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Date: 31<sup>st</sup> May 2019  
Our ref: JR/JM/RD  
Your ref:

Dear Cameron,

### **Audit of Sunderland City Council's Single Entity and Group Financial Statements for the year end 31 March 2019 - understanding how those charged with governance gain assurance from management**

I am writing with reference to your letter dated 18<sup>th</sup> March 2019, in relation to understanding how those charged with governance gain assurance over management processes and arrangements. These assurances are provided below, representing Sunderland City Council's formal response from those charged with governance, which, for the purposes of the financial statements, is the Audit and Governance Committee.

As in previous years, the Audit and Governance Committee have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the Council which might have an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where officers and auditors have discussed key risks faced by the Council) and, to the extent that it is necessary, in the production of the financial statements. The process to produce the Annual Governance Statement should also mean that all key risks which would relate to the financial statements have been fully and appropriately considered. In response to your letter please find responses to your specific questions below and the completed Appendix 1, as requested.

With regard to Joint Venture arrangements, the council relies on the operational partner or appropriate governance structure in place to ensure there is appropriate internal and external operational financial control, and that compliance, fraud or other risks facing these entities which might have had an impact on the financial statements, are adequately addressed. This assurance is obtained consistent with the legal agreement in place.

Specific assurances:

#### **1) How do you exercise oversight of management's processes in relation to:**

- ***undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);***

This responsibility is exercised through the effective functioning of the Audit and Governance Committee, the constitution and operation of which follows CIPFA guidelines.

The Executive Director of Corporate Services (EDCS) and the Assistant Director of Business and Property Services (ADBPS) attend all meetings of the Audit and Governance Committee to discuss and review findings of Internal and External Audit reviews and the level of adequacy of management's response. The Audit and Governance Committee also consider the Annual Governance Statement and the actions taken and proposed in relation to improving governance and internal controls as necessary.

The Committee also reviews the Internal Audit Strategy and annual Internal Audit Plan and is able to comment on areas proposed for review. The Council's Strategic and Corporate Risks covers council owned companies as an entity and these are regularly reported and reviewed by the Committee. The Council's Internal Audit Plan ensures that fraud risk or related concerns are escalated through to the appropriate level or to this committee if appropriate. Ad-hoc meetings between the Committee and the ADBPS take place where necessary. Roles and responsibilities of members and officers are clearly set out in Codes of Conduct, the Scheme of Delegation, Anti-Fraud and Corruption Policy (including the Fraud Response Plan) and in the Risk Management Policy and Strategy which also describe the relevant registers, declarations and escalation processes to be complied with.

A risk management assessment is carried out by each company and updated regularly (but at least annually) and this helps to ensure that all risks are identified and then addressed appropriately. The risks are regularly considered by management within each company. The risks identified by the companies are taken into account when formulating the annual plans of internal audit work, the results of which are also reported formally to the Audit and Governance committee.

The Audit and Governance Committee declares that it has no knowledge of any actual, suspected or alleged fraud that could affect the Council in relation to the 2018/2019 financial statements.

- ***identifying and responding to risks of fraud in the Sunderland City Council and group entities, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;***

The Council has an Anti-Fraud and Corruption Policy which is regularly updated and approved by the committee. The committee reviews the Internal Audit Strategy, and Annual Internal Audit Plan, which includes the Counter Fraud Work Programme for the year. The Counter Fraud Work Programme is based on a Fraud Risk Assessment for the effective deployment of resources and includes both reactive and proactive work. The Committee receives regular updates on progress against the Counter Fraud Work Programme with any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud. Updates are also presented on the implementation of the control improvements.

The system of internal control is a significant part of the Governance framework within the Council and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Internal management control arrangements are in place which should identify and prevent fraud risks from occurring and detect them if they do occur. The Council engages in numerous fraud prevention and identification activity including corporate processes such as participating in the National Fraud Initiative as well as specific service based fraud identification activity. Should a fraud risk occur, the Council's Fraud Response Plan is followed to ensure concerns are raised at the appropriate level and investigated thoroughly.

Council owned companies have their own governance arrangements which include appropriate policies and procedures designed to protect the interests of the company in line with those of the Council. These include arrangements to manage the risks of and respond to the risk of fraud. Internal Audit work for each company is designed to assess the adequacy of these arrangements and includes tests to specifically identify potential fraudulent activity. Any fraud risks which do occur are considered and assessed with management.

- ***communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against Sunderland City Council's code of conduct);***

Written procedures are in place covering financial and administrative matters which are communicated to staff through the induction process, through management and are available on the Council's intranet site. These documents are regularly updated and set out the standards of conduct that are expected, the policies and procedures which should be followed and what to do if staff have concerns that these arrangements are not being complied with. Internal Audit carries out a programme of work which includes assessing the level of compliance against the Council's key policies and procedures. Key procedures include:

- Codes of conduct;
- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy (including the Fraud Response Plan);
- Corporate Health and Safety Policy;
- Corporate Complaints Policy;
- Corporate Procurement Strategy;
- Code of Practice for Partnerships;
- Treasury Management Strategy;
- Budget management scheme.

The Counter Fraud Strategy which supports the delivery of the aims of the Council's Anti Fraud and Corruption Policy sets out in detail the approach which has been adopted by the Council in tackling fraud across the broad spectrum of the Council and Council funded services. This is currently under review; an updated version will be brought back to the Committee during 2019/2020.

The key elements of the Strategy include:

In order to effectively tackle fraud, it is important that a holistic approach is adopted, focused on preventing fraud occurring in the first place, seeking it out and correcting it where it does exist, and delivering swift and effective punishments to those who attack the Council, whilst deterring others from considering the same course of action.

Under the Integrated Risk and Assurance Framework established within the Council, managers are clearly responsible for establishing appropriate controls and for ensuring they are working in practice. The Framework also aims to co-ordinate all assurance activity, including that in relation to fraud and to ensure arrangements are working effectively across the Council. This includes the co-ordination of fraud prevention, detection and investigation arrangements.

The Audit, Risk and Assurance service has the expertise in relation to the design of control systems that aim to manage the risk of fraud. The Risk and Assurance team provides advice and guidance in relation to governance and control matters, including fraud, at the earliest stage to ensure appropriate controls are designed into arrangements as they are being established.

The Internal Audit Team maintains the fraud risk assessment for the Council and undertakes compliance work aimed at detecting fraud and providing assurance on the effectiveness of the controls in place. Internal Audit will also review the effectiveness of management in establishing fraud prevention controls and monitoring compliance with them. This team also undertakes investigations of suspected fraud and corruption.

The service aims to embed a collaborative approach to tackling fraud with an agreed approach to be adopted across the whole Council and its activities and includes counter fraud work undertaken in any service of the Council, schools, partnerships within which the Council is involved, third parties providing services to or on behalf of the Council and other organisations receiving or holding Council funds.

The Audit and Governance Committee met four times to consider the business of 2018/2019 with a Risk and Assurance Map Update report being submitted to three of the meetings as part of the Integrated Assurance Framework. The Update reports set out the work done to identify fraud and the results of this work and the updated position regarding each risk area identified in the Risk and Assurance Map.

Private meetings are held between the ADBPS, the External Auditor and members of the Audit and Governance Committee to discuss the detail of any significant investigations into suspected cases of fraud and corruption where appropriate.

Council owned companies have their own governance arrangements which include appropriate policies and procedures designed to protect the interests of the company in line with those of the Council. Internal audit work undertaken within Council owned companies is designed to ensure compliance against these policies and procedures, including the management of fraud risks. The results of this work are considered by management within each company.

The Risk and Assurance Map Update report which is presented to the Audit and Governance Committee includes assurances in relation to each Council owned company. This includes assurances gathered through the integrated Assurance Framework. Internal Audit carry out counter fraud testing in each company which is included within the assurance view from Internal Audit.

During 2018/2019, I was not made aware of any significant breaches of control.

- ***communicating to you the process for identifying and responding to fraud and error.***

The Internal Audit Plan includes proactive work aimed at detecting fraud based on the fraud risk assessment which is updated annually. The details of work undertaken, and the results are included in the Risk and Assurance Map Update report which is presented to the Audit and Governance Committee on a quarterly basis. The Annual Governance Review also provides details of the counter fraud activity undertaken and any significant fraud issues identified. The Anti-Fraud and Corruption Policy sets out the procedures to be followed when potential fraud is identified through the Fraud Response Plan.

This process covers both council and subsidiary companies.

**2) How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2018/2019?**

I am made aware of management processes for identifying and responding to the risk of fraud and possible breaches of internal control through receiving reports as the Chair of the Audit and Governance Committee and discussions with key officers.

I am aware that arrangements are set out in the Council's Fraud Response Plan, part of the Council's Anti-Fraud and Corruption Policy. This sets out how concerns should be reported and who to, what people who suspect fraud should and should not do and what the person who receives the concerns should and should not do. The Fraud Investigation Plan sets out how investigations of concerns should be carried out.

During 2018/2019, I was not made aware any significant breaches of internal control.

**3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2018/2019?**

I am not aware of any non-compliance within the council during 2018/2019. The Committee is aware that reports to Cabinet and Council are reviewed for their legality to ensure Council expenditure, services and actions are within the law. A legal representative attends all Cabinet, Council and "quasi-judicial" meetings and other Committee meetings where appropriate. As such the Council has appropriate legal arrangements in place headed by the Monitoring Officer, which gives this Committee reassurance that legal advice is sought where appropriate.

Solicitors are required to keep up to date with new and emerging legislation which affects local government. To assist in this role, the team subscribe to an electronic legal update

service and various legal publications and regularly attend relevant training courses. As a member of the Lawyers in Local Government Group and actively participating in the regional branch of this group, information is shared with other local authorities both regarding new legislation and case law and the approach and application of existing legal requirements.

In respect of new legislation or developments in case law, briefing notes or reports are prepared as appropriate and policies and procedures developed in conjunction with officers from the relevant Council Directorates.

Regular team meetings are held within Legal Services both at "service area" level and senior management team level, at which any concerns regarding the Council's compliance with legal requirements could be raised and addressed.

In addition I am further reassured by the fact that the Council's Assistant Director of Law and Governance and Monitoring Officer carries out a self assessment of the legal service which covers the Council's corporate legality arrangements that informs the Annual Governance Statement and has confirmed that there were no issues to raise and this provides me with the assurance that the Council has arrangements in place to ensure that it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. Furthermore, the Executive Director of Corporate Services has also confirmed in his Controls and Assurance Statement that there were no issues or concerns to raise in this area and as such has given full assurance regarding the Council's arrangements to ensure legality.

**4) Are there any actual or potential litigation or claims that would affect the financial statements?**

On behalf of the Audit and Governance Committee I declare that it has no knowledge of and is not on notice of any non-compliance with laws and regulations that could impact on the 2018/2019 financial statements

**5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on Sunderland City Council's ability to continue as a going concern, or that of any of its group entity?**

The Council by its very nature is a going concern and the Committee has no reason to believe that any events would impact on this position. The fact the Council shows a net worth of £230m and assets worth over £1,097m, with cash backed reserves of over £154m would support our view. The Council is also well managed and prudent in its approach to all financial matters which is reflected in the strong Balance Sheet position.

The process outlined above in respect of the council, is followed closely by both Together for Children and Sunderland Care and Support. The limited value and scope of transactions incurred by Sunderland Homes Ltd has negated the need for a formal process during 2018/2019, and Siglion LLP was operated as a Joint Venture for the majority of the financial year.

Yours sincerely,

Geoff Cook

Chairman of the Audit and Governance Committee





## Appendix 1

No.	Questions for those charged with governance	Those charged with governance response
1	<p>Are you aware of any instances of actual, suspected or alleged fraud, either within the Council as a whole, or within group entities during the period 1 April 2018 – 31 March 2019?</p>	<p>There was one instance of a member of staff working as an elections canvasser falsely signing a declaration of those eligible to vote for a number of households within Sunderland. The controls in place within the Elections Service identified this issue and no loss was incurred.</p>
2	<p>Do you suspect fraud may be occurring within Sunderland City Council or within group entities?</p> <ul style="list-style-type: none"> <li>➤ Have you identified any specific fraud risks within Sunderland City Council or group entities?</li> <li>➤ Do you have any concerns that there are areas within Sunderland City Council or group entities that are at risk of fraud?</li> <li>➤ Are there particular locations within Sunderland City Council or group entities where fraud is more likely to occur?</li> </ul>	<p>A fraud risk assessment is in place and is regularly updated which covers all appropriate parts of the Council. This covers areas of fraud risks, sets out the individual risks, a score for the risks and tests that are carried out to identify potential fraud taking place. A programme of proactive counter fraud work is undertaken every year by Internal Audit which includes group entities and did not identify any areas of concern.</p> <p>The Council also takes part in the Audit Commission's NFI programme which also covers group entities and has not identified any areas of concern.</p>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> <li>➤ If not where are the risk areas?</li> <li>➤ What other controls are in place to help prevent, deter or detect fraud?</li> </ul>	<p>Internal controls regarding segregation of duties are in place and the results of Internal Audit work have not highlighted any material concerns. An adequate opinion on the system of internal control has been reported to the Audit and Governance Committee for the year. The Council has an Anti Fraud and Corruption policy and supporting documents in place which is available to all staff on the Council intranet and is included in the induction process. Other controls in place include a robust budget management framework which includes detailed support for Financial Management, verification checks in key systems such as payroll, BACS payments, Accounts Payable which are aimed at identifying fraud or errors. The majority of payments are through the Supplier Relationship Management system which ensures authorisation of payments by an approved authorised officer. There continues to be work undertaken across the Council and group entities to raise awareness of Information</p>

		Governance issues and encourage staff to keep information secure.
4	<p>How do you encourage staff to report their concerns about fraud?</p> <p>➤ What concerns about fraud are staff expected to report?</p>	<p>This is undertaken by officers of the Council. A Whistle Blowing policy is in place and is on the Council's intranet which gives details of how staff can raise concerns. Group entities also have their own arrangements. Publicity campaigns have also taken place where posters have been placed around Council buildings encouraging staff to act on any concerns they may have. Staff are encouraged to raise concerns about any areas where controls are not being complied with, where there is significant non-compliance with policies and procedures or where there are concerns regarding corruption or potential financial loss.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within Sunderland City Council and its group entities?</p> <p>➤ How are the risks relating to these posts identified, assessed and managed?</p>	<p>The Internal Audit Fraud Risk Assessments identifies potential fraud risks in specific areas which would cover any specific risks in relation to individual posts. Counter fraud checks would be designed to test these risks to identify any potential fraudulent activity.</p>
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>The Council and its group entities has robust procedures in place to ensure all related party transactions are identified and then where appropriate are fully disclosed in the relevant Statement of Accounts. The Council has an established Code of Practice for Partnerships and maintains and updates its Partnership Register regularly. Internal processes carried out as part of the closing of accounts timetable also has specific tasks and detailed analysis of all member and chief officer interests and related party transactions which are reviewed and collated to form notes in the statement of accounts. All member interests are also documented and held by democratic services for scrutiny and help to inform the process. The procedures for the identification and assessment of group accounts process also helps to inform this area in addition to the other processes and policies in place. Reviews by senior management also help inform the control process.</p>

7	<p>Are you aware of any entries made in the accounting records of Sunderland City Council or group entities that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> <li>➤ Are there particular balances where fraud is more likely to occur?</li> <li>➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of Sunderland City Council or group entities?</li> <li>➤ Could a false accounting entry escape detection? If so, how?</li> <li>➤ Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud?</li> </ul>	<p>No</p> <p>Internal controls and internal check mitigate the risk as does appropriately qualified and experienced staff involved in compiling the accounts for both the council and group entities. Where external support is brought in to assist with production of group entity accounts these are suitably qualified and experienced.</p> <p>All areas are subject to a risk review and reports from internal and external audit help identify and report their findings in areas where risk is high. The SAP system makes false accounting unlikely because of the way it is designed and is fed by the bank reconciliation and feeder systems and that have separate controls and reconciliation processes in place to maintain the integrity of the financial system. Monthly bank reconciliations are carried out and reviewed by senior management along with balance sheet and suspense account reviews. Strong and robust budgetary control and financial practices are in place across the Council.</p> <p>Areas that are identified as high risk are reviewed more regularly by internal audit as part of their risk based approach to auditing.</p> <p>Legal and financial review is carried out across the whole Council spectrum of activity.</p>
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> <li>➤ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?</li> </ul>	<p>No – The Medium Term Financial Plan, the budget planning process and the annual budget along with agreed cash limits approach is reviewed and monitored during the year to review achievement and adherence to agreed budget levels agreed by members and executive directors within the Council. Actual performance and any actions necessary are reviewed by management and reported to members who receive formal Cabinet quarterly reports during the year. As a consequence, there are no inappropriate pressures or incentives being applied in either the council or its group entities.</p>
9	<p>What arrangements has the Council put in place in response to the Bribery Act 2010?</p>	<p>Arrangements were in place before the introduction of the Bribery Act and continue to be applied, e.g. existence and promotion of the anti - fraud and</p>

		<p>corruption policy, whistle blowing policy, codes of conduct, financial procedure rules, procurement procedure rules, disciplinary procedures; the existence of effective audit service. In response to the introduction of the Bribery Act 2010 these arrangements were reviewed in light of the Act to ensure they continued to be 'adequate procedures'. The Council's senior management team reaffirmed its commitment its zero tolerance to bribery. An assessment was made of the risk to the Council regarding bribery. Procurement arrangements, i.e. procurement procedure rules, were reviewed to ensure appropriate due diligence is carried out in respect of suppliers seeking to contract with the Council and contract terms and conditions address the subject of bribery.</p>
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