicators outlined above.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-launches-local-government-financial-resilience-index>

2. Financial Management Code, CIPFA, October 2019

Strong financial management is an essential part of ensuring public sector finances are sustainable. The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and aims to provide assurance that they are managing resources effectively.

It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code with help strengthen the framework that surrounds financial decision making.

The FM Code built on elements of other CIPFA codes during its development and its structure and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.

The Code applies to all local authorities, including police, fire and other authorities.

By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements in their jurisdictions.

The first full year of compliance will be 2021/22. This reflects the recognition that organisations will need time to reflect on the contents of the Code and can use 2020/21 to demonstrate how they are working towards compliance.

<https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code>

5. NATIONAL PUBLICATIONS

3. Prudential Property Investment, CIPFA, November 2019

Increasingly there has been a move towards investments in commercial properties, funded by borrowing, with the key driver of this activity appearing to be the generation of revenue. This publication provides guidance on making the assessments needed to ensure that such acquisitions are prudent and on the risks local authorities must manage when acquiring property.

Statutory investment guidance from the Ministry of Housing, Communities and Local Government (MHCLG) last year set out clearly that local authorities need to consider the long-term sustainability risk implicit in becoming too dependent on commercial income, or in taking out too much debt relative to net service expenditure.

The increased scale of investment in property was recognised by revisions to CIPFA's Prudential Code for Capital Finance and the Treasury Management Code in 2017, but the growing amounts being borrowed for such a purpose are putting a strain on the creditability of the Prudential Framework and reinforce the need to ensure that such acquisitions are affordable, prudent and sustainable.

In addition to the core issue of borrowing in advance of need, which the Prudential Code has very clear provisions on, this publication provides guidance on the risk perspective to the practical assessment of prudence and affordability. Those risks could be very difficult to manage. Even when these issues are managed and there is reliance on investment income, a potential failure or a downturn of the property market may have a direct impact upon local services.

This publication considers such issues and the actions local authorities would need to take to mitigate against such risks.

<https://www.cipfa.org/policy-and-guidance/publications/p/prudential-property-investment>

5. NATIONAL PUBLICATIONS

4. Behavioural Insights Programme, LGA, January 2020

The latest round of the Local Government Association's Behavioural Insights Programme has awarded funding to eight councils, including Sunderland City Council.

As part of the LGA's sector-led improvement offer, the programme encourages innovation in local public services with the aim of changing behaviour to reduce demand on overstretched local services as well as improving residents' lives.

Behavioural insights is a scientific approach that helps people to make better choices for themselves and society through interventions or 'nudges'.

In last year's LGA-funded trial, Knowsley Metropolitan Borough Council increased the uptake of assistive technology by 27 per cent through their interventions using targeted mail to those with blue badges and assisted bin collections. Alongside this, staff were supported to offer assistive technology to service users.

Kent County Council, Kent Police and their commissioned support services increased the number of domestic abuse victims that seek and receive support by more than 2 per cent through the use of contact information cards.

In the latest phase of the Programme, the LGA will provide the eight councils with a £20,000 grant each:

- Derbyshire County Council – reducing the number of repeat applications to the Derbyshire Discretionary Fund by increasing uptake of budgeting support.
- Newcastle City Council – increasing the number of families engaging positively with early help services following an initial report of concerns to children's social care.
- North Yorkshire County Council – Improving school readiness by encouraging more parents, families and community support networks to read with their children to assist with speech and language development.
- South Gloucestershire Council – to deploy a strengths-based approach with adult social care service users in the local hospital in order to prevent, delay or divert demand.
- Sunderland City Council – increasing rates of breastfeeding to improve health.
- Surrey County Council – increasing sustainable travel amongst local business employees.
- The London Borough of Merton – reducing the number of vehicles idling outside schools.
- The London Borough of Redbridge – reducing the demand for on-street prostitution in the local area.

The LGA and the councils undertaking the work will be sharing learning and results as and when they come in for others to benefit from.

<https://www.local.gov.uk/lga-announces-behavioural-insights-programme-has-awarded-funding-eight-councils>

5. Probity in planning: Advice for councillors and officers making planning decisions, LGA, December 2019

This 2019 guidance is an update to the 2013 version of the Local Government Association's Probity in Planning. It clarifies how councillors can get involved in planning discussions on plan making and on applications, on behalf of their communities in a fair, impartial and transparent way. This guide has been written for officers and councillors involved in making planning decisions in their local authority and does not constitute legal advice.

<https://www.local.gov.uk/probity-planning-advice-councillors-and-officers-making-planning-decisions>

5. NATIONAL PUBLICATIONS

6. Chief executives' 'must know' for children's services, LGA, December 2019

This is not intended to be a comprehensive blue-print for guaranteed results. Rather, it is intended to be a clear summary guide for chief executives, showing how to avoid some of the more obvious and dangerous errors and challenges involved in leading one of the most sensitive, expensive and high-risk areas of local government.

Key messages stated in the publication include:

- Together with the director of children's services, the lead member for children's services, and the leader or mayor, the chief executive has a key leadership role across the council and working with other local agencies to improve outcomes for children and young people. This strategic 'quartet' of political and officer leadership is fundamental to effectiveness and sustained improvement. It is the role of the chief executive, as the most senior professional concerned, to ensure the quartet is at least functional, at best, collectively inspirational and transformational.
- While the director of children's services and lead member have statutory responsibilities for delivering effective children's services and providing corporate leadership to champion the needs and improved outcomes for children and young people, the chief executive has a crucial role to ensure the whole council supports children and young people and enables the director to fulfil their role. The chief executive also plays the fundamental role in the effective professional oversight and line management of the director of children's services.
- Due to the complex nature of running a council, and the challenge of balancing workload pressures, chief executives might not have the time to develop an in-depth understanding of the ongoing performance of complex services. They instead must establish a system of delegated responsibility and performance reporting in order to fulfil their, and the council's obligations. Being in the chief executive position brings with it particular risks and challenges, especially when that complex service is children and young people, where the risks are high and the cost of failure can be profound, yet the signals of deteriorating performance may at best be opaque.

<https://www.local.gov.uk/chief-executives-must-know-childrens-services>

7. A Councillor's guide to procurement, 2019 edition, LGA, October 2019

The LGA worked closely with councils to develop the National Procurement Strategy 2018 and a toolkit that enables councils to set their own objectives and measure their own progress.

The National Procurement Strategy puts the councillor role front and centre and this guide has been produced specifically with councillors in mind. It looks at the roles councillors play – both executive members and those engaged in overview and scrutiny work – and provides hints and tips on how to get the best out of procurement and contract management. Just as in the national strategy, the focus is on delivering council objectives. Councillors do not need to be procurement professionals but they do need to be able to ask the right questions, including:

- What is the procurement process and why do major procurements in local government fail?
- What are the role and responsibilities of a councillor?
- How is social value delivered under the Public Services (Social Value) Act 2012 and more generally?

<https://www.local.gov.uk/councillors-guide-procurement-2019-edition>

8. Reaching out, LGA, October 2019

This guide outlines the current loneliness policy context, uses a range of case studies to demonstrate effective local delivery models working in practice, and provides useful checklists and tips on how to measure and evaluate outputs.

<https://www.local.gov.uk/reaching-out>

9. A Councillor's guide to digital connectivity, LGA, October 2019

This guide is structured to provide councillors with key information on digital connectivity. It explores the main issues and challenges facing local areas.

<https://www.local.gov.uk/councillors-guide-digital-connectivity-0>

5. NATIONAL PUBLICATIONS

10. Annual Transparency Report, *Mazars*, December 2019

Mazars produces an annual transparency report, setting out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm. The report includes:

- Public Interest Committee Report;
- UK Governance Council Report;
- Inspiring Stakeholder Confidence in Audit Quality (including quality monitoring and audit quality indicators);
- Our risks; and
- Structure, Leadership and Governance.

Link to the latest report issued in December 2019 is set out below.

<https://www.mazars.co.uk/Home/About-us/Corporate-publications/Transparency-reports/Mazars-UK-Transparency-Report-2018-2019>

11. Mazars' response to the Brydon Review, *Mazars*, December 2019

The Brydon Review is one of four key reviews into the scope and quality of audit, namely:

- Competition and Market's Authority (CMA): resilience and competition in the audit market;
- Kingman's Review (review of the Financial Reporting Council and regulatory oversight);
- The Brydon Review (tone and aspirations for the future of the industry); and
- The Redmond Review (quality of local authority financial reporting and external audit).

The Brydon Review contains various recommendations and essentially recommends a major overhaul of audit which would see the creation of a separate 'corporate auditing profession', greater focus on fraud detection during audits, and the replacement of the 'true and fair' concept, with a greater focus on going concern.

Mazars' response to the latest Brydon Review report issued in December 2019 is detailed per the link below.

<https://www.mazars.co.uk/Home/News-Events/Latest-news/Mazars-response-to-the-Brydon-report>

Link to the Brydon Review

Published in December 2019, focusing on the quality and effectiveness of audit.

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

Link to the Kingman's Review

Published in December 2018, this review recommended the replacement of the Financial Reporting Council with a new independent statutory regulator, accountable to Parliament. The new regulator will be called the Audit, Reporting and Governance Authority (ARGA).

<https://www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-report>

Link to the Redmond Review

At the time of writing this report, the outcome from the Redmond Review has not been published.

<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>