

# Annual Audit Letter

## Sunderland City Council

Year ending 31 March 2020





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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Sunderland City Council (the Council) for the year ended 31 March 2020. Although our letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide information on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 20 November 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Council and Group's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.</p>
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020, except for the areas assessed as inadequate by Ofsted in their report on Children's Services in July 2018.</p>
Reporting to the group auditor	<p>We have not yet been able to complete our work in line with the group audit instructions, in respect of the Council's WGA return; this is due to issues with the new system. However we do not anticipate any significant issues, subject to the agreed amendments.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Sunderland City Council

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the relevant financial reporting framework and whether they give a true and fair view of the Council's financial position and of its financial performance.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report stated that, in our view, the financial statements give a true and fair view of the Council and Group's financial position as at 31 March 2020 and of its financial performance for the year then ended. We emphasised material uncertainties in our auditor's report, as set out below:

#### Key Audit Matter - material uncertainty relating to Property, plant and equipment and investment property valuations (Group and Council)

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

#### Key Audit Matter - material uncertainty relating to the defined benefit liability valuation (Group and Council)

We drew attention to Note 4 of the financial statements, which described the effects of the Covid-19 pandemic on the valuation of the Authority's share of Tyne and Wear Pension Fund's direct property and pooled residential property investments valuations as at 31 March 2020. As disclosed in Note 4 of the financial statements, the outbreak of Covid-19 has had a significant impact on the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such the Pension Fund's property investment manager included a material valuation uncertainty clause in some of their 31 March 2020 valuation reports, due to the possible impact of Covid-19. Therefore, there was less certainty and a higher degree of caution should be attached to valuations of unquoted property assets than would normally be the case. Our opinion was not modified in respect of this matter.



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Sunderland City Council

Opinion on the financial statements

**Unqualified**

### The scope of our audit and the results of our work (continued)

#### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) because of the nature of certain items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

		<b>Council</b>	<b>Group</b>
Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure at the surplus/deficit on provision of services	£13.538m	£13.898m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality	£0.406m	£0.417m



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Sunderland City Council

### Our response to key audit matters and significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council and Group's financial statements that required special audit consideration. We reported key audit matters, significant risks and key areas of management judgement identified at the planning stage to the Audit and Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report.

The following tables summarise the identified matters and risks, the work we carried out and our conclusions for the following:

- **key audit matters:** defined benefit liability valuation and property, plant and equipment and investment property valuations;
- **significant risks:** management override of controls, risk of fraud in revenue recognition (fees, charges and other service income), valuation of long and short-term debtors; and
- **key management judgement:** valuation of unquoted equity investments.

Identified key audit matter	Our response	Our findings and conclusions
<b>Defined benefit liability valuation</b> The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement. The risk has increased as a result of the economic downturn arising from COVID-19.	<b>How we addressed the key audit matter:</b> <ul style="list-style-type: none"> <li>• we critically evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements;</li> <li>• we challenged the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office;</li> <li>• we assessed the competency, objectivity and independence of the Actuary;</li> <li>• we liaised with the auditors of the Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively, in particular given the triennial valuation;</li> <li>• we compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and</li> <li>• we agreed data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements.</li> </ul>	As set out earlier in this letter, we drew attention to the material uncertainty disclosed by the Council in relation to pension fund property investment valuations, as disclosed in the financial statements. Our opinion was not modified in respect of this matter. We did not identify any material misstatement of the Group and Council's pensions liability.



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Sunderland City Council

### Our response to key audit matters

Identified key audit matter risk	Our response	Our findings and conclusions
<p><b>Property, Plant and Equipment and Investment Property valuations</b></p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of Property, Plant and Equipment (PPE) and Investment Properties (including the Council's PFI shared waste facility).</p> <p>The Council employs a valuation expert to provide information on valuations, however, there remains a high degree of estimation uncertainty associated with the (re)valuations of PPE and Investment Properties due to the significant judgements and number of variables involved.</p> <p>The risk has increased as a result of the economic downturn arising from COVID-19. We note also the Valuation Practice Alert issued by the valuation body The Royal Institute of Chartered Surveyors (RICS) recently. This highlighted the use by Valuers, where appropriate, of material uncertainty declarations in their valuation reports.</p>	<p><b>How we addressed this key audit matter:</b></p> <ul style="list-style-type: none"> <li>• we assessed the Council's arrangements for ensuring that property, plant and equipment and investment property valuations are reasonable;</li> <li>• we critically assessed the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuer(s), including the PFI shared waste facility;</li> <li>• we considered the competence, skills and experience of the Valuer(s) and the instructions issued to the Valuer(s);</li> <li>• we substantively tested capital expenditure additions and disposals during the year;</li> <li>• we substantively tested the Council's property, plant and equipment and investment properties to gain assurance that they exist and are owned by the Council;</li> <li>• we substantively tested revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated;</li> <li>• we carried out procedures to gain assurance over the consolidation adjustments for group accounts which impact on property, plant and equipment and associated financial statement areas;</li> <li>• we critically considered any material uncertainties expressed by the Valuer(s) used by the Council and considered any implications on our audit work; and</li> <li>• where necessary, we performed further audit procedures on individual assets to ensure the basis of valuations is appropriate.</li> </ul>	<p><b>PFI shared waste facility</b></p> <p>Additional work was required in order for us to gain sufficient and appropriate evidence.</p> <p><b>Sample testing</b></p> <p>Our sample testing identified various errors. Based upon an extrapolation these were not material.</p> <p><b>Significant matters discussed with management</b></p> <p>We discussed with management arrangements in place for valuations and responding to audit queries. There were issues with the timeliness of information provided, which the Council is seeking to address for future years.</p> <p><b>Overall</b></p> <p>As set out earlier in this letter, in our auditor's report, we drew attention to the material uncertainty disclosed by the Council's Valuers.</p> <p>We did not identify any material misstatement of the Group and Council's Property, Plant &amp; Equipment and Investment Properties.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Sunderland City Council

### Our response to significant risks

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls</b> Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>	<p>There were no significant issues arising from our work that we were required to report to you.</p>
<p><b>Revenue recognition – fees, charges and other service income</b> Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and grant income.</p> <p>However, we do not feel that sufficient scope exists to rebut this risk in respect of the recognition of fees, charges and other income. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• substantively tested fees, charges and other income to ensure they had been correctly classified and recognised;</li> <li>• tested journals; and</li> <li>• obtained direct confirmation of year-end bank balances and tested the reconciliations to the ledger.</li> </ul>	<p>There were no significant issues arising from our work that we were required to report to you.</p>
<p><b>Valuation of short and long-term debtors</b></p> <p>There is an increased risk that the valuation of debtors, both short and long-term, will be impacted by the economic downturn.</p> <p>The Council's long-term debtors includes loans to other bodies and Newcastle Airport.</p> <p>The Council also has provided for the potential impairment of short-term debtors which may be impacted by the economic downturn.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• critically reviewed the basis of valuation of short and long-term debtors, including the Council's assessment of expected credit losses (the latter including the Airport loans);</li> <li>• critically reviewed the adequacy of the impairment of debtors allowance;</li> <li>• challenged the assumptions made by the Council, in particular in light of the economic downturn.</li> </ul>	<p>There were no significant issues arising from our work that we were required to report to you.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Sunderland City Council

### Our response to key management judgements

Identified management judgement	Our response	Our findings and conclusions
<b>Unquoted equity investment valuations</b> The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, including those in Newcastle Airport.	We: <ul style="list-style-type: none"><li>critically reviewed the basis of valuation for the Council's unquoted equity investments; and</li><li>assessed whether disclosures were in line with the Code of Audit Practice.</li></ul>	There were no significant issues arising from our work that we were required to report to you.



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Sunderland City Council

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

<b>Description of deficiency</b>	<b>Arrangements in place for asset valuations – level 2 (medium priority)</b>  The Valuer's formal year-end report is a key document, summarising the Valuer's approach and key assumptions. This report was not available until part way through the audit; as it is a key document, it should be available to management before the accounts are authorised for issue. In addition, the Council should consider the capacity within the property section to respond to audit queries promptly, given significant delays experienced this summer. We recognise the pressures during this period, however, there were significant delays in obtaining individual asset valuation reports, which should be readily available in an electronic format.  Other issues were identified from our testing, including: <ul style="list-style-type: none"><li>• one piece of land, a car park, for which the Council did not have Land Registry deeds for all parts of the land. Whilst we are satisfied this asset belongs to the Council, formal evidence via Land Registry deeds should be in place;</li><li>• three assets where there was insufficient evidence of floor plans used in the valuation calculations; and</li><li>• two assets where the incorrect asset life had been input to the asset register when comparing the information provided by the valuer. There was no impact on the 2019/20 accounts as the incorrect figures would only affect future years' depreciation calculations.</li></ul>
<b>Potential effects</b>	Management do not have sight of the formal year-end Valuer's report before authorising for issue the draft financial statements.  Insufficient evidence to support valuations, resulting in errors.  Delays to the audit opinion.
<b>Recommendation</b>	Consider the capacity within the Property section in order to ensure that valuations are available on a timely basis, in particular the formal year-end Valuer's report.  Consider also the errors arising and strengthen controls in these areas e.g. review of assets to ensure evidence of floor plans is available and also that all relevant assets have been registered with the Land Registry.
<b>Management response</b>	Management accept the issues set out which have arisen due to additional pressures resulting from significant capacity issues within property services, COVID-19 and additional requirements of the external auditors. Action has already been taken to put in place additional capacity to resolve these issues for future years.



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Sunderland City Council

### Prior year internal control recommendations

<b>Description of deficiency</b>	<b>Housing benefits system walkthrough - level 2 (medium priority)</b>  Our walkthrough of a new claim within the housing benefits system identified two errors, namely: <ul style="list-style-type: none"><li>evidence of Child Tax Credit income was not retained on the system as required; and</li><li>the assessment of income incorrectly included a figure for the claimant's capital, resulting in an underpayment of benefit.</li></ul> We were able to obtain evidence for the Child Tax Credit income at the time of our walkthrough, however, this should have been retained on file. We note the assessment of income for benefits is prone to error due to its complexity.
<b>Potential effects</b>	Non-compliance with subsidy requirements. Incorrect calculation of benefits.
<b>Recommendation</b>	The Authority should consider strengthening quality assurance and training in relation to the assessment of income.
<b>Position for 2019/20</b>	No similar issues were identified based on our 2019/20 audit work.

<b>Description of deficiency</b>	<b>Journal controls - level 2 (medium priority)</b>  Journals are a key control to prevent and detect fraud and / or error. Within the Council's general ledger, the same person can input and authorise a journal.  There are various controls in place around journals, including a review of year-end journals over £1m by senior officers. This control should be extended to cover the full-year including any year-end journals post-March. It is also important that evidence is retained of this check i.e. a clear audit trail.
<b>Potential effects</b>	Risk of fraud and / or error.
<b>Recommendation</b>	The review of material journals should cover the full year, including the closedown period.
<b>Position for 2019/20</b>	This was actioned during the prior year.



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Sunderland City Council

### Prior year internal control recommendations

<b>Description of deficiency</b>	<b>Reporting actual versus planned savings at the year-end - level 2 (medium priority)</b>  The Council has robust monitoring arrangements for the delivery of savings required during the year. At the year-end, the Council reports its outturn position overall, which takes into account the achievement of savings. However, it is not clear which savings were achieved and which were compensated for by other budget underspends.
<b>Potential effects</b>	Lack of clarity on savings, impacting on decision-making.
<b>Recommendation</b>	The Council should expand existing monitoring reports on planned and actual savings to report on year-end outcomes.
<b>Position for 2019/20</b>	The Council refreshed its budget monitoring and reporting approach in 2019/20, with the aims of improved transparency and oversight.

<b>Description of deficiency</b>	<b>Evidence of Treasury Management reconciliation review - level 3 (housekeeping)</b>  A monthly reconciliation of the Treasury Management system to the general ledger is carried out. This is checked and authorised by a second person, however, no evidence is retained of this review. Treasury Management is a key system, with highly material figures, therefore such evidence should be retained (this does not have to be via a hardcopy working paper, but could be electronic).
<b>Potential effects</b>	Risk of fraud and / or error.
<b>Recommendation</b>	Retain evidence of the approval of the monthly Treasury Management system reconciliation to the general ledger.
<b>Position for 2019/20</b>	This was actioned in the prior year.



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Sunderland City Council

### Prior year internal control recommendations

<b>Description of deficiency</b>	<b>Completeness of bank account confirmations - level 3 (housekeeping)</b>  Testing identified that the direct confirmation provided to us by the Council's bank had omitted one bank account in respect of a school. In this particular case, the letter we received listed all accounts (including schools) where there was a right of set-off in one section of the letter, but had then omitted one of the schools' actual bank balance in the earlier section of the letter in error. Whilst we were able to gain the assurance required, the completeness and accuracy of bank confirmations is an important source of assurance.
<b>Potential effects</b>	Lack of assurance over bank accounts - a key area.
<b>Recommendation</b>	The Council should liaise with its relationship manager at the bank to discuss the controls in place for ensuring bank confirmations provided are accurate and complete.
<b>Position for 2019/20</b>	<p>This was actioned. There were some issues arising during the 2019/20 audit, namely:</p> <ul style="list-style-type: none"><li>• Schools bank confirmations: the bank confirmation provided this year did not list school bank accounts, therefore these were requested separately; upon receipt, the assurance sought was obtained, with no issues arising as per the prior year.</li><li>• Closed bank accounts: a different issue arose this year, whereby the bank confirmation included an account balance of nil for an account which the Council records showed as 'closed'. The Council has addressed this discrepancy.</li><li>• Bank mandates out of date: in addition, issue arising from obtaining direct confirmations for investments (a linked issue) highlighted that the operational mandate held by the bank (Lloyds) was out of date, therefore, assurance could not be provided to us until this was updated.</li></ul>



### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Qualified (Except For)

#### Our audit approach

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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

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

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

Our auditor's report, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020, except for those areas assessed as inadequate in Ofsted's re-inspection report of July 2018 on children's safeguarding services.

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making	<p><i>City Plan</i></p> <p>Alongside changes in senior management over the last year, the Council has refreshed its strategic approach, as encapsulated in its new City Plan. The City Plan 'Sunderland 2019-2030' will replace the existing Corporate Plan which covers up to and including 2019/20 and will be the Council's overarching strategic plan for the period 2019/2020 to 2029/2030 as well as for the city's Strategic Partnership arrangements.</p> <p>The detail behind the new City Plan is currently being developed; it is important that appropriate measures and targets are in place to help the Council measure progress and inform its decision-making.</p> <p><i>Medium-term financial strategy</i></p> <p>The Council has a robust medium-term financial strategy in place, supported by regular financial reporting in the year. We comment further on the financial resilience of the Council overleaf.</p> <p><i>Risk assurance and mapping</i></p> <p>The Council's system of internal control is subject to Internal Audit using an in-house function, and for 2018/19, the Council's internal auditors have given an opinion that there continues to be an adequate system of internal control.</p> <p>The Council continues to develop its risk assurance and mapping, which provides a useful oversight of the activities of the Council, as well as encompassing its interests in other entities.</p> <p>An Audit and Governance Committee is in place to oversee the governance framework, including risk management and internal audit, and approval of the Council's financial statements.</p>	Yes



### 3. VALUE FOR MONEY CONCLUSION

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

### 3. VALUE FOR MONEY CONCLUSION

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



### 3. VALUE FOR MONEY CONCLUSION

#### Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified two significant Value for Money (VFM) risks:

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

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

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



### 3. VALUE FOR MONEY CONCLUSION

#### Significant audit risks (continued)

Risk	Work undertaken	Conclusion
<b>Ofsted inspection: Children's Services</b>  There is a risk Council does not make the required improvements to Children's Services, or does not make the improvements rapidly enough.	<p>We considered the progress made by the Council in relation to Children's Services. This requires an expert judgement, therefore, we have relied on the updated assessment of Ofsted made in July 2018. This concluded that whilst some improvement had been made, their overall assessment remained that Children's Services was 'inadequate'.</p> <p>We note the most recent Ofsted monitoring visit which reported in early 2020; this highlighted some areas of improved performance, but does not constitute a re-inspection.</p> <p>As a result of the pandemic, the decision to pause all national Ofsted activity has impacted on the Council's planned future Ofsted visits. We understand graded inspections will recommence from April 2021, which means there will have been a whole year without graded inspections.</p>	<p>Children's Services have been rated as 'inadequate' by Ofsted.</p> <p>This resulted in a qualification of our VFM conclusion, on an 'except for' basis (i.e. that adequate arrangements are in place, except for those aspects assessed as inadequate by Ofsted).</p>



## 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	See below
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power 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 statutory reporting powers.

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. We did not receive any such objections or questions.

### Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We have not yet been able to complete our work in line with the group audit instructions, in respect of the Council's WGA return; this is due to issues with the new system. However we do not anticipate any significant issues, subject to the agreed amendments.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



## 5. OUR FEES

### Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Governance Committee in August 2020.

For the 2019/20 financial year, our fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£104,546	See note*
Housing Benefit subsidy claim: agreed upon procedures	£10,000	See note**
Other non-Code work		
• Skills Funding Agency annual return	£3,726	£3,726
• Teachers' Pension annual return	£4,000	£4,000

\* At the time of preparing this report, we are proposing additional fees to meet additional work required for:

- additional regulatory requirements in respect of land and building and investment property valuations, including additional considerations for material uncertainty disclosures made by the Valuer as a result of the pandemic;
- additional regulatory requirements in respect of the defined benefit liability valuation, including additional considerations for material uncertainty disclosures in respect of the Council's share of the Pension Fund assets as a result of the pandemic;
- specific additional work in 2019/20 for the Council's valuation of its shared waste facility; and
- additional work as a result of the Council's status as a 'public interest entity'.

We are not able to confirm the final amount, as any fee variations are subject to challenge and scrutiny by Public Sector Audit Appointments at the time of issuing this report.

\*\* At the time of preparing this report, this work, which has a revised deadline of 31 January 2021, is on-going.



## 6. FORWARD LOOK

### Financial outlook

The COVID-19 pandemic and the consequences of local and regional lockdowns and restrictions will have a significant impact on the UK economy for years to come. The pandemic has created significant uncertainties and pressures in the Council's medium term financial planning arrangements. Clarity over the impact will only be obtained when the virus has been brought under control and the impact on the economy becomes clearer. The Council is monitoring and updating plans but is anticipating future pressures in the income it receives. In particular, Collection Fund income is likely to be affected by any negative impact to the local and national economy. Public spending is also likely to be tightly controlled as the Government begins to manage the levels of borrowing incurred.

There is also uncertainty stemming from the UK's new trading arrangements with the European Union. While this may not directly impact on the Council's supply chains, the impact on the overall economy may create indirect pressures.

It is critical that the Council continues to monitor and refresh its medium term financial strategy, so that potential funding shortfalls can be identified as early as possible and mitigations identified to minimise the impact on services.

### Strategic and operational challenges

The Covid-19 pandemic has had a significant impact on the services provided by the Council. Services have either been suspended or redesigned in order for them to be delivered in a safe manner for officers and users. It is likely that these measures will continue until the roll out of a vaccine and coronavirus is brought under control.

The Council has set out that its key priority continues to be the health and wellbeing of Sunderland residents, staff and businesses. Following the pandemic, the Council is refocusing its plans to focus on recovery, in particular the local economy and continued support to its communities, with the core ambitions of the City Plan remaining central to its plans in the recovery phase.

As a result of COVID-19, Cabinet approved a Health Inequalities Strategy in order to have an evidence-based approach that engages the wider Council and partners, strengthening the recovery response to reduce the impact of Covid-19 on identified at risk groups and reducing the impact on existing health inequalities.

### How we will work with the Council

In terms of the technical challenges around the production of the statement of accounts, we will continue to offer accounting workshops to finance officers, and the audit team will continue to share our knowledge of new accounting developments. We will also be on hand to discuss any issues as and when they arise.

Given the impact of COVID-19 on the 2019/20 reporting timetable, there is some uncertainty in respect of the 2020/21 completion dates. We will continue to work with the finance team to ensure timely completion of our audit work.

We will also share relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.



## 6. FORWARD LOOK

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are, however, significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

### The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however, unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

### Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is release. In particular we will communicate any increases in work which will impact on the audit fees charged.



## 6. FORWARD LOOK

### Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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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.

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