

# Annual Audit Letter

Sunderland City Council

Year ending 31 March 2018





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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 2018. Although this 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 details 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 report issued on 31 July 2018 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 the Group's financial position as at 31 March 2018 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 2017/18.</li></ul>
Other information published alongside the audited financial statements	<p>Our 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 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 2018, 'except for' the areas that were assessed as inadequate in Ofsted's re-inspection report on children's safeguarding services in July 2018.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, we anticipate reporting by the deadline of 31 August 2018 to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts (WGA) return.</p>
Statutory reporting	<p>Our 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

Opinion on the financial statements	Unqualified
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## 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 financial reporting framework applicable to the Council and the Group and whether they give a true and fair view of the Council and the Group's financial position as at 31 March 2018 and of its financial performance for the year then ended.

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 and the Group'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 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 at numerous stages throughout the audit process, 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. As a result we have 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) due to the nature of these 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 overall materiality levels applied in the audit of the Council and the Group's financial statements for the year ended 31 March 2018.

Financial statement materiality	Our financial statement materiality is based on 2% of gross operating expenditure.	£11.9 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£357k
Group financial statement materiality	Our financial statement materiality is based on 2% of Group gross operating expenditure.	£12.6 million
Group trivial threshold	Our trivial threshold is based on 3% of Group financial statement materiality.	£378k

# 2. AUDIT OF THE FINANCIAL STATEMENTS

## Our response to key audit matters, significant risks and key areas of management judgement

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 table below outlines the identified key audit matters, significant risks and judgements, the work we carried out on those risks and our conclusions.

Identified significant risk / key audit matters	Our response	Our findings and conclusions
<p><b>Management override of controls</b></p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement and a significant risk on all audits.</p> <p><i>This risk also applied to the audit of the Group.</i></p>	<p>We addressed this risk by performing audit work in respect of:</p> <ul style="list-style-type: none"><li>• accounting estimates impacting on amounts included in the financial statements;</li><li>• significant transactions outside the normal course of business; and</li><li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>	<p>Our work provided the assurance we sought and did not highlight any material issues to bring to your attention. We found no indication of management override of controls.</p>
<p><b>Revenue recognition – fees and charges</b></p> <p>In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted, and we have done this in relation to the Council's most significant sources of income, taxation and grant income.</p> <p>Our view is that there is insufficient scope within the recognition of fees and charges to conclude that there are grounds for rebuttal in that particular income stream. 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><i>This risk also applying to the audit of the Group (all income, not just fees and charges).</i></p>	<p>We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period.</p> <p>In addition, we undertook a range of substantive procedures including:</p> <ul style="list-style-type: none"><li>• testing receipts in March, April and May 2018 to ensure they had been recognised in the right year;</li><li>• testing material year end receivables;</li><li>• testing adjustment journals;</li><li>• obtaining direct confirmation of year-end bank balances; and</li><li>• testing the reconciliations to the ledger.</li></ul>	<p>Our work provided the assurance we sought and did not highlight any material issues to bring to your attention. We did not find any evidence of revenue being recognised in the wrong year.</p>
<p><b>Defined benefit liability valuation (a key audit matter)</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p><i>This risk also applied to the audit of the Group.</i></p>	<p>We obtained explanations to support any significant changes to the pension estimates. In addition to carrying out analytical procedures on the pension disclosures and obtaining a letter of assurance from the auditor of Tyne and Wear Pension Fund, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by National Audit Office..</p>	<p>Our work provided the assurance we sought and did not highlight any material issues to bring to your attention. We found no indication of material estimation error in respect of pensions.</p>





## 2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk / key audit matters	Our response	Our findings and conclusions
<p><b>Property, plant and equipment (PPE) valuations (a key audit matter)</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 PPE. Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with PPE valuations because of the significant judgements and number of variables involved. We have therefore identified the valuation of PPE to be an area of risk.</p> <p><i>This risk also applied to the audit of the Group, although most of the other Group components do not hold assets.</i></p>	<p>We considered the Council's arrangements for ensuring that PPE values are reasonable and engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We also assessed the competence, skills and experience of the valuer. Where necessary we also performed further audit procedures on individual assets to ensure that the basis and level of revaluation is appropriate.</p>	<p>We identified a number of errors in the valuer's detailed calculations and we assessed the impact of these on our audit opinion.</p> <p>The errors from our sample were £610k. We extrapolated these errors and this gave us a projected misstatement of £3.5m, well below materiality of £11.9m. Based on this assessment, we were satisfied that property, plant and equipment was materially fairly stated and no further amendments were required to the financial statements in this respect.</p>
Identified key area of management judgement	Our response	Our findings and conclusions
<p><b>Group accounts consolidation</b></p> <p>The Group accounts include a number of additional components in 2017/18.</p> <p>Together for Children Sunderland Limited has been identified as a significant component. Two further new entities are also to be consolidated for the first time; Homes for Sunderland Limited and IAMP LLP (International Advanced Manufacturing Park), the latter being a joint venture with South Tyneside Council.</p> <p>There is a risk of error in consolidating these entities.</p>	<p>We reviewed the judgement made that IAMP LLP should be accounted for as a joint venture.</p> <p>We reviewed the consolidation process to ensure that Together for Children Sunderland Limited, Homes for Sunderland Limited and IAMP LLP were properly consolidated in the group accounts. This included consideration of the arrangements for accounts preparation for each entity, quality review by the Council and consolidation into the group financial statements.</p>	<p>Our work provided the assurance we sought and did not highlight any material issues to bring to your attention.</p>
<p><b>Business rates appeals</b></p> <p>The Council is dependent on the Valuation Office Agency (VOA) for information regarding appeals against business rates bills. Council staff are required to use their judgement in order to create a reasonable basis for the provision, given the level of appeals and other relevant information.</p>	<p>We reviewed the basis for the judgements used in creating the provision and assessed the reasonableness of the estimates made.</p>	<p>Our work provided the assurance we sought and did not highlight any material issues to bring to your attention.</p> <p>One non-material misstatement was adjusted for by management as a reclassification between short term provisions and long term provisions.</p>

# 2. AUDIT OF THE FINANCIAL STATEMENTS

## 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.

Two deficiencies in internal control were identified during the audit.

IT assets
<b>Description of deficiency</b>  We tested an item of £13k within property, plant and equipment relating to IT hardware. We sought to verify the existence of this asset based on the serial number recorded on the invoice. We were unable to trace the asset using either the serial number or the invoice details. This was because once the asset is received by the Council it is tagged and assigned an Asset number, which is not based on serial numbers or invoice numbers.
<b>Potential effects</b>  Without a trail between asset records and invoices, an important element of asset verification is lost.
<b>Recommendation</b>  The Council should consider recording serial numbers and invoice numbers in the register of IT assets.
<b>Management response</b>  Management has agreed to review this issue.

IT general controls testing
<b>Description of deficiency</b>  We reviewed a sample of starters and leavers to ensure that access controls to key financial systems were properly controlled. Two of the new starters checked in the SAP system were given additional access to that requested on their approval forms. Officers were unable to provide additional documentation to support the additional access rights.
<b>Potential effects</b>  If access rights are not properly controlled, the integrity of key financial data could be compromised.
<b>Recommendation</b>  The Council should ensure that all access rights to key systems are properly approved and relevant documentation retained to support this.
<b>Management response</b>  Management has agreed to review this issue.

# 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	'Except for' qualification in relation to children's safeguarding services
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## 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 (supplemented by our follow-up letter), issued to the Council on 31 July 2018, 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 31 March 2018, 'except for' the areas highlighted as inadequate by Ofsted in relation to children's safeguarding services.

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making	<p>The Council has a clear and comprehensive Corporate Plan that sets out its priorities, including regenerating the city, safeguarding its residents and developing new models of working for the Council. The Council has made decisions in the context of public sector austerity and significant reductions in available resources.</p> <p>A key priority is to improve children's safeguarding services following an Ofsted inspection in July 2015, and work on this has been ongoing and a new children's company, Together for Children Sunderland Limited, went live from 1 April 2017.</p> <p>There is evidence of financial reporting being used to deliver strategic objectives, for example, through the Medium Term Financial Strategy and in allocating resources to priority areas. In addition, regular financial reporting takes place, with formal reporting quarterly to the Cabinet.</p> <p>The Council's system of internal control is subject to Internal Audit using an in-house function, and for 2017/18, the Council's internal auditors have given an opinion that there continues to be an adequate system of internal control.</p>	Yes – except for the areas highlighted as 'inadequate' in the Ofsted's inspection of children's services (see significant risk on page 10)
Sustainable resource deployment	<p>The Council has made 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>The final revenue outturn for 2017/18 was an under spend of £0.788m. This was after making an additional contribution of £8.036m to Together for Children Sunderland Limited to address financial pressures, in particular, demand pressures around the costs of looked after children and continued reliance on agency costs. It was also after providing additional support for Sunderland Care and Support Limited of £2.693m to support workforce transformation costs.</p>	Yes – except for the areas highlighted as 'inadequate' in the Ofsted's inspection of children's services (see significant risk on page 10)





### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment (continued)	<p>In the 2018/19 budget round the Council identified a funding gap of £53m over the three year period 2018/19 to 2020/21. The Council has plans to meet the funding gap, whilst further work is undertaken to identify savings. The Council noted that these additional savings are needed on top of the £290m savings that have already been delivered between 2010/11 and 2017/18.</p> <p>The Council has significant levels of usable reserves, and these increased marginally to £159.1m at 31 March 2018. Although these are mainly earmarked for specific purposes, they do provide flexibility to manage the medium term financial position. The focus is now on the delivery of the identification and delivery of further savings to address the funding gap.</p> <p>The Council has maintained a substantial capital programme of investment projects. The final outturn for 2017/18 was a capital spend of £94.1m, and the capital programme for 2018/19 amounts to £186m.</p> <p>A major part of the Council's asset management strategy involved transferring its commercial property portfolio to its joint venture local asset-backed vehicle, Siglion LLP, with the aim of accelerating regeneration schemes, including initially the Vaux site, Chapelgarth and Seaburn. The Council was impacted in 2017/18 by the collapse of Carillion Construction, which was delivering a project on the Vaux site. A new contractor has been identified to complete this scheme.</p> <p>The Council's workforce planning arrangements have been focused in recent years on implementing a new pay and grading structure, and on managing the downsizing of the workforce, particularly as the Council has implemented alternative models of service delivery, such as the establishment of the children's company.</p>	Yes – except for the areas highlighted as 'inadequate' in the Ofsted's inspection of children's services (see significant risk on page 10)
Working with partners and other third parties	<p>One of the most important partnerships in terms of immediate budgetary pressures is with health bodies, for example, working with the Sunderland Clinical Commissioning Group to reduce emergency admissions to hospital and provide as much support as possible in a social care setting through the Better Care Fund.</p> <p>The Corporate Plan identifies four key partnerships for the Council, which are managed through boards:</p> <ul style="list-style-type: none"> <li>• economic leadership board;</li> <li>• education leadership board;</li> <li>• health and wellbeing board; and</li> <li>• cultural and safer Sunderland partnership board.</li> </ul> <p>Commissioning and procurement are closely aligned. The Council has a corporate procurement function, with a range of commissioning activity in directorates. The Council's commissioning role has grown as it has extended its use of alternative models of service delivery.</p>	Yes - except for the areas highlighted as 'inadequate' in the Ofsted's inspection of children's services (see significant risk on page 10)

# 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 the value for money 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 audit risks, namely:

- responding to financial pressures; and
- Ofsted’s assessment of children’s safeguarding services.

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

### Significant risk: responding to financial pressures

**Risk:** 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.

### Work undertaken

We reviewed budget monitoring and reporting, focusing on areas where action plans are in place to make savings and improvements, and seek to minimise any adverse impact on service delivery. We reviewed the plans that are developed to deliver savings and improvements.

### Conclusion

The Council has delivered significant savings in recent years, aiming to do this whilst minimising the impact on service delivery. The level of savings is, however, challenging and there have been effects on the range and level of services that can be delivered by the Council.

In 2017/18, significant additional savings were delivered by the Council and overall there was a small underspend against budget. This was a considerable achievement as the Council was able to meet significant financial pressures in children’s services in particular from savings elsewhere in the budget.

In the 2018/19 budget round the Council identified a funding gap of £53m over the three year period 2018/19 to 2020/21. The Council has plans to meet the funding gap, whilst further work is undertaken to identify savings. The Council noted that these additional savings are needed on top of the £290m savings that have already been delivered between 2010/11 and 2017/18.

The Council has significant levels of usable reserves, and these increased marginally to £159.1m at 31 March 2018. Although these are mainly earmarked for specific purposes, they do provide flexibility to manage the medium term financial position.

Overall, we obtained the assurance we sought to mitigate the identified risk.



# 3. VALUE FOR MONEY CONCLUSION

## Ofsted’s assessment of children’s safeguarding services

In seeking to satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we are required to consider reports issued by other regulators.

In July 2015, Ofsted reported the results of an inspection of services for children in need of help and protection, children looked after, care leavers and adoption performance. Ofsted concluded that these services and their leadership, management and governance were inadequate. Ofsted also concluded that the arrangements in place to evaluate the effectiveness of what is done by the Council and its partners to safeguard and promote the welfare of children, through the Sunderland Safeguarding Children Board, were inadequate.

Our response to the conclusions reached by Ofsted, was to incorporate an ‘except for’ qualification into our 2014/15, 2015/16 and 2016/17 VfM conclusions. In effect, based on the required scope of our work, our conclusion was that the Council, in all significant respects, put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March ‘except for’ the areas that were highlighted as inadequate in the Ofsted report.

We have noted that since the Ofsted report in July 2015, the Council has continued to tackle the issues raised in the Ofsted inspection:

- it has worked with a Government-appointed Commissioner for Children’s Services who has advised on improvements and kept ministers informed about progress;
- an action plan has been implemented and progress monitored; improvements have been made although it is acknowledged that there is still work to do; and
- the Council has established an alternative service delivery model for children’s services and a children’s company (Together for Children Sunderland Limited) became fully operational on 1 April 2017.

The Ofsted assessment remained a significant risk that was relevant to our value for money conclusion, and the risk, our consideration of it and our conclusions are summarised below.

## Significant risk: Ofsted’s assessment of children’s safeguarding services

**Risk:** the Council does not make the required improvements to children’s services, or does not make the improvements rapidly enough.

## Work undertaken

We considered the progress made by the Council in relation to children’s services at the point we gave our 2017/18 VfM conclusion. This requires an expert judgement, and we relied on the updated assessment of Ofsted in determining whether another ‘except for’ qualification was needed for the 2017/18 VFM conclusion or whether sufficient improvement has been made to avoid a further qualification.

Ofsted published a re-inspection report updating their July 2015 assessment on 25 July 2018. Although some aspects of children’s services have improved, the categories of ‘children who need help and protection’ and ‘leadership, management and governance’ remain inadequate. Our qualification remains in relation to those services that continue to be assessed as inadequate. This qualification will remain until these services are no longer assessed as inadequate by Ofsted.

## Conclusion

Recognising the progress in relation to children’s services set out in Ofsted’s July 2018 report, there remains scope for improvement, therefore we have issued an ‘except for’ conclusion in this area.



# 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of NAO group audit reporting requirements	Consistent
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 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 a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Council which must be responded to publically.

We have not exercised any of these statutory reporting powers.

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We anticipate completion of our work by the deadline of 31 August 2018.

## 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 March 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£135,774	£135,774
Certification of Housing Benefit Subsidy claim*	£9,309	£9,309
<b>Other non-Code work*</b>		
Teachers' Pensions	£3,850	£3,850
Skills Funding Agency Review of Subcontracting Arrangements	£3,550	£3,550

\* subject to completion of work.

## Services provided to other entities within the Council's Group

In the interests of transparency, Mazars LLP is also the auditor of Sunderland Care and Support Ltd, one of the Council's trading companies. In addition, the firm provides accounts preparation and corporation tax services to the company. The total fees relating to audit, accounts preparation and tax work are £24,880 plus VAT for the 2017/18 financial year.

# 6. FORWARD LOOK

## Financial outlook

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.

The final revenue outturn for 2017/18 was an under spend of £0.788m. In the 2018/19 budget round the Council identified a funding gap of £53m over the three year period 2018/19 to 2020/21. The Council has plans to meet the funding gap, whilst further work is undertaken to identify savings. The Council noted that these additional savings are needed on top of the £290m savings that have already been delivered between 2010/11 and 2017/18.

Looking forward to 2020/21, the Council is facing major uncertainties in relation to business rates retention and the fair funding review.

## Operational and strategic challenges

As set out above, the key areas of focus for the Council will be continued strong budget management given the continued financial pressures, as well as continued improvement of services for children and young people.

In addition, the Council has summarised the main areas for on-going improvement in the coming year in its Annual Governance Statement for 2017/18 as including:

- continued good governance, with an emphasis on training and development given the changes in political and officer leadership posts;
- continuing to develop measures in place to demonstrate compliance with General Data Protection Requirements;
- implementing agreed improvement actions in respect of corporate asset management following an internal audit review;
- implementing agreed improvement actions following the independent review of land and property disposal and acquisition; and
- development and implementation of an action plan to review key contracts and relationships.

Against a backdrop of continued reductions in funding and future uncertainty, the Council will require organisational capacity, continued good governance and strong risk and project management arrangements. With a financial outlook that is increasingly challenging, the Council will need to ensure operational and financial plans deliver statutory duties and consider the needs and expectations of citizens and service users within available resources.

## How we will work with the Council

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key focus in the coming year will be the adoption of IFRS 9 Financial Instruments, a new standard for 2018/19, which changes the approach to financial assets and accounting for impairment.

Looking further ahead, IFRS 16 Leases is a new standard to be adopted from 2019/20, which establishes a new model for lessees and removes existing classifications of operating and finance leases. It is anticipated that the impact on the accounts of this could be material.

We will continue to offer accounting workshops to finance officers and the audit team will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.



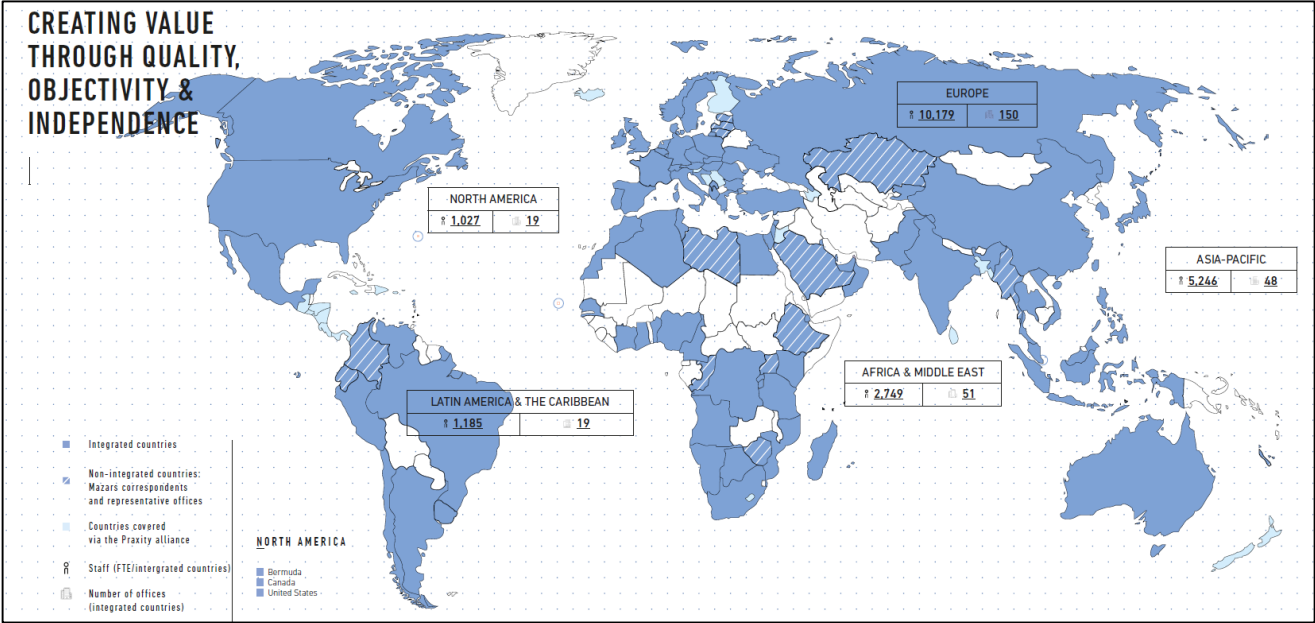


# MAZARS AT A GLANCE

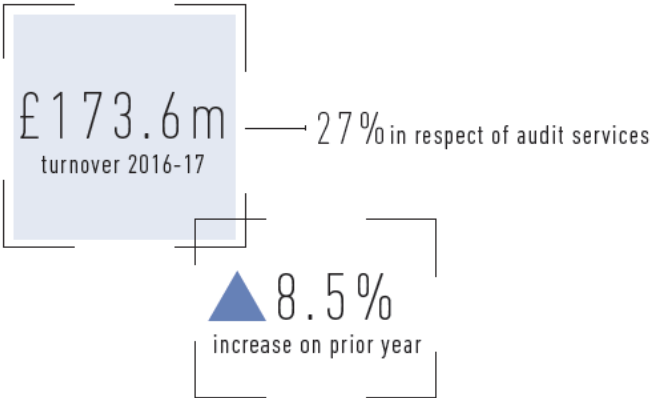
## Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

## Mazars Internationally



## Mazars in the UK



As at 31 August 2017

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