

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held on Friday 29 April 2022 at 1.30pm in Committee Room 1, City Hall, Plater Way, Sunderland, SR1 3AA

ITEM	PAGE
1. Receipt of Declarations of Interest (if any)	
2. Apologies	
3. Minutes of the Meeting of the Committee held on Friday 4 February 2022 (Copy attached.)	1
4. Annual Governance Review/Annual Governance Statement 2021/2022 Report of the Executive Director of Corporate Services (copy attached).	9
5. Risk and Assurance Map – Update 2022/2023 Report of the Assistant Director of Business and Property Services (copy attached).	35
6. Forward Plan of Reports 2022/2023 Report of the Executive Director of Corporate Services (copy attached).	51
7. Member Training and Development Report of the Executive Director of Corporate Services (copy attached).	55

8.	Auditor's Annual Report 2020/2021	57
	Report of the Executive Director of Corporate Services (copy attached).	
9.	Audit Progress Report	-
	Verbal update.	
10.	Audit Strategy Memorandum	81
	Report of the External Auditor (copy attached).	

ELAINE WAUGH
Assistant Director of Law and Governance

City Hall
Sunderland

20 April 2022

AUDIT AND GOVERNANCE COMMITTEE

Friday 4 February 2022

Present:

Mr G N Cook in the Chair

Councillors Nicholson, Price, Stewart and P Wood together with Mr M Knowles

In Attendance:

Jon Ritchie (Executive Director of Corporate Services), Tracy Davis (Senior Manager - Assurance) Paul Dixon (Chief Accountant), Diane Harold (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillor N MacKnight.

Minutes

14. RESOLVED that the minutes of the meeting of the Committee held on 24 September 2021 be confirmed as a correct record.

Risk and Assurance Map - Update 2021/22

The Assistant Director of Business and Property Services submitted a report which asked the Committee to consider:

- the updated Risk and Assurance Map and supporting Strategic and Corporate Risk Profiles based on assurances gathered from a range of sources;
- work undertaken by the audit, risk and assurance service during the year to date; and
- the performance of Internal Audit.

The proposed Risk and Assurance Map and planned work for the year had been agreed by the Committee in April 2021 and the Map had been updated to reflected changes in both the Strategic and Corporate Risk Profiles. The key changes to the Strategic Risk Areas were as follows: -

- The risk score in relation to R02 *'The city, its residents and businesses do not emerge from the Covid-19 pandemic in a strong and competitive position'* had reduced from 16 (Red) to 12 (Red) to reflect economic growth activity which was ongoing and planned within the city.
- The risk description in relation to R07 had changed to include the expected timescales regarding carbon neutrality and was now *'Resources and critical infrastructure are not in place to enable the Council to become carbon neutral by 2030 and Sunderland to be carbon neutral by 2040.'* The current risk score had been increased from 9 (Red) to 16 (Red) to reflect the importance and difficulty of meeting this global challenge.
- The risk description in relation to R015 had changed to *'The City cannot meet the challenge to develop an active and green transport system in response to Covid and other pressures.'* to reflect the challenge of lowering the City's carbon footprint.

There had been no changes to the Corporate Risk Profile since the last report and it was reported that the overall risk and assurance positions for the Council owned company Sunderland Care and Support had moved from an Amber to a Green rating as a result of a recent inspection from the Care Quality Commission.

There were some additional comments on the Strategic Risk Profile shown in red at Appendix 2 and the performance in relation to targets set for Internal Audit was shown at Appendix 5 with all Key Performance Indicators being on target.

Councillor Stewart referred to the increase in the risk score for R07 and, as this was very important to the Council, he said that he would welcome more detail on how it was intended to bring the score down.

The Executive Director of Corporate Services commented that this was linked to the work currently being undertaken by the Assistant Director of Economic Regeneration and that an update report could be provided by her.

Mr Knowles said that he was very pleased to read the overall assessment that all assurance levels were green or amber and congratulated colleagues for achieving this.

Consideration having been given to the report, it was:-

15. RESOLVED that the report be noted.

Risk and Assurance Map – Consultation for 2022/2023

The Assistant Director of Business and Property Services submitted a report setting out the development of the plans of work for the Internal Audit and Risk and Assurance teams for the forthcoming year. Members were given the opportunity to raise issues which they felt should be considered in the plans.

The allocation of resources would continue to be flexible given the level of changes occurring across the Council and the response to the pandemic, but there had been a number of priority areas identified as follows: -

- On-going audit work in relation to Council owned companies, such as Sunderland Care and Support, Together for Children and Siglion.
- Activity to deliver the City Plan, including the management of risks and projects to deliver key priorities
- Economic development including City Centre developments, the International Advanced Manufacturing Park and the proposed River Wear Footbridge
- Council's Smart Cities programme
- Council's approach to Cyber Security
- Arrangements for reviewing care packages
- Business continuity for assistive technology (adult social care) devices
- Information Governance/General Data Protection Regulations compliance
- Compliance with the Asset Management Policy and Strategy
- National Fraud Initiative and counter fraud work
- Key corporate systems and functions

The Senior Manager – Assurance advised that consultation with senior officers on the priority areas was ongoing and that Members could get in touch with feedback before the end of March 2022.

Having considered the proposed priority work areas, it was: -

16. RESOLVED that the proposed plans of work for the Internal Audit and Risk and Assurance teams for 2022/2023 be noted.

Review of the Remit and Effectiveness of the Audit and Governance Committee

The Chair of the Committee and the Executive Director of Corporate Services submitted a report presenting the outcome of a review of the remit and effectiveness of the Audit and Governance Committee.

The review was undertaken every three years and had taken the format of an update of the previous self-assessment based on CIPFA guidance, a review of the Terms of Reference for the Committee and consideration of the Annual Reports on the work of the Committee.

The self-assessment had found that the Committee was fully compliant and there were no suggested improvements. The only action was to remind Council of the Terms of Reference of the Committee as part of the Annual Report on the work of the Committee for 2021/2022.

The Chair commented that the reminder of the Terms of Reference was very useful and that the members of the Committee should not underestimate the work they did or the powers which they had.

Following consideration of the report it was: -

17. RESOLVED that the self-assessment at Appendix 1 be agreed.

Treasury Management Third Quarterly Review 2021/2022

The Executive Director of Corporate Services submitted a report presenting the Treasury Management performance to date for the third quarter of 2021/2022 and setting out the Lending List Criteria and the Approved Lending List.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. The Public Works Loan Board (PWLB) rates had reduced towards the end of November 2021 and the Council had taken out £100m of borrowing to support the financing requirements of the Capital Programme. The rates were opportune and would benefit the revenue budget over the longer term and would also mean that the average rate of borrowing would reduce.

The Council's interest rate on borrowing was low, currently 2.54%, and the authority had benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 0.16% compared with a benchmark of -0.07%.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within the limits set for all of these. Further detail on the indicators was set out in Appendix A to the report. The investment policy was also regularly monitored and reviewed to ensure that it had the flexibility to take full advantage of any changes in market conditions which would benefit the Council. The economic climate was likely to be unclear and uncertain for some time.

The Council's authorised lending list continued to be updated regularly to take into account financial institution mergers and changes in institutions' credit ratings. The updated Approved Lending List was attached as Appendix C to the report for information. There had been no changes to the Lending List Criteria which were set out at Appendix B.

The Chief Accountant highlighted that the report referenced the recent increase in the Base Rate to 0.25%, however as of yesterday this had been further raised to 0.5%. it was expected that there would be more rises with a possibility of the rate reaching 1.5% by mid-2023.

The Consumer Price Index (CPI) inflation rate was now 5.4%. up from 4.20% in October and it was predicted this would peak at approximately 7% in April. The Government target remained at 2%. Members were also directed to table showing the summary of investments; the cash balance was £294m and £79m was invested on a short term basis.

Councillor Wood queried if the likely further increase in interest rates would impact on Council finances. The Executive Director of Corporate Services explained that the vast majority of borrowing was at a fixed rate but the exposure would be felt when the authority came to borrow further. There was no immediate requirement due to the cash balance but all future borrowing, capital and cash flow requirements would be monitored.

The Chair commented that all authorities were facing this tricky situation and may be looking to pre-contract at fixed prices as far as possible.

Consideration having been given to the report, it was:-

18. RESOLVED that: -

- (i) the Treasury Management performance during Quarter 3 of 2021/2022 (Appendix A) be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

Treasury Management Policy and Strategy 2022/2023, including Prudential Indicators for 2022/2023 to 2025/2026

The Executive Director of Corporate Services submitted a report informing the Committee of the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2022/2023. The Committee were asked to note the Prudential 'Treasury Management' Indicators for 2022/2023 to 2025/2026 and to provide comments to Council on the proposed policy and indicators where appropriate.

The Committee were made aware of the statutory requirement for the Council to set Prudential Indicators, including specific Treasury Management Indicators, for a minimum period of three years to ensure that the Council's capital investment plans were affordable, prudent, and sustainable. The Prudential Indicators were set out in Appendix 1 of the report and these reflected the commitments in the Authority's current plans and ensured compliance so that proposed spending remained affordable.

The Council was also required to adopt a Treasury Management Policy Statement and to set out its Treasury Management Strategy comprising the Council's strategy for borrowing and the Council's policies for managing its investments and giving priority to the security and liquidity of those investments. The Ministry of Housing, Communities and Local Government (MHCLG) 'Statutory Guidance on Local

Government Investments' had been updated in February 2018 and CIPFA had updated its Treasury Management in the Public Services Code of Practice in December 2021. The Council was required to have regard to this advice when setting its Treasury Management Policy Statement and Treasury Management Strategy.

The Treasury Management Policy Statement was shown at Appendix 2 and the Treasury Management Strategy at Appendix 3 to the report. Members of the Committee were directed to the Council's potential borrowing requirement set out within the Treasury Management Strategy and it was highlighted that borrowing would be phased depending on capital spend and the reserves position.

Annex A of the report set out interest rate forecasts based on a range of intelligence sources. The Lending List Criteria and Approved Lending List were shown at Annex B and C of the report.

The Executive Director of Corporate Services reported that the Council had an ambitious capital programme linked to the City Plan and the Cabinet would shortly consider the plan and the minimum revenue provision for repayments. Planning would be undertaken for capital financing costs on a prudent basis. He noted that some authorities had borrowed for yield, not for social purposes, but the key driver had always been investment in Sunderland, led by the needs of the city and in line with changing Government policy.

Having noted the prudent approach and positive performance of the Treasury Management function, the Committee: -

19. RESOLVED that: -

- (i) the proposed Annual Treasury Management Policy and Strategy for 2022/2023 (including specifically the Annual Borrowing and Investment Strategies) and the Prudential 'Treasury Management' Indicators to 2022/2023 to 2025/2026 be noted; and
- (ii) the Council be advised that the Committee were satisfied that the arrangements for Treasury Management were in an excellent position for the next and future years.

External Auditor's Progress Report

Mazars, the Council's external auditors, had submitted a report which outlined the progress in delivering its responsibilities as the external auditors and included, at Section 2, a summary of recent reports and publications.

Diane reported that the draft Auditor's Annual Report 2020/2021 was now with the Council. There were no significant recommendations from the Value for Money work and it was a positive report highlighting many of the positive outcomes from the last year including the Ofsted inspection of Children's Services.

The audit work could not formally be finalised until the Whole of Government Accounts work was complete and this could not happen until guidance was received from Government.

The auditors were currently undertaking work on the Housing Benefits subsidy return for 2020/2021 and some testing on a specified error in the 2019/2020 return.

The formal plan for the 2021/2022 audit would be brought to the next committee meeting and the planning process would be completed during this quarter, including the walk through of key systems.

The attention of the committee was drawn to the list of national publications and in particular to the report of the Department of Levelling Up, Housing and Communities on measures to improve local audit delays as only 9% had been signed off by the end of September. Members were also asked to note the positive report from the Financial Reporting Council on the quality inspection of major local audits.

Following consideration of the report, it was:-

20. RESOLVED that progress report be noted.

Decision to Opt-In To The National Scheme for Auditor Appointments Managed by Public Sector Audit Appointments (PSAA)

The Executive Director of Corporate Services submitted a report seeking Members' approval to accept the invitation from Public Sector Audit Appointments (PSAA) to opt-in to the national sector-led arrangement for the appointment of external auditors with effect from 1 April 2023.

The current auditor appointment arrangement covered the period up to, and including, the audit of the 2022/2023 accounts and PSAA was currently undertaking a procurement for the next appointing period covering audits for five financial years from 2023/2024 to 2027/2028.

Options for the Council include arranging to carry out its own procurement process to appoint an external auditor, or to do so in conjunction with other bodies, or join and take advantage of the national collective scheme administered by PSAA. It was recommended that the latter option would produce better outcomes and be less burdensome than a procurement undertaken locally.

Councillor Stewart mentioned that he had read of a situation where an audit company had been taken to court by the Government and asked how much of a say individual authorities would have regarding the appropriateness of auditors.

The Executive Director of Corporate Services stated that representations could be made to the PSAA but he would have to look into whether there was an appeal process. The Chair noted that a number of other authorities would be likely to have concerns if placed in this situation.

Diane commented that there was probably not one firm who had not had an issue with the Financial Reporting Council (FRC) at one time. There was a quality process in PSAA and assurance could be provided from the FRC report which was publicly available.

21. RESOLVED that it be recommended to Council at its meeting on 2 March 2022 that Sunderland become an opted-in authority.

(Signed) G N COOK
Chair

AUDIT AND GOVERNANCE COMMITTEE

29 April 2022

ANNUAL GOVERNANCE REVIEW / STATEMENT 2021/2022

Report of the Executive Director of Corporate Services

1. Purpose of Report

- 1.1 This report provides details of the 2021/22 Annual Governance Review, the updated Local Code of Corporate Governance, Risk and Assurance Map at the end of the year and the Internal Audit opinion on the adequacy of the overall system of internal control. A draft Annual Governance Statement and an improvement plan for the year ahead are included.

2. Description of Decision

- 2.1 The Audit and Governance Committee are asked to
- Consider and agree the updated Local Code of Corporate Governance at Appendix 1,
 - note the report and Risk and Assurance Map at Appendix 2,
 - consider and agree the Improvement Plan included at Appendix 3, and
 - consider and agree the draft Annual Governance Statement at Appendix 4.

3. Background

- 3.1 In April 2021 the Committee approved the proposed Risk and Assurance Map for 2021/22 and the plans of work for Internal Audit and the Risk & Assurance team.
- 3.2 A key feature of the Council's Integrated Assurance Framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources, for the Council and its wholly owned companies, Together for Children Ltd, Sunderland Care and Support Ltd and Siglion LLP. The results of this assurance work are used to review the Council and companies' corporate governance arrangements on an annual basis.
- 3.3 The Local Code of Corporate Governance is reviewed annually to ensure that it is up to date and effective, minor changes are proposed mainly in relation to the Council's City Plan, the updated version is attached at Appendix 1. A copy of the updated code shall be issued to all Members and Senior Management once agreed. The Council is also required to publish an Annual Governance Statement (AGS) with its Statement of Accounts, covering the Council and its companies which must be supported by a comprehensive assurance gathering process.

4. Annual Governance Review 2021/22

4.1 The review was undertaken by gathering assurance throughout the year from several sources via the Integrated Assurance Framework. Following the impact of the Covid19 Pandemic full Internal Audit coverage and assurance arrangements have been in place throughout 2021/22.

4.2 The review has considered assurance provided from:

- Assistant Directors
- Executive Directors
- Specialist functions with an oversight of governance arrangements
- Risk and Assurance
- Internal and External Audit
- Other external agencies

Risk and Assurance Map

4.3 The assurances gathered are shown in the Risk and Assurance Map which is updated and reviewed on a quarterly basis and presented to the Chief Officers and the Audit and Governance Committee throughout the year. The Audit and Governance Committee have monitored the assurances provided, received progress updates and considered the performance of the Internal Audit team. The Risk and Assurance Map as at 31st March 2022 is shown at Appendix 2.

Strategic Risk Areas

4.4 The top section of the Map relates to the risks identified in the Strategic Risk Profile, which reflects the priorities in the City Plan. Progress against each of the planned actions to mitigate the risks has been assessed with the lead officers and assurance levels determined for all areas.

Assurance from Internal Audit

4.5 The Map shows the opinion of Internal Audit from work undertaken within 2021/22 and the preceding three years in relation to the Council and its wholly owned companies.

4.6 The rating from Internal Audit in relation to the strategic and corporate risk areas has remained constant throughout the year.

Assurance from Risk and Assurance

4.7 Much of the work of Risk and Assurance is ongoing over a period of time due to the nature of the role, however, where ongoing assurance can be provided from the work, this is shown on the Map. Assurance work that has been ongoing in 2021/22 includes:

- Assurance in relation to regeneration activity, including major schemes such as Sunderland Strategic Transport Corridor (SSTC) phase 3, the International Advanced Manufacturing Park, the new City Hall and the proposed Pedestrian Crossing over the River Wear.

- Key ICT developments, including the Smart Cities Programme.
- City Centre Developments
- Monitoring and reporting of the risks to the City from the Covid 19 pandemic, the exit from the EU and more recently, the conflict in Ukraine.
- Supporting the risk management arrangements at the Port.
- Supporting the Adults Safeguarding Board.

Assurance from others within the Council

- 4.8 Assurance provided from others within the Council is shown in the Risk and Assurance Map. This predominantly shows substantial assurance against the risk areas.

Assurance from Management

- 4.9 Arrangements have been developed to obtain assurance from service management in a number of areas on an annual basis.

Assurance from External Sources

- 4.10 The Map includes feedback received following the OFSTED inspection and the external auditor. The results of the OFSTED inspection gave an Outstanding rating which has resulted in the overall assurance position for Together For Children Ltd moving to Green

Overall

- 4.11 The overall level of assurance for all risk areas is either Green or Amber.

Internal Audit Performance

- 4.12 As a result of two employees retiring from Internal Audit, another taking up a post elsewhere and unexpected long term sickness the Internal Audit Team has had a shortage of staff resources during the year. Recruitment has been difficult due to a lack of candidates in the market and although two posts were eventually filled one was a promotion of an internal employee and therefore a vacancy remains. To assist Internal Audit with the delivery of the Audit Plan for the year an external internal audit firm has been engaged. With their assistance Internal Audit have been able to achieve their target of completing 91% of the original Audit Plan for the Council which enables an internal audit opinion to be given for the year. A small number of audits have been carried forward into 2022/23 with the agreement of the Chief Officers.
- 4.13 All of the Key Performance Indicator targets set for Internal Audit for the year were achieved.
- 4.14 It is confirmed that the internal auditors undertaking the work continue to remain independent of the areas audited.

Counter Fraud / Error Work

- 4.15 Planned counter fraud / error work was undertaken in the following areas during the year:
- BACS compliance testing
 - Purchasing Cards
 - Income Collection
 - Business Rates Recovery
 - Council Tax Recovery
 - Housing Rent Collection
- 4.16 The work carried out did not highlight any significant issues however some opportunities for improvements to the control environment were identified, which have been reported upon.

Corporate Governance Improvement Plan

- 4.17 The corporate governance improvement plan for 2021/22 included five actions. A review of progress on these actions found that all are complete.
- 4.18 As a result of this review five improvements have been identified to strengthen the arrangements and these are detailed at Appendix 3. Actions are recommended in relation to continuing the support for employees through new ways of working and the move to City Hall, the review of management arrangements and delegated authority when implementing the senior management restructure, reviewing business continuity arrangements for Critical services specifically in relation to a significant loss of ICT, continuing to monitor the impact of global issues and the cost of living rises, and ensuring employees receive regular appraisals.

Compliance with the Public Sector Internal Audit Standards

- 4.19 Internal Audit continues to comply with the Public Sector Internal Audit Standards (PSIAS) through the standards being built into audit working practices. This was confirmed during an independent review of the service by the council's external auditors Mazars in December 2018, which concluded:

'We conclude that the IA is compliant with the requirements of the PSIAS and the CIPFA Application Note.'

- 4.20 A further external review will be undertaken during 2022.

5. Draft Annual Governance Statement

- 5.1 The Annual Governance Statement has been drafted taking into account the findings of the annual governance review and is attached at Appendix 4.

6. Conclusion / Opinion

- 6.1 This report sets out the assurance provided in the Risk and Assurance Map, work undertaken by the Internal Audit team and performance for Internal Audit for 2021/22.
- 6.2 The opinion of the head of internal audit has been reported to the Audit and Governance Committee throughout the year. This opinion continues to be that the Council has an adequate system of internal control.
- 6.3 The Council continues to have robust and effective corporate governance arrangements in place. The views elicited during the review from senior managers across the Council, and all Chief Officers, demonstrate that the principles of good governance continue to be embedded Council-wide.

7. Recommendations

- 7.1 The Audit and Governance Committee are asked to:
- Consider and agree the updated Local Code of Corporate Governance at Appendix 1,
 - note the report and Risk and Assurance Map at Appendix 2,
 - consider and agree the Improvement Plan included at Appendix 3, and
 - consider and agree the draft Annual Governance Statement at Appendix 4.

LOCAL CODE OF CORPORATE GOVERNANCE

Introduction

The Council has a corporate governance framework in place which is aimed at ensuring that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. The corporate governance framework comprises the systems, processes, cultures and values through which the Council directs and controls its functions, and through which it accounts to, engages with and, where appropriate leads communities.

The Council's corporate governance framework is based upon guidance jointly issued by the Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA) and recommended as best practice.

The framework is based upon the following seven core principles:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of the law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable, economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- Managing risk and performance through robust internal control and strong public financial management;
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

Each of these seven core principles have supporting principles with associated requirements and the Code sets out how the Council aims to meet these requirements.

The framework is summarised in a table at Annex 1.

Core Principle A – Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of the law.

All Council Members and staff are required to act in accordance with codes of conduct and high standards are promoted across the Council and with its partners. The Council will:

- ensure members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting its reputation
- ensure members take the lead in establishing specific standard operating principles or values for the Council and its staff and that they are communicated and understood. These will build on the Seven Principles of Public Life (the Nolan Principles)
- lead by example and use the above principle and values as a framework for decision making and other actions
- demonstrate, communicate and embed the above principles and values through appropriate processes which are reviewed on a regular basis to ensure they are operating effectively
- seek to establish, monitor and maintain its ethical standards and performance
- underpin personal behaviour with ethical values and ensure they permeate all aspects of its culture and operation
- develop and maintain robust policies and procedures which place emphasis on agreed ethical values
- ensure that external providers of services on its behalf are required to act with integrity and in compliance with expected ethical standards
- ensure members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations
- create the conditions to ensure that the statutory officers, other key post holders and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements
- strive to optimise the use of full powers available for the benefit of citizens, communities and other stakeholders
- dealing with breaches of legal and regulatory provisions effectively
- ensure corruption and misuse of power are dealt with effectively

Core Principle B – Ensuring openness and comprehensive stakeholder engagement.

The Council has a consultation framework aimed at ensuring the community is given the opportunity to be involved in, and influence, policy-making, service delivery and evaluation in order to continually improve services. Key to our success as a council is the way we engage our local communities through Community Leadership. The Council will:

- ensure an open culture through demonstrating, documenting and communicating our commitment to openness
- make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If

that is not the case, a justification for the reasoning for keeping a decision confidential should be provided

- provide clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear
- use formal and informal consultation and engagement to determine the most appropriate and effective interventions/courses of action
- effectively engage with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that the outcomes are achieved successfully and sustainably
- develop formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively
- ensure that partnerships are based on trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit
- establish a clear policy on the type of issues that we will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes
- ensure that communication methods are effective and that members and officers are clear about their roles with regard to community engagement
- encourage, collect and evaluate the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs
- implement effective feedback mechanisms in order to demonstrate how views have been taken into account
- balance feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity
- take account of the impact of decisions on future generations of tax payers and service users

Core Principle C: Defining outcomes in terms of sustainable, economic, social and environmental benefits.

Along with its partners the Council has developed its City Plan 2020 -2030 which draws together a shared vision, principles for action and priorities for the City. Underpinning the City Plan are a set of explicit planned key actions and performance targets which aim to deliver the priorities in the City Plan and provide evidence of the achievement of desired outcomes. Community leadership runs through all the council's work and shapes how we work with our communities. The Council will:

- have a clear vision, which is in an agreed formal statement of our purpose and intended outcomes containing appropriate performance indicators, which provide the basis for our overall strategy, planning and other decisions
- specify the intended impact on, or changes for, stakeholders including citizens and service users. This could be immediately or over the course of a year or longer

- deliver defined outcomes on a sustainable basis within the resources available
- identify and manage risks to the achievement of outcomes
- manage service users' expectations effectively with regard to determining priorities and making the best use of the resources available
- consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision
- take a longer term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between our intended outcomes and short-term factors such as the political cycle or financial constraints
- determine the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs
- ensure fair access to services

Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes.

The Council has a Corporate Performance Management Framework which helps us to deliver the best outcomes and services in relation to our priorities and statutory responsibilities within available resources, and to create an 'early warning system' where this is not the case. The Council will:

- ensure decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore, ensuring best value is achieved however services are provided
- consider feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts
- establish and implement robust planning and control cycles that cover strategic and operational plans, priorities and targets
- engage with internal and external stakeholders in determining how services and other courses of action should be planned and delivered
- consider and monitor risks facing each partner when working collaboratively, including shared risks
- ensure arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances
- establish appropriate key performance indicators as part of the planning process in order to identify how the performance of services and projects is to be measured
- ensure capacity exists to generate the information required to review service quality regularly
- prepare budgets in accordance with objectives, strategies and the medium term financial plan

- inform medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy
- ensure the medium term financial plan integrates and balances service priorities, affordability and other resource constraints
- ensure the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term
- ensure the medium term financial plan sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage
- ensure the achievement of 'social value' through service planning and commissioning

Core Principle E: Developing the entity's capacity including the capability of its leadership and the individuals within it.

The Council recognises the importance of having highly skilled and motivated Members and staff to deliver its priorities and to sustain public confidence in its services. The Council is committed to the development of Members and staff skills, knowledge and performance through programmes of induction, training and development. The Council will:

- review operations, performance and use of assets on a regular basis to ensure their continuing effectiveness
- improve resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently
- recognise the benefits of partnerships and collaborative working where added value can be achieved
- develop and maintain an effective workforce plan to enhance the strategic allocation of resources
- develop protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained
- publish a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body
- ensure the Leader and Chief Executive have clearly defined and distinctive leadership roles within a structure whereby the Chief Executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority
- develop the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks
- ensure that there are structures in place to encourage public participation

- taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections
- hold staff to account through regular performance reviews which take account of training or development needs
- ensure arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing.

Core Principle F: Managing risk and performance through robust internal control and strong public financial management.

All Council members and key officer roles and functions are set out in the Council's Constitution, there is a protocol on member / employee relations and an agreed set of organisational values underpinning all of the Council's work. The Council will:

- recognise that risk management is an integral part of all activities and must be considered in all aspects of decision making
- implement robust and integrated risk management arrangements and ensure that they are working effectively
- ensure that responsibilities for managing individual risks are clearly allocated
- monitor service delivery effectively including planning, specification, execution and independent post implementation review
- make decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in our financial, social and environmental position and outlook
- ensure an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing our performance and that of any organisation for which we are responsible
- encourage effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making
- provide members and senior management with regular reports on service delivery plans and on progress towards outcome achievement
- ensure there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements)
- align the risk management strategy and policies on internal control with achieving objectives
- evaluate and monitor risk management and internal control on a regular basis
- ensure effective counter fraud and anti-corruption arrangements are in place
- ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by internal audit
- ensure an audit committee provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective

control environment and its recommendations are listened to and acted upon

- ensure effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data
- ensure effective arrangements are in place and operating effectively when sharing data with other bodies
- review and audit regularly the quality and accuracy of data used in decision making and performance monitoring
- ensure financial management supports both long term achievement of outcomes and short-term financial and operational performance
- ensure well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

Core Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The Council conducts all business in an open and transparent manner, and has formal processes for declaring relationships or interests to ensure that decision-making is transparent and objective. There is a robust system of scrutiny and effective arrangements for managing risks. The Council will:

- write and communicate reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensure that they are easy to access and interrogate
- strike a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand
- report at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way
- ensure members and senior management own the results reported
- ensure robust arrangements for assessing the extent to which governance principles have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement)
- ensure that these governance principles are applied to jointly managed or shared service organisations as appropriate
- ensure the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations
- ensure that recommendations for corrective action made by external audit are acted upon
- ensure an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon
- welcome peer challenge, reviews and inspections from regulatory bodies and implement recommendations
- gain assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement

- ensure that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

Annual Governance Review

The Council will conduct, at least annually, a review of the effectiveness of the corporate governance framework including the system of internal control.

The review will be informed by the Council's Integrated Assurance Framework which is designed to gather assurance on an ongoing basis from all relevant sources across the Council.

A report on the findings and recommendations arising from the review will be presented to the Council's Chief Officers, Audit and Governance Committee and Cabinet.

March 2022

Annex 1 – Governance Framework

Values	Engagement	Defining Outcomes	Achieving Outcomes
Capacity and Capability	Managing Risk & Performance		Accountability
The corporate governance framework comprises the systems, processes, cultures and values through which the Council directs and controls its functions, and through which it accounts to, engages with and, where appropriate leads communities.			



Key Documents Produced / Reviewed Annually	Key Documents Produced / Reviewed As Required	Supporting Processes, Monitoring and Regulation
Annual Statement of Accounts City Plan Corporate Risk Profile Strategic Risk Profile Council tax leaflet Medium Term Financial Plan Members Allowances Scheme Service Plans Treasury Management Strategy / Annual Review	Anti Fraud and Corruption Policy Business Continuity Management Arrangements Complaints Procedure Constitution Consultation Framework Corporate Health and Safety Policy Corporate Complaints Policy Procurement Policy and Strategy Delegated Decision Records Directorate Delegation Schemes Employees' Code of Conduct Member / Employee Relations Protocol Member Training and Development Programme Members' Code of Conduct Monitoring Officer Protocol Partnership Agreements Partnerships Code of Practice Sunderland Leadership Programme Vision and Values Whistle Blowing Policy and Arrangements Information Management Policy and Strategy	Area Committees / Frameworks Annual Governance Review and Statement Audit and Governance Committee Budget Management Framework Committee Management Information System Consultation Arrangements Corporate Appraisal Process Employee Declarations of Interest External Audit (Annual Audit Letter) Financial Procedure Rules Inspectorate Reports Integrated Assurance Framework, including Risk and Assurance Map Internal Audit Job profiles Joint Consultative Arrangements Monitoring Officer role Procurement Procedure Rules Register of Member's Interests Scrutiny Arrangements Section 151 Officer Standards Committee Website and Intranet

Risk and Assurance Map – March 2022

Strategic and Corporate Risk Areas			1st Line	2nd Line							3rd Line	
	Current Risk Score	Cumulative Assurance Position	Management Assurance	Other Internal Assurance Activity							Internal Audit	External Assurance
				Law & Governance / DPO	Financial Resources	Programmes & Projects	Performance	ICT	People Mgt	Health & Safety	Business Continuity	Risk & Assurance
Strategic Risk Areas												
Dynamic City												
More and better jobs												X
More and better housing												X
More local people with better qualifications and skills to enable them to participate in and benefit from a stronger economy												X
A stronger City Centre with more businesses, housing and cultural opportunities												X
A lower carbon City with greater digital connectivity for all												X
Healthy City												
Access to equitable opportunities and life chances												X
Reduced health inequalities enabling more people living healthier longer lives												X
More people living independently												X
Cleaner and more attractive City and neighbourhoods												X
A City with great transport and travel links												X
Vibrant City												
More creative and cultural businesses												X
More residents participating in their communities												X
More visitors visiting Sunderland and More residents participating in cultural events programmes and activities												X
More people feel safe in their neighbourhoods and homes												X
More resilient people												X
Enabling												
Finance												X
Partnership Working												X
Corporate Risk Areas												
Strategic Planning							X					
Commissioning			X									
Service Delivery Arrangements			X								X	
Partnership/Integrated Working			X									
Procurement											X	
Relationship/Contract Management											X	
Legality			X	X							X	
Risk Management											X	
Corporate Performance Management							X					
Financial Management			X		X						X	X
Income Collection											X	X
Capital Programme Management					X						X	
Human Resources			X						X	X	X	
Health and Safety			X							X		
ICT Infrastructure								X			X	
Cyber Security								X				
Information Governance/Security			X	X							X	
Business Continuity Management			X							X	X	
Programme and Project Management			X			X					X	
Asset Management										X	X	
Anti-Fraud and Corruption			X								X	
Council Owned Companies												
Sunderland Care and Support Ltd.					X						X	
Together for Children Sunderland Ltd.					X					X	X	
Siglon LLP					X						X	

Key: X=activity planned, White=no coverage, Green=full / substantial assurance, Amber=moderate assurance, Red=limited / no assurance

Annual Governance Review – Improvement Plan for 2022/23

Ref	Action	COG lead	Timescale
1	Ensure that management arrangements and delegated authorities are clear when implementing the new senior management restructure.	All Chief Officers	July 2022
2	Review Business Continuity Arrangements for Critical Services, specifically in the event of a significant loss of IT, in line with the actions agreed in the recent Internal Audit Report.	Executive Director of Corporate Services	October 2022
3	Continue engagement with employees to support them with new ways of working and the move into City Hall.	Executive Director of Corporate Services	March 2023
4	Continue to monitor the potential impact on the Council and its residents of global issues and cost of living rises.	Executive Director of Corporate Services	March 2023
5	Ensure that the staff Appraisal system is effectively implemented across the Council.	Executive Director of Corporate Services	March 2023

2021/22 Annual Governance Statement

1. SCOPE OF RESPONSIBILITY

The Council is responsible for ensuring that its business, and that of its owned companies, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. We also have a duty to continually review and improve the way in which functions are exercised.

We have put in place a local Code of Corporate Governance and a framework intended to make sure we do the right things, in the right way, for the right people. The Code is in line with the 2016 Framework issued by CIPFA and has been updated with minor amendments in relation to the Council's City Plan. This Statement explains how the Council has complied with its Code in 2021/22.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values that direct and control our activities and through which we account to, engage with, and lead the community. The framework enables us to monitor the achievement of strategic objectives and priorities and to consider whether they have led to the achievement of appropriate, cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The governance framework has been in place at the Council for the year ended 31st March 2022 and up to the date of approval of the Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

- 3.1 The City Plan sets out the vision for the City until 2030. The intentions of the vision are set out as part of a Dynamic, Healthy and Vibrant Smart City. The City Plan sets out explicitly the Council's planned key actions and performance targets for the future.
- 3.2 The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the Council's vision remains relevant and meets the needs of local communities. There are annual reviews of the Local Code of Corporate Governance to ensure that it is up to date and effective.

- 3.3 Arrangements are in place to measure the quality of services, to ensure they are delivered in line with our objectives and priorities and for ensuring that they provide value for money. There are performance management arrangements in place including regular reporting to the Chief Officer's Group and Scrutiny. Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions.
- 3.4 The roles and responsibilities of Council members and employees are clearly documented. The Council's Constitution sets out how the Council operates. It incorporates a delegation scheme, indicates responsibilities for functions and sets out how decisions are made. The Council's wholly owned companies have similar arrangements that set out how they will be governed.
- 3.5 The Constitution includes Rules of Procedure and a scheme of delegation which clearly define how decisions are taken and we have various Codes and Protocols that set out standards of behaviour for members and staff. Directorates have established delegation schemes, although these require regular updating to reflect ongoing organisational changes.
- 3.6 During the year a system of scrutiny was in place allowing the scrutiny function to:
- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
 - make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
 - consider any matter affecting the area or its inhabitants;
 - exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees;
 - consider Local Petitions and Councillor Calls for Action for matters within their terms of reference; and
 - consider regular reports on the Council's performance against the City Plan.
- 3.7 A range of financial and human resources policies and procedures are in place. Appropriate project management standards and Business Continuity Plans are in place, which have been subject to ongoing review throughout the Covid 19 pandemic. There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts. There are clearly defined capital expenditure guidelines in place and procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 14 of the Education Act 2002.

- 3.8 The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The importance of compliance with this statement was also confirmed in Financial Management Code issued by CIPFA in 2019. The Executive Director of Corporate Services is designated Chief Finance Officer and fulfils this role through the following:
- Attendance at meetings of the Chief Officer Group, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
 - Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
 - Alignment of medium term business and financial planning processes;
 - Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively; and
 - Ensuring that the finance function is resourced to be fit for purpose.
- 3.9 The Council has an Audit and Governance Committee which, as well as approving the Council's Statement of Accounts, undertakes an assurance and advisory role to:
- consider the effectiveness of the Council's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
 - be satisfied that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
 - receive and consider (but not direct) internal audit's strategy, plan and monitor performance;
 - receive and consider the external audit plan;
 - review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
 - receive and consider the annual report of internal audit;
 - consider the reports of external audit and inspection agencies, including the Annual Audit Letter;
 - ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
 - review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit;
 - review the adequacy of and compliance with, the Council's Treasury Management Policy; and
 - make recommendations to Cabinet or Council as appropriate.

- 3.10 We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Assistant Director of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers to safeguard the legality of all Council activities. All Cabinet Reports are considered for legal issues before submission to members.
- 3.11 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised and subject to periodic review. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they can easily report their concerns. Monitoring records held by the Assistant Director of Law and Governance show that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.
- 3.12 We have arrangements to identify the development needs of members and senior officers in relation to their strategic roles. The Council recognises that managing the performance of all of employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation of the extent to which employees understand and support the values of the Council.
- 3.13 Channels of communication have been established with the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that services meet the needs of local people.
- 3.14 The Council has arrangements in place for the consistent management of partnerships through a guidance and supporting documents for all Council employees to use when involved with partnerships and supporting arrangements have been in place throughout the year.
- 3.15 Contractual arrangements with our subsidiary companies set out challenging targets around use of resources and improved outcomes.

Response to Covid 19

- 3.16 The Council has continued to follow advice from Public Health England and to monitor developments, communicate the latest guidance and take all the precautionary action necessary to protect our residents and staff, and to help safeguard services.

4. REVIEW OF EFFECTIVENESS

- 4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is carried out over the course of the year through the Integrated Assurance Framework. The review is informed by the Risk and Assurance Map which summarises assurances gathered from all available sources in relation to the Council and its wholly owned companies, and in particular:
- Assurances from Assistant Directors who have carried out self-assessments relating to their areas of responsibility;
 - assurances from Chief Officers through completion of controls assurance statements;
 - assurances from senior officers responsible for relevant specialist areas;
 - internal audit planning processes which include consultation with all Chief Officers, and the results of audit activity as summarised in the Annual Governance Review report; and
 - the external auditors (Mazars) opinion for 2020/21 concludes that the statement of accounts:
 - give a true and fair view of the financial position of the Council and the Group as at 31st March 2021 and of the Council's and the Group's expenditure and income for the year then ended; and
 - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
- 4.2 The Assistant Director of Business and Property Services, as the Council's head of internal audit, has directed, co-ordinated and overseen the review and its findings and proposed improvements have been reported to the Chief Officers for their consideration and approval of the Annual Governance Statement.
- 4.3 The findings of the review have been reported to the Chair of the Audit and Governance Committee in April 2022 to ensure that under their Terms of Reference the Committee has satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it before formal approval of the Statement of Accounts.
- 4.4 The outcome of the review of effectiveness provided the necessary assurance and that no significant issues across the Council or its wholly owned companies were identified.
- 4.5 We have been advised of the outcome of the review of the effectiveness of the governance framework, and that the overall arrangements continue to be regarded as fit for purpose in accordance with the governance framework. A small number of improvement actions have been set out in an agreed improvement plan.

- 4.6 We propose over the coming year to take steps to implement the improvement plan to further enhance the Council's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review and we will monitor their implementation and operation as part of the next annual review.

Councillor Graeme Miller
Leader of the Council

Patrick Melia
Chief Executive

Jon Ritchie
Executive Director of Corporate
Services

Dated

AUDIT AND GOVERNANCE COMMITTEE

29 April 2022

RISK AND ASSURANCE MAP 2022/23

Report of the Assistant Director of Business and Property Services

1. Purpose of Report

- 1.1 To enable the Audit and Governance Committee to consider:
- The proposed Risk and Assurance Map and the supporting plans of work for Internal Audit and Risk and Assurance for 2022/23;
 - Internal Audit's key performance measures and targets for 2022/23.
- 1.2 The report covers work undertaken for the Council and Council owned companies.

2. Current Position

- 2.1 In February 2022, the Audit and Governance Committee was asked for its comments in relation to a range of potential areas of work to support the Risk and Assurance Map for the coming year.
- 2.2 This report presents the Risk and Assurance Map for 2022/23 and sets out where assurance will be obtained from, including the plans of work for Internal Audit and Risk and Assurance, and the performance measures for Internal Audit. Quarterly update reports will continue to be provided to Members throughout the rest of the year.

3. Recommendation

- 3.1 The Audit and Governance Committee is invited to note and consider the report.

Risk and Assurance Map 2022/23

1. Introduction

- 1.1 In order for the Council to ensure that it has robust arrangements for delivering its priorities, managing its affairs and completing its Annual Governance Statement with some certainty, it must have in place three key elements: good Governance, Risk Management and Assurance. The Council's Integrated Assurance Framework provides a comprehensive view on the arrangements in place within the Council.
- 1.2 This Framework enables assurances to be sourced from service management, corporate functions with an oversight role, internal audit and external sources (e.g. external audit / inspectorates) in relation to key risk areas

2. Risk and Assurance Map

- 2.1 The proposed Risk and Assurance Map for 2022/23 is shown at Appendix 1. This highlights those areas for which assurance will be provided, where the assurance is expected to be obtained from and the current assurance level based on work undertaken previously.
- 2.2 As previously, the Map is split into three parts, Strategic Risk Areas which align with the Corporate Plan priorities, Corporate Risk Areas which represent the risk areas that need to be managed for the Council to maintain a strong system of internal control, and companies owned by the Council.
- 2.3 Where assurance is expected to be provided from a particular source this is marked with an X. As in previous years the level of assurance provided will be updated based on the results of the work undertaken within the area and the assurance gathered from the various sources.
- 2.4 The Map has been prepared based on the work undertaken and reported previously and the planned activity has been developed in consultation with the Chief Executive, all Executive Directors and key senior officers across the Council. The current assurance position in relation to all key risk areas is either Amber or Green.
- 2.5 The work to be undertaken by Internal Audit and Risk and Assurance in support of the Map is shown at Appendix 2. The appendix shows all of the work that contributes to providing assurance against each risk area (some work provides assurance to more than one risk area).
- 2.6 The work to be undertaken by Risk and Assurance is a high level plan as much of the work cannot be planned in detail. The work generally involves providing support, challenge and assurance to the major projects ongoing, especially those which contribute to the Council achieving its strategic priorities.

3. Key Areas of Activity

3.1 As in previous years the level of change ongoing within the Council continues to be significant and the pressure to deliver the Council's Strategic Priorities and budget savings. The Strategic Risk Profile is driven by the City Plan.

3.2 The work of Risk and Assurance includes obtaining assurance on the progress in relation to the actions identified to manage risks in the Strategic and Corporate Risk Profiles. Key areas of work are as follows:

- Maintaining the Council's Risk Management Policy and Strategy.
- Monitoring external risk factors which may have an impact on the achievement of the Council's objectives, such as EU Exit and the conflict in Ukraine.
- Economic regeneration such as the International Advanced Manufacturing Park, city centre developments and infrastructure work for the proposed Giga factory at Nissan.
- Proposed Pedestrian Footbridge over the River Wear.
- Implementation of the Smarter Cities Programme.

3.3 Internal audit work will include the following:

- Information governance, including compliance with the General Data Protection Guidelines.
- Continuing audit work in relation to the Council's Housing Service.
- Performance Management Arrangements in relation to Public Health.
- Work at the Port including Health and Safety and Delivery of the Business Plan.
- Planning and Development Control.
- Corporate Asset Management Strategy and Compliance.
- Adult Social Care recovery arrangements following Covid 19.
- Programme Management Arrangements for Smarter Cities.
- External Funding Arrangements.
- A range of audits of the Council's financial systems will be undertaken in line with an agreed 5 year rolling plan.
- Each of the Council's companies has their own audit plan, the results of

which feed into the risk and Assurance Map.

- 3.4 Counter Fraud work will continue, including participation in the National Fraud Initiative.

4. Internal Audit

- 4.1 The Key Performance Indicators and targets that Internal Audit aim to achieve are attached at Appendix 3. The targets remain the same as the previous year.
- 4.2. It is confirmed that the internal auditors undertaking the work continue to remain independent of the areas audited.

5. Reporting Protocols

- 5.1 Progress reports will be presented to the Committee during the year. The reports will indicate the level of assurance provided, and significant findings arising from the work undertaken.
- 5.2 An Annual Report (including the year end Risk and Assurance Map) will be prepared for the Chief Officers and Audit and Governance Committee in order to provide assurance or otherwise and enable the Annual Governance Statement to be completed.

Risk and Assurance Map – 2022/23

Strategic and Corporate Risk Areas			1st Line	2nd Line							3rd Line	
	Current Risk Score	Cumulative Assurance Position	Management Assurance	Other Internal Assurance Activity							Internal Audit	External Assurance
				Law & Governance / DPO	Financial Resources	Programmes & Projects	Performance	ICT	People Mgt	Health & Safety	Business Continuity	Risk & Assurance
Strategic Risk Areas												
Dynamic Smart City												
More and better jobs												X
More and better housing												X
More local people with better qualifications and skills to enable them to participate in and benefit from a stronger economy												X
A stronger City Centre with more businesses, housing and cultural opportunities												X
A lower carbon City with greater digital connectivity for all												X
Healthy Smart City												
Access to equitable opportunities and life chances												X
Reduced health inequalities enabling more people living healthier longer lives												X
More people living independently												X
Cleaner and more attractive City and neighbourhoods												X
A City with great transport and travel links												X
Vibrant Smart City												
More creative and cultural businesses												X
More residents participating in their communities												X
More visitors visiting Sunderland and More residents participating in cultural events programmes and activities												X
More people feel safe in their neighbourhoods and homes												X
More resilient people												X
Enabling												
Finance												X
Partnership Working												X
Corporate Risk Areas												
Strategic Planning							X					X
Commissioning				X								X
Service Delivery Arrangements				X								X
Partnership/Integrated Working				X								X
Procurement												X
Relationship/Contract Management												X
Legality				X	X							X
Risk Management												X
Corporate Performance Management							X					X
Financial Management				X	X							X
Income Collection												X
Capital Programme Management					X							X
People Management				X					X	X		X
Health and Safety				X						X		X
ICT Infrastructure								X				X
Cyber Security								X				X
Information Governance/Security				X	X							X
Business Continuity Management				X						X		X
Programme and Project Management				X		X				X		X
Asset Management									X			X
Anti-Fraud and Corruption				X								X
Council Owned Companies												
Sunderland Care and Support Ltd.					X							X
Together for Children Sunderland Ltd.					X					X		X
Siglion LLP					X							X

Key: X=activity planned, White=no coverage, Green=full / substantial assurance, Amber=moderate assurance, Red=limited / no assurance

Detailed Coverage 2022/23 – Internal Audit and Risk & Assurance

Strategic Risk Area	Internal Audit Work	Risk and Assurance Work
More and better jobs		Risk and Assurance Support – International Advanced Manufacturing Park
More and better housing	Housing Regulatory Framework/Housing Revenue Account (15 days)	
More local people with better qualifications and skills to enable them to participate in and benefit from a stronger economy		Risk and Assurance Support – International Advanced Manufacturing Park
A stronger City Centre with more businesses, housing and cultural opportunities		Risk and Assurance Support – Smarter Cities Programme Risk and Assurance Support – Predestrian Bridge Risk and Assurance Support – City Centre Developments Strategic Risk Profile Updates
A lower carbon City with greater digital connectivity for all	Programme Governance Arrangements – Smarter Cities (15 days) Carbon Reduction Plan (12 days)	Strategic Risk Profile Updates
Access to the same opportunities and life chances		Strategic Risk Profile Updates
More people living healthier longer lives Reduced health inequalities enabling more people to live healthier longer lives.	Health Protection Board (12 days) Performance Monitoring – Public Health (12 days) Homelessness (12 days)	Strategic Risk Profile Updates
People enjoying independent lives	Adults Social Care Recovery Arrangements (15 days) Business Continuity Arrangements – Assistive Technologies (10 days)	Strategic Risk Profile Updates
Cleaner and more attractive City and neighbourhoods		Strategic Risk Profile Updates

Strategic Risk Area	Internal Audit Work	Risk and Assurance Work
A City with great transport and travel links		Risk and Assurance Support – SSTC3
More creative and cultural businesses		Strategic Risk Profile Updates
More residents participating in their communities		Strategic Risk Profile Updates
More visitors visiting Sunderland and More residents participating in cultural events		Strategic Risk Profile Updates
More people feel safe in their neighbourhoods and homes		Strategic Risk Profile Updates
More resilient people		Strategic Risk Profile Updates
Finance		Strategic Risk Profile Updates
Partnership Working	Partnership Arrangements (12 days)	Strategic Risk Profile Updates

Corporate Risk Area	Internal Audit Work	Risk and Assurance Work
Strategic Planning	Partnership Arrangements (12 days)	
Commissioning	Performance Monitoring – Public Health (12 days)	
Service Delivery Arrangements	Delivery of Council Restructure (15 days) Planning and Development Control (15 days) Delivery of Port Business Plan (15 days) Highways Work Programme (15 days)	
Partnership/Integrated Working	Partnership Arrangements (12 days)	
Procurement	Revenue Procurement (7 days)	Risk and assurance support to economic regeneration projects such as the development of the International Advanced Manufacturing Park and City Centre Developments

Corporate Risk Area	Internal Audit Work	Risk and Assurance Work
		Financial Assessments of bidders – as part of the procurement process
Relationship/Contract Management		
Legality	Planning and Development Control (15 days) Compliance with the Vehicle Operating Licence (10 days) Delivery of Environmental Services Action Plan (10 days) Compliance with the Vehicle Operating Licence Non Environmental Services (8 days)	Risk and assurance support to economic regeneration projects such as the development of the International Advanced Manufacturing Park and City Centre Developments
Risk Management	External Funding (15 days) Highways Work Programme (15 days)	Update of the Strategic and Corporate Risk Profiles in line with the City Plan Risk management support to senior managers as required throughout the year on service delivery and project management issues
Corporate Performance Management	Performance Monitoring – Public Health (12 days) Performance Management – Housing (10 days)	
Financial Management	External Funding (15 days) BACS transaction testing (4 days) Payroll (20 days) Accounts Payable (5 days) Benefits Overpayments and Recovery (12 days) Grants – see list below (66 days): Local Transport Capital Settlement – Highways Maintenance Local Transport Capital Settlement - Integrated Transport Local Transport Capital Settlement – Incentive Element Nexus (Combined Authority) Pothole Action Fund Sunderland A1290 Safety Improvement Scheme Phase 1 Better Care Fund – DFG Public Sector Decarbonisation Vaux LGF	

Corporate Risk Area	Internal Audit Work	Risk and Assurance Work
	SSTC3 Design and Development Sustainable Mobility Hub Riverside Sunderland Strategic Infrastructure Works Hillthorn Business Park Power Supply Green Homes Grant LA Decarbonisation 17 Maintained School audits	
Income Collection	Land Charges(10 days) Accounts Receivable (5 days) Income Collection (15 days)	
Capital Programme Management		Risk and assurance support to economic regeneration projects such as the development of the International Advanced Manufacturing Park and River Wear Pedestrian Crossing
HR Management	Human Resource Case Management (11 days)	Risk and assurance support for the Employee Wellbeing Project
Health and Safety	Port Health and Safety (12 days)	
ICT Infrastructure		
Cyber Security	Cyber Security (10 days) Information Security (10 days)	
Information Governance/Security	General Data Protection Regulations - compliance (15 days) Information Security (10 days) Archived Records Management (8 days)	
Business Continuity Management	Business Continuity Arrangements Assistive Technologies (10 days) Resilience of Port Management Structure (12 days)	
Programme and Project Management	Programme Management Arrangements – Smarter Cities (15 days)	Risk and Assurance Support for Smarter Cities

Corporate Risk Area	Internal Audit Work	Risk and Assurance Work
		Risk and assurance support to economic regeneration projects such as the development of the International Advanced Manufacturing Park and River Wear Pedestrian Crossing
Asset Management	Corporate Asset Management Strategy and Compliance (14 days)	
Anti-Fraud and Corruption	National Fraud Initiative BACS transaction testing Income Collection Accounts Receivable Accounts Payable Revenue Procurement Payroll	

Note: Given a piece of work can contribute towards more than one risk area, audits may be shown more than once above.

Detailed Coverage 2022/23 – Council Owned Companies work (for information only)

Council Owned Companies	Internal Audit Work	Risk and Assurance Work
Sunderland Care and Support	Data Protection Officer checks (5 days) Compliance with financial procedures in establishments (20 days) Business Continuity Arrangements (10 days) Workforce planning, resilience and wellbeing (12 days) Transport Arrangements (8 days)	
Together for Children	Troubled Families Grant Claim (5 days) Employee Wellbeing (12 days) Business Continuity Planning (10 days) Holiday and Activity Fund Grant (10 days) Interrupted Educational Pathways (15 days) NAAS Grant Claim (5 days) General Data Protection Guidance Compliance (12 days)	
Siglion	General Data Protection Guidance Compliance (5 days) Risk Management Arrangements (8 days) Project Management (12 days)	

Appendix 3

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2022/23		
Efficiency and Effectiveness		
Objectives	KPI's	Targets
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the corporate risk areas	1) All corporate risk areas covered over a 3 year period
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%
	3) Percentage of audits completed by the target date	3) 85%
Quality		
Objectives	KPI's	Targets
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant. 90% for medium risk
Client Satisfaction		
Objectives	KPI's	Targets
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)
	2) Results of other Questionnaires	2) Results classed as 'Good'
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported

AUDIT AND GOVERNANCE COMMITTEE

29th April 2022

PROPOSED FORWARD PLAN OF REPORTS FOR 2022/23

Report of the Executive Director of Corporate Services

1. Purpose of Report

- 1.1 To enable the Committee to consider and comment on the proposed Forward Plan of reports for 2022/23.
- 1.2 There will be four meetings of the Committee during the year (including this one) where various reports will be presented. Those expected are included within this report although there may be other ad hoc reports as required.

2. Recommendations

- 2.1 Members are asked to consider and agree to the attached proposed Forward Plan of reports.

Audit and Governance Committee

Forward Plan of Reports 2022/23

Month	Brief Description	Report of
29 th April 2022	Annual Governance Review/Annual Governance Statement 2021/22	Executive Director of Corporate Services
	Risk and Assurance Map 2022/23	Assistant Director of Business and Property Services
	Forward Plan of Reports 2022/23	Executive Director of Corporate Services
	Member Training and Development	Executive Director of Corporate Services
	Auditors Annual Report 2020/21	Executive Director of Corporate Services
	Audit Progress Report	External Auditor
	Audit Strategy Memorandum 2021/22	External Auditor
22 nd July 2022	Risk and Assurance Map – Update 2022/23	Assistant Director of Business and Property Services
	Annual Review on the Work of the Committee 2021/22	Executive Director of Corporate Services
	Treasury Management Annual Review 2021/22	Executive Director of Corporate Services
	Treasury Management First Quarter Review 2022/23	Executive Director of Corporate Services
	Council's Going Concern Status Report	Executive Director of Corporate Services
	Data Protection Annual Report	Data Protection Officer
	Audit Progress Report	External Auditor
4 th November 2022	Risk and Assurance Map – Update 2022/23	Assistant Director of Business and Property Services

Month	Brief Description	Report of
	Audited Statement of Accounts 2021/22 (including the Audit Completion Report from the External Auditor)	Executive Director of Corporate Services
	Treasury Management Second Quarter Review 2022/23	Executive Director of Corporate Services
3rd th February 2023	Risk and Assurance Map Update 2022/23	Assistant Director of Business and Property Services
	Risk and Assurance Map 2023/24 Consultation	Assistant Director of Business and Property Services
	Public Sector Internal Audit Standards Compliance Review	Assistant Director of Business and Property Services
	Treasury Management Third Quarter Review 2022/23	Executive Director of Corporate Services
	Treasury Management Policy and Strategy 2023/24	Executive Director of Corporate Services
	Audit Progress Report	External Auditor
	Auditor's Annual Report 2021/22	External Auditor

AUDIT AND GOVERNANCE COMMITTEE

29th April 2022

Member Training and Development

Report of the Executive Director of Corporate Services

1. Purpose of Report

- 1.1 The purpose of this report is to provide members of the Committee with the opportunity to identify areas for which they require any further training / refresher / awareness sessions to be arranged.

2. Training / Development Requirements

- 2.1 The proposed forward plan of reports that are to be presented to the Committee throughout 2022/23 is included as an agenda item for this meeting. This may provide members with a reference for any areas for which they would like to receive further training / awareness sessions.
- 2.2 The unaudited statement of accounts will be forwarded to members by 30th June 2022 and the audited statement of accounts will be presented at the committee meeting in November. It is therefore proposed that a briefing session be offered for members regarding the statement of accounts so that they can be made aware of any key issues.
- 2.3 It is also proposed for a training session for members be held in May regarding Treasury Management. The session will be delivered by the Council's Treasury Management Advisors via Microsoft Teams.

3. Recommendations

- 3.1 Members are asked to consider any areas for which they would like to receive training or awareness sessions, and:
- Agree to the offer of a briefing regarding the 2021/22 statement of accounts.
 - Agree to receive a training session regarding Treasury Management.
 - Suggest any further areas for training / awareness sessions required.

AUDIT AND GOVERNANCE COMMITTEE

29th April 2022

AUDITOR'S ANNUAL REPORT 2020/2021

Report of the Executive Director of Corporate Services

1.0 Purpose of Report

- 1.1 This report details the external auditor's (Mazars) Auditor's Annual Report (AAR) covering the year to 31st March 2021. A copy is attached. The AAR will subsequently be referred to Council for information.

2.0 Description of Decision

- 2.1 Members are recommended to:
- Consider the Auditor's Annual Report and note its contents.

3.0 Introduction

- 3.1 The Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office require auditors to prepare an AAR and issue it to each audited body. The purpose of the AAR is to communicate any key issues arising from the auditor's work to the audited body and its external stakeholders, including members of the public.
- 3.2 The AAR summarises the findings of the 2020/2021 audit, which comprises of two key elements:
- The audit opinion on the Council's financial statements; and
 - An assessment of the Council's arrangements to achieve Value for Money.

4.0 Summary Position

- 4.1 The AAR is positive overall, providing a strong endorsement of the financial management and governance arrangements in place across the Council.
- 4.2 The key findings arising from the audit work were:
- The financial statements give a true and fair view of the Council and the Group's financial position as at 31 March 2021 and an unqualified audit opinion was issued;
 - The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting;
 - There were no significant deficiencies in internal control;
 - That the auditors did not use powers under the 2014 Act to issue a report in the public interest or to make written recommendations to the Council;

- The audit assessment on the Council's arrangements to ensure Value for Money concluded with no significant areas of weakness identified; and
- The Council's Whole of Government Accounts (WGA) Assurance Statement has been unable to be completed or audited as guidance is still awaited from central government. Until the WGA work is concluded, the 2020/2021 Audit Certificate is unable to be issued.

5. Alternative Options

- 5.1 Not applicable as the report is for information only.

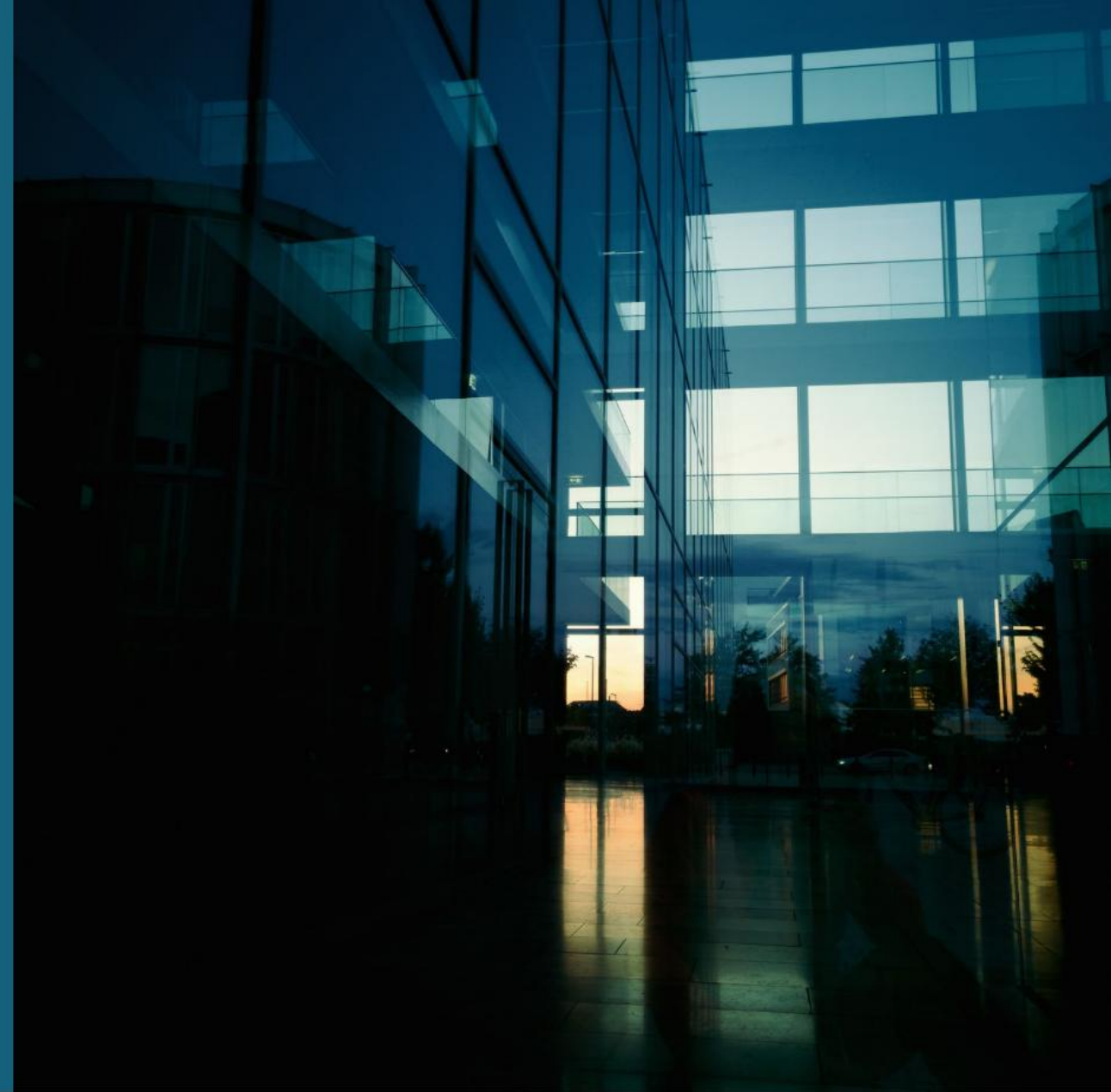
6. List of Appendices

- 6.1 Appendix A - Sunderland City Council Auditor's Annual Report.

Auditor's Annual Report

Sunderland City Council – year ended 31
March 2021

January 2022



Contents

- 01 Introduction
- 02 Audit of the financial statements
- 03 Commentary on VFM arrangements
- 04 Other reporting responsibilities

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales

01

Section 01: **Introduction**

1. Introduction

Purpose of the Auditor’s Annual Report

Our Auditor’s Annual Report (AAR) summarises the work we have undertaken as the auditor for Sunderland City Council (‘the Council’) for the year ended 31 March 2021. Although this report 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 and the Code of Audit Practice (‘the Code’) issued by the National Audit Office (‘the NAO’). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 10 November 2021. Our opinion on the financial statements was unqualified.

Our report included an ‘emphasis of matter’ paragraph drawing attention to the Council’s disclosure in its statements of a material uncertainty in respect of the valuation of land and buildings due to the pandemic.



Value for Money arrangements

In our audit report issued we reported that we had not completed our work on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources and had not identified any significant weaknesses in those arrangements at the time of reporting.

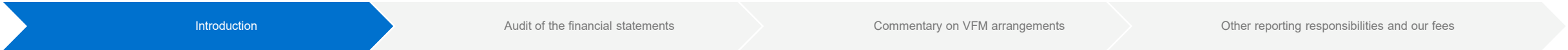
Section 3 confirms that we have now completed this work, with no significant weaknesses identified and provides our commentary on the Council’s arrangements.



Wider reporting responsibilities

At the time of preparing this report the group audit instructions have not been issued by the NAO.

As a result our whole of government accounts work has not been completed. We are unable to issue our audit certificate which will formally close the audit for the 2020/21 financial year until this work is complete.



02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

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 whether they give a true and fair view of the Council and Group's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 10 November 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council ahead of the revised statutory deadline and were of a good quality, supported by comprehensive working papers.

Significant difficulties during the audit

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

Given the on-going impact of COVID-19 the audit was again completed remotely.

Internal control recommendations

We did not report any significant deficiencies in internal control as a result of our 2020/21 audit work. Our Audit Completion Report, taken to the September 2021 Audit and Governance Committee, contained details of one housekeeping recommendation, with our November 2021 follow-up letter setting out two medium-priority recommendation and one further housekeeping recommendation.



03

Section 03:

Commentary on VFM arrangements

3. VFM arrangements – overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

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

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses. We outline the risks that we have identified and the work we have done to address those risks on pages 9 and 12.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

The table below summarises the outcomes of our work against each reporting criterion. On the following pages we outline further detail of the work we have undertaken against each reporting criterion, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9	Yes – see financial pressures risk on page 9	No
Governance	12	Yes – see Ofsted Children’s Services risk on page 12	No
Improving economy, efficiency and effectiveness	14	No	No



3. VFM arrangements – financial sustainability

Overall commentary on the financial sustainability reporting criterion

Risk of significant weaknesses in arrangements

We have outlined below the risk of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to this risk.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<div data-bbox="84 449 389 535">1 Sustainable resource deployment – financial pressures</div> <div data-bbox="135 556 389 839"><p>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.</p></div> <div data-bbox="135 861 389 1061"><p>Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.</p></div>	<div data-bbox="430 449 1523 564">Work undertaken<ul style="list-style-type: none">• We reviewed budget monitoring and reporting.• We also considered the adequacy of plans that are developed to deliver savings and improvements.• We also considered the latest update of the Council's medium-term financial strategy.</div> <div data-bbox="430 592 654 618">Results of our work</div> <div data-bbox="430 646 2453 792">Budget monitoring and reporting<p>Quarterly reports are presented to Cabinet throughout the year, underpinned by budget monitoring within each portfolio and service. The quarterly reports provide a clear summary of the projected outturn and the actuals, along with supporting narrative to explain any significant changes. The Council has a strong track record of delivering its budget over the last decade, despite the continued pressures of funding reductions and delivery of savings, reporting an underspend of £0.264 million for 2020/21 (prior year £0.496m). The Council clearly highlights the continued financial pressures and the need for robust budget monitoring which is key to its financial sustainability.</p></div> <div data-bbox="430 821 2453 906">Adequacy of plans to deliver savings and improvements<p>Savings of approximately £0.3 million were built into the budget for 2020/21, of which 88% was delivered; in the context of the net budget, this is not a significant amount. For 2021/22, savings of £6.3 million are planned. There are appropriate arrangements for monitoring savings, with reporting being included in the quarterly budget monitoring reports.</p></div> <div data-bbox="430 935 2453 1049">Medium-term financial plan<p>The Council's latest refresh of its medium-term financial plan (MTFP) was reported to Cabinet in February 2022, setting out the forecast strategy for the next four years, from 2022/23 to 2025/26. The MTFP clearly set out the principles underpinning the strategy, such as direction of resources to support the City Plan priorities. The strategy sets out the headline messages of an estimated financial gap of £32.4m across the four-year period, with a balanced budget being set for 2022/23, incorporating savings of £5.8m.</p></div> <div data-bbox="430 1078 2453 1135">Based on the results of our work for the identified risk, we have not identified any significant weaknesses in arrangements. Further commentary on the Council's arrangements is set out overleaf.</div>

3. VFM arrangements – financial sustainability

Overall commentary on the financial sustainability reporting criterion - continued

How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

The Medium-Term Financial Plan (MTFP) includes financial projections analysis and context that supports the Council's City Plan 2019-2030. The City Plan sets out the vision for the City until 2030. The intentions of the vision are set out as part of a Dynamic, Healthy and Vibrant City. The City Plan sets out explicitly the Council's planned key actions and performance targets for the future.

The overarching aim of the Sunderland City Council Capital Strategy ("the Strategy") is to provide a framework within which the Council's capital investment plans will be prioritised and delivered in line with the City Plan (2019 – 2030) with an overall ambition that by 2030 Sunderland will be a connected, international city with opportunities for all.

The Council's capital investment plans are set out in the capital strategy and programme, with the latest approved programme covering the period up to 2025/26.

Quarterly reports are presented to the Cabinet throughout the year, underpinned by budget monitoring within each portfolio and service and reporting to the Chief Officers' Group. The quarterly reports provide a clear summary of the projected outturn and the actuals, along with supporting narrative to explain any significant changes. Implications of overspends and non-delivery of planned savings and efficiencies are set out in each report.

The Council's Efficiency Strategy was agreed by Council in March 2021. The Strategy set out a continual and iterative development of a programme of activity to address the gap taking into account the strategic vision of the Council's role in the future

The Council has a strong track record of delivering its budget over the last decade, despite the continued pressures of funding reductions and delivery of savings, reporting an underspend of £0.264 million for 2020/21 (prior year £0.496 million). In the Council's quarterly reports, it clearly highlights the continued financial pressures and the need for robust budget monitoring which is crucial to its financial sustainability.

Based on our work, there is evidence of effective financial management arrangements despite the continued financial pressures, including the on-going pandemic.

How the Council plans to bridge funding gaps and identifies achievable savings

The overarching MTFP includes the identification of savings and efficiencies over the period of the next four years, after taking into account estimated funding. The strategy sets out the headline messages of an estimated financial gap of £32.4 million across the four-year period, incorporating savings of £5.8m in 2022/23.

The annual budget savings cycle is a continuous approach with budget developments brought to Cabinet for consideration throughout the year to allocate resources to services and consider consultation outcomes.

Savings of approximately £0.3 million were built into the budget for 2020/21, of which approximately 88% was achieved; in the context of the net budget, this is not a significant amount.

For 2021/22, savings of £6.3 million are planned.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council's MTFP provides a framework with the express objective of achieving a sustainable financial position over the medium-term and which is also aligned to the City Plan. The key principles within the MTFP provides the framework for planning finances to support delivery and includes:

- ensuring resources are targeted on statutory and front-line services and protecting key priority services with a focus on need rather than want;
- managing demand - implementing strategies and policies that enable the Council to manage demand and facilitate those services which make a difference in the most effective way; and
- strategic commissioning based on outcomes and using an intelligence-based approach to ensure a sound evidence base for commissioning decisions and effective commissioning arrangements.



3. VFM arrangements – financial sustainability

Overall commentary on the financial sustainability reporting criterion - continued

How the Council ensures that its financial plan is consistent with other plans

The Council’s MTFP sets out the financial context for the Council’s resource allocation process and budget setting, therefore, underpinning decision-making and other plans.

As part of ensuring the consistency of the MTFP and annual budget with other plans, significant consultation is undertaken on the budget, both with internal and external stakeholders.

How the Council identifies and manages risks to financial resilience

As part of the annual budget report setting, the Council’s s151 officer sets out his assessment of the adequacy of reserves and the robustness of budget estimates. Appropriate risk factors are considered as part of this assessment, including the level of reserves, prudential and treasury indicators and the robustness of inflationary estimates.

This is underpinned by the review of reserves set out in the annual update of the Council’s MTFP, which includes an estimate of projected earmarked reserves.

Earmarked reserves as at 31 March 2021 were £189.4 million (including schools reserves and the general fund balance), compared to £154.6 million the prior year; the significant increase being due to the NNDR reserve totalling £19.9 million. The NNDR reserve is forecast to be used in 2021/22, to support the Collection Fund deficit arising from the pandemic. Overall, earmarked reserves (including the general fund balance and school reserves) are currently projected to reduce to £75.1 million by 31 March 2025.

We would recommend that the Council more explicitly reports the level of earmarked reserves at the end of the MTFP four-year period as part of its annual update, to facilitate decision-making.

The Council also manages risks to its financial resilience via maintaining a general fund balance. The Council’s policy for the level of this balance is set out in the MTFP annually, along with the Section 151 Officer’s assessment. For 2021/22 onwards, the Council plans to maintain its general fund balance at £12.0 million.

In line with good practice, the Council prepares and takes a formal report to the Audit and Governance Committee on whether the ‘going concern’ assumption is appropriate; this report was taken to the July 2021 Committee. In this report, the Council sets out that:

“it will be difficult to continue to deliver substantial savings without significant changes in the way we deliver services and therefore reserves have been maintained to assist transition and mitigate future risk. Reserve levels and use will be kept under review and reported to Cabinet”.

Based on the above considerations we are satisfied there is not a significant weakness in the Council’s arrangements in relation to financial sustainability.



3. VFM arrangements – financial sustainability

Overall commentary on the governance reporting criterion

Risk of significant weaknesses in arrangements

We have outlined below the risk of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to this risk.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p data-bbox="84 421 568 449">2 Ofsted inspection: children’s services</p> <p data-bbox="137 478 777 849">There is a risk Council does not make the required improvements to children’s services, or does not make the improvements rapidly enough. 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.</p> <p data-bbox="137 878 777 963">Our response to the conclusions reached by Ofsted, was to incorporate an ‘except for’ qualification into our VFM conclusions since 2014/15.</p> <p data-bbox="137 992 777 1135">Monitoring visits have taken place since then including a re-inspection in 2018. This showed that some aspects of children’s services had improved, however, the categories of ‘children who need help and protection’ and ‘leadership, management and governance’ remained inadequate.</p>	<p data-bbox="817 421 1684 449">We considered the progress made by the Council in relation to children’s services.</p> <p data-bbox="817 478 1709 506">Ofsted re-inspected the Council’s children’s services in June 2021 and reported that:</p> <p data-bbox="817 535 2461 706"><i>“children’s services in Sunderland are outstanding...this highly impressive improvement has incrementally been achieved from the previous Ofsted inspection in 2015 when all aspects of children’s services were judged to be inadequate. At the 2018 inspection, solid improvements were judged to have been made, however, there had not been sufficient progress made for children who needed help and protection. Since then, Ofsted visits have continued to find improvements in Sunderland’s children’s services, including further building on the progress evident in key areas at the focused visit in March 2021. This strong focus on continued improvement is even more impressive given it was during a global pandemic, which is still having a profound impact on the communities in Sunderland, and on the workforce of the Council and of Together for Children”.</i></p>

3. VFM arrangements – governance

Overall commentary on the governance reporting criterion

How the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has approved and adopted a Code of Corporate Governance. The Council's Annual Governance Statement sets out how the Council has complied with this Code during the year. As part of our audit procedures we considered the Council's Annual Governance Statement. This included consideration of the Statement and our cumulative audit knowledge. We identified no matters indicating a significant weakness in arrangements.

A risk and assurance map is presented regularly to the Audit and Governance Committee, setting out strategic and corporate risks, along with sources of assurance, both internal and external. There is appropriate challenge by Committee Members of this summary, which provides a useful overview of the many sources of evidence and various assurance activities.

We confirmed that the Audit and Governance Committee received regular updates on the Audit Plan. Internal Audit reviews highlight weaknesses and recommends actions when required to strengthen processes or procedures. These are regularly reported to the Audit and Governance Committee which holds management to account where weaknesses are identified. The Audit and Governance Committee monitors management actions in response to recommendations and this is reported on a regular basis. The Audit and Governance Committee challenges management if recommendations are not implemented within the agreed timeframe.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control which was reported to the Audit and Governance Committee in July 2021.

How the Council approaches and carries out its annual budget setting process

The Council's MTFP arrangement includes the identification and evaluation of risks to the Council's finances.

We have reviewed the budget setting arrangements through observation and discussions with officers. No matters have been identified indicating a significant weakness in arrangements. Overall, the Council is aware of the financial pressure it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks occurring.

How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

We have reviewed Council reports and minutes throughout year and have not identified any evidence of a weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

The Council publishes on its website a notice of key decisions. This includes officer decisions under the Officer Scheme of Delegations.

Scrutiny meetings provide an opportunity to challenge decisions. The Scrutiny Coordinating Committee is in place to oversee and coordinate the work and our work identified no matters that indicate a significant weakness in arrangements.

The Council implemented measures to ensure that services could continue despite the restrictions arising during the COVID-19 pandemic. The arrangements included live streaming to allow the public to observe Council meetings.

How the Council monitors and ensures appropriate standards are maintained

The Council's Constitution is reviewed at least annually and sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people. Supporting the Constitution are codes of conduct for Members and officers. Registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. The Statement of Accounts records material related party transactions as well of senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared, with no significant issues arising.

We confirmed that contract procedure rules are in place and require procurement decisions to comply with appropriate standards. Contract registers are available on the Council website.



3. VFM arrangements – governance

Overall commentary on the governance reporting criterion - continued

There is regular reporting of treasury management activity that details the Council's investments, cash and borrowing positions. The Treasury Management Strategy was approved ahead of the 2020/21 financial year and sets out the Council's measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council's finances and we identified no evidence to indicate a weakness in arrangements.

The Standards Committee is responsible for promoting, maintaining and advising on high standards of conduct by councillors and co-opted members.

A data protection annual report was presented to the July 2021 Audit and Standards Committee, setting out details of the work in the year, as well as highlighting:

- that the Council and its connected organisations build on their engagement with the Data Protection Office and new Data Protection Officer to refine arrangements for the use and management of personal data; and
- The need to update the Information Management Strategy, review of the suite of policies around Data Protection, an updated Performance and Reporting Framework and a programme of compliance audits to reflect new working arrangements post-Covid.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance.



3. VFM arrangements – improving economy, efficiency and effectiveness

Overall commentary on the improving economy, efficiency and effectiveness reporting criterion

How financial and performance information has been used to assess performance to identify areas for improvement

Arrangements are in place to measure the quality of services, to ensure they are delivered in line with our objectives and priorities and for ensuring that they provide value for money. There are performance management arrangements in place including regular reporting to the Chief Officers' Group and Scrutiny. Services are delivered by suitably qualified, trained, and experienced staff, all posts have detailed job profiles / descriptions.

How the Council evaluates the services it provides to assess performance and identify areas for improvement

Alongside the performance framework in place, the Council considers the output from regulators to evaluation performance and identify areas for improvement. The output from such regulators feeds into the Council's overall risk and assurance map, which is reported regularly to the Audit and Governance Committee.

Children's Services

As set out earlier in this report, Ofsted re-inspected the Council's children's services in June 2021 and reported that:

“children's services in Sunderland are outstanding...this highly impressive improvement has incrementally been achieved from the previous Ofsted inspection in 2015 when all aspects of children's services were judged to be inadequate. At the 2018 inspection, solid improvements were judged to have been made, however, there had not been sufficient progress made for children who needed help and protection. Since then, Ofsted visits have continued to find improvements in Sunderland's children's services, including further building on the progress evident in key areas at the focused visit in March 2021. This strong focus on continued improvement is even more impressive given it was during a global pandemic, which is still having a profound impact on the communities in Sunderland, and on the workforce of the Council and of Together for Children”.

Special Educational Needs and Disabilities (SEND)

The Council had an inspection of SEND services by Ofsted/CQC in September 2021. This highlighted two areas for recommendations and required the Council and local Clinical Commissioning Group to submit a joint response to the 'Written Statement of Action'. The two areas being:

- joint commissioning; and
- the support for children and young people at times of transition across all services and age ranges.

The joint response to the 'Written Statement of Action' was accepted by the Regulators in early January 2022 and is due to be taken to the Children, Education and Skills Scrutiny Committee in February.

Adult social care

Unlike children's services, this area has not been subject to external inspection for the past eleven years; however, such external scrutiny is planned to be introduced to reflect that in place in Children's Services.

How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council has arrangements in place for the consistent management of partnerships through a guidance and supporting documents for all Council employees to use when involved with partnerships and supporting arrangements have been in place throughout the year.

Contractual arrangements with the Council's subsidiary companies set out targets around use of resources and improved outcomes, with the subsidiaries performance also being included in quarterly monitoring reports.

Key partners include the local clinical commissioning group, the local All Together Better Alliance, voluntary organisations and, in particular in 2020/21, the Local Resilience Forum.

3. VFM arrangements – improving economy, efficiency and effectiveness

Overall commentary on the improving economy, efficiency and effectiveness reporting criterion - continued

Integrated Care System

A significant new partnership in the North East will be formally established, subject to the legislation being passed, from 1 April 2022; this is the North East and North Cumbria Integrated Care System (NENC). The Integrated Care Systems (ICS) recognises that public health in this region is amongst the worst in the country and has an ambition to change that.

ICS have been set-up across the country, with an aim of delivering on the NHS Long Term Plan and bringing together, in a partnership, the NHS, councils, combined authorities, voluntary and partner organisations to look at new and different ways of working to improve overall health and wellbeing.

It is noted that, due to pressures in the NHS, the statutory commissioning functions will remain with the local Clinical Commissioning Groups until at least 1 July 2022, however, development of the ICS is continuing and this is a vital partnership for the Council.

An update report was presented to the December 2021 Health and Wellbeing Board on the development of the ICS, setting out progress made, including in respect of 'place-based' arrangements. The ICS presents both opportunities as well as challenges. A Sunderland Integrated Care Executive (the 'Executive') has been established with chief executive representation from key partners across the Sunderland system including from the Council, the Clinical Commissioning Group and NHS provider organisations. The Executive will lead and support the transition to new place-based arrangements within Sunderland.

The challenges include maintaining a focus on the local Sunderland area, whilst working as part of a much larger partnership; this is an area which the ICS is developing, recognising that effective arrangements for focusing on each 'place' need to be in place.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness.



04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to their attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

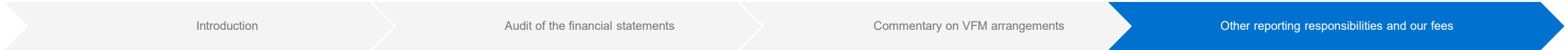
- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

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 National Audit Office (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. At the time of issuing this report, the NAO guidance to auditors has not been received, therefore, we are unable to carry out this work. Until this work is concluded we cannot issue our audit certificate.



4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in April 2021. For the 2020/21 financial year, our fees are as follows, noting that additional fees are subject to review and approval by Public Sector Audit Appointments Limited (PSAA):

Area of work	2019/20 fees	2020/21 fees
Fee in respect of our work under the Code of Audit Practice	£104,546	£104,546
Recurrent scope changes: additional fees in respect of complex group consolidation adjustments	£0	£5,227
Recurrent scope changes: additional fees in respect of property, plant and equipment valuations due to increased regulatory requirements	£15,912	£15,912
Recurrent scope changes: additional fees in respect of pensions due to increased regulatory requirements	£10,041	£10,041
In-year scope change: additional testing as a result of the implementation of new auditing standards: ISA 540 (revised) auditing accounting estimates and related disclosures; ISA 570 (revised) going concern Range set by PSAA for a metropolitan borough council being up to £4,300.	£0	£1,500
<i>Additional requirements for Sunderland City Council: additional work in respect of Public Interest Entity status (n/a from 2020/21 onwards)</i>	£5,108	£0
<i>Additional requirements for Sunderland City Council: additional property, plant and equipment (PPE) valuations testing of schools modern equivalent asset valuations and external works assumptions</i>	£0	£3,659
<i>Additional requirements for Sunderland City Council: PFI shared waste facility expert valuation review</i>	£3,917	£1,275
<i>Additional requirements for Sunderland City Council: revised pensions report</i>	£0	£2,091
Value for money: implementation of the new approach on VFM arising from the change to the Code of Audit Practice. Range set by PSAA for a metropolitan borough council being £10,000 - £19,000.	£0	£15,682
Total	£139,524	£159,934

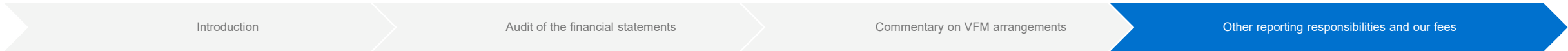
4. Other reporting responsibilities and our fees

Fees for other work

We carried out the following work for the Council in the year:

Area of work	2019/20 fees	2020/21 fees
Teachers' Pensions 2020/21 return	£4,000	£4,205
Housing Benefits Subsidy return*	£11,880	£10,600
Housing Benefits Subsidy 2019/20 return – additional work*	£6,500	n/a

*Housing Benefits work is being completed at the time of writing this report; any additional work required will be charged at our daily rate set out in our engagement letter



Mazars

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

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

*where permitted under applicable country laws.

Audit Strategy Memorandum

Sunderland City Council

Year ending 31 March 2022



Contents

- 01 Engagement and responsibilities summary
- 02 Your audit engagement team
- 03 Audit scope, approach and timeline
- 04 Significant risks and other key judgement areas
- 05 Value for money
- 06 Fees for audit and other services
- 07 Our commitment to independence
- 08 Materiality and misstatements

Appendix – Key communication points

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

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

24 March 2022

Dear Members

Mazars LLP
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Audit Strategy Memorandum – year ending 31 March 2022

We are pleased to present our Audit Strategy Memorandum for Sunderland City Council (the Council and Group) for the year ending 31 March 2022. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Sunderland City Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit. If we identify any risks or changes to our planned strategy following completion of our planning, we will ensure we communicate these to the Audit and Standards Committee.

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07813 752 053.

Yours faithfully



Cameron Waddell
Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Sunderland City Council (the Council and Group) for the year to 31 March 2022. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

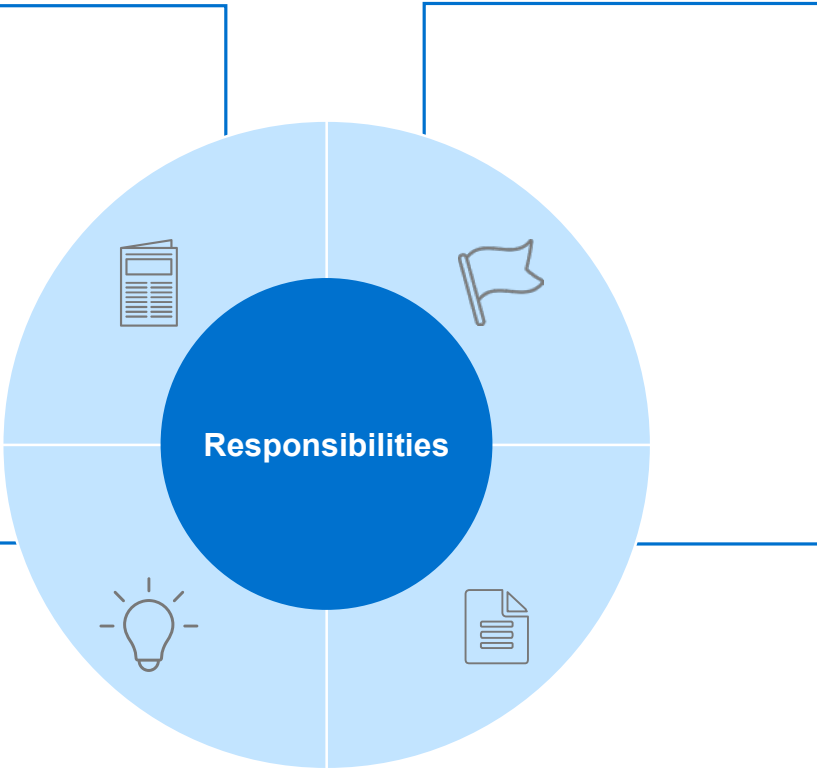
Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

The Executive Director of Corporate Services is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Executive Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements.

Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission. The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

02

Section 02:

Your audit engagement team

2. Your audit engagement team



Cameron Waddell
Partner and Audit Engagement Lead

cameron.waddell@mazars.co.uk

0781 375 2053



Diane Harold
Engagement Manager

diane.harold@mazars.co.uk

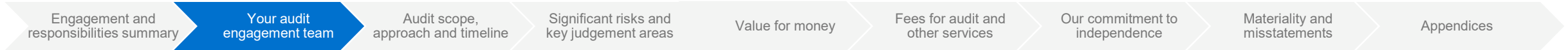
07971 513 174



Peter Hawkins
Assistant Manager and Team Leader

peter.hawkins@mazars.co.uk

07580 854 210



03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

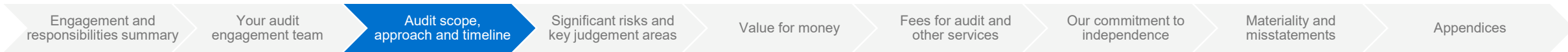
Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



3. Audit scope, approach and timeline

Under the Accounts and Audit Regulations, the Council is required to publish its draft statement of accounts for 2021/2022 by the end of July and publish audited statements by the end of September. However, the Department of Levelling Up, Housing and Communities have proposed that the target date for publishing audited statements be moved to the end of November 2022. We have agreed with the Council a timetable for the audit that enables the Council to meet the target date. The timetable is subject to a number of assumptions and we will update the Committee on any significant changes that we agree with the Council.

Planning January-March

- Planning visit and developing our understanding of the Council and Group
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion September-November*

- Final review and disclosure checklist of financial statements
- Final review of the financial statements by our technical team (required for larger audits)
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit and Governance Committee
- Reviewing subsequent events
- Signing the auditor's report

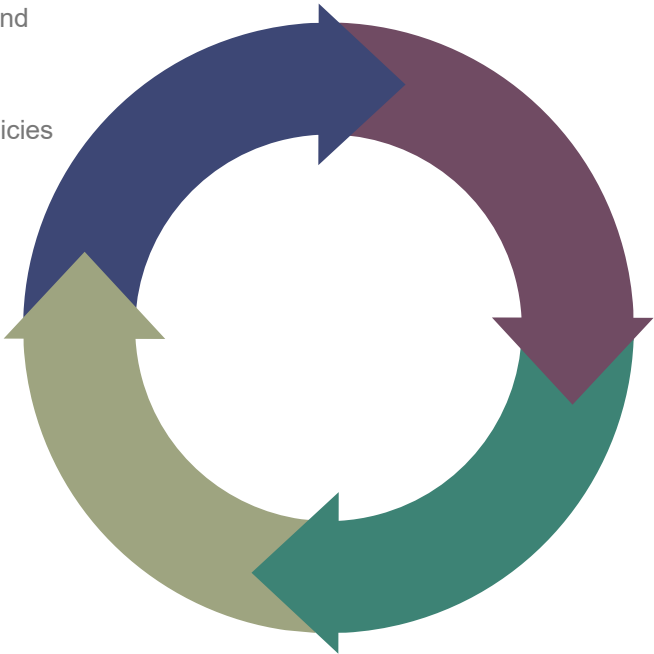
* depending on timing of receipt of the Pension Fund auditor assurance

Interim March-April

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork July-September

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



3. Audit scope, approach and timeline

Group audit approach

In line with the requirements of the CIPFA Code of Practice, the Council has considered its interests in other entities and determined that group accounts are required which will consolidate its interests. This section sets out the planned work in respect of those entities which we refer to here as components.

Group materiality

Our assessment of group materiality is set out in section 8.

Assessment of components

We assess the significance of the components as part of determining the level of work required. In assessing the significance of components, we consider a range of quantitative and qualitative factors including:

- whether a component exceeds a minimum of 15% of key benchmarks (income, expenditure, assets and liabilities);
- whether any financial statement area (FSA) is greater than 15% of the relevant FSA in the consolidated accounts and greater than performance materiality; and
- whether there are any risks of material misstatement in the components likely to result in material misstatement in the group financial statements.

Our assessment is summarised in the first table in this section overleaf.

Nature and scope of planned work

The second table in this section sets out the estimated proportion of each component, relative to the overall group, as well as the nature and scope of planned work. Note that these are estimates and we will update our assessment for any significant changes. This work is in addition to our review of group-wide controls and the consolidation process.

Nature of work

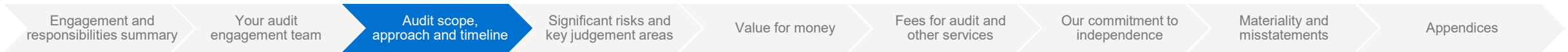
Planned procedures are split into the following categories:

- full scope audit;
- limited or specific review; and
- other audit procedures, including group analytical procedures.

Components being treated as ‘significant’ and subject to a full scope audit or specific audit procedures are:

- the Council;
- Together for Children (TfC); and
- Sunderland Lifestyle Partnership (SLP - leisure assets).

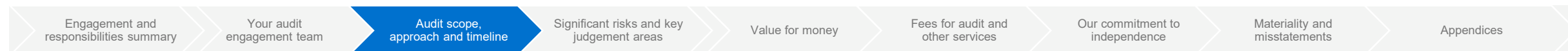
Group analytical procedures will be carried out for the remaining components; the objective of the analytical procedures is to critically corroborate the group engagement team’s conclusions that there are no significant risks of material misstatement of the aggregated financial information of components that are not significant components.



3. Audit scope, approach and timeline

Group audit approach (continued)

Entity	Nature of component / ownership	Auditor	Significant in terms of benchmarks?	Risks of material misstatement?	Commentary
Sunderland City Council	Parent – local authority.	Mazars LLP	Yes	Yes	Full – ultimate parent.
Together for Children Limited (TfC)	Subsidiary 100% owned by the Council for the provision of children’s services.	Robson Laidler LLP	Yes	No	Significant component. Material transactions and balances; income and expenditure is borderline with our 15% benchmark, therefore, classed as a significant component. Pensions liability balance upon consolidation is greater than the group headline materiality and is relevant to the significant pensions risk already identified.
Sunderland Lifestyle Partnership (SLP)	Joint venture providing leisure services.	RSM LLP	Yes*	No	*Material but not significant component: due to consolidation adjustments resulting in a financial statement area which is greater than 15% of the relevant financial statement area. No assurance required from the component auditor.
Sunderland Care and Support Limited (SCAS)	Subsidiary 100% owned by the Council for the provision of social care, health and support services.	Robson Laidler LLP	No	No	Material transactions and balances; none greater than the benchmarks upon consolidation on a line by line basis.
Siglion LLP – Developments and Investments companies	Subsidiary 100% owned by the Council - development and management of a portfolio of commercial and residential land locally.	Robson Laidler LLP	No	No	Material transactions and balances; none greater than the benchmarks upon consolidation on a line by line basis.
IAMP LLP	Joint venture with South Tyneside Metropolitan Borough Council for the development of an international advanced manufacturing park (IAMP).	Robson Laidler LLP	No	No	Provisional assessment based on expectations for 2021/2022; that no transactions or balances will be greater than the benchmarks upon consolidation on a line by line basis.

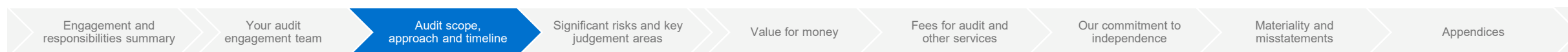


3. Audit scope, approach and timeline

Group audit approach (continued) – using 2020/2021 financial statements balances and transactions

Component	% of assets	% of liabilities	% of income	% of expenditure	Nature and scope of work
Sunderland City Council	93.1%	88.3%	75.4%	75.6%	Full scope audit
Together for Children Limited (TfC)	1.2%	5.8%	13.9%	14.2%	Full scope audit – reliance on the component auditor
Sunderland Lifestyle Partnership LLP (SLP)	0.2%	0.2%	0.2%	0.2%	Specified audit procedures in respect of the consolidation adjustments
Sunderland Care and Support Limited (SCAS)	0.8%	3.4%	5.2%	5.3%	Group analytical procedures
Siglion LLP – Developments and Investment companies	3.0%	1.6%	4.9%	4.4%	Group analytical procedures
IAMP LLP	1.7%	0.7%	0.4%	0.3%	Group analytical procedures
	100%	100%	100%	100%	

Note: Sunderland Homes Limited was dissolved on 18 May 2021, therefore, no longer included in the analysis above.



3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

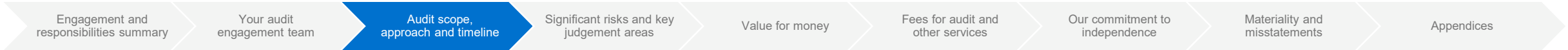
Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. There are no material service organisations to consider for this Council.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit net liability	AON Hewitt (Actuary)	We use the National Audit Office's (NAO) consulting actuary (PWC) to provide us with assurance over the main assumptions used by your Actuary.
Property, plant and equipment	Internal Valuer	We will take into account relevant information which is available from third parties. If required, we can engage our own internal valuation expert; this would be dependent on any specific valuation issues arising during the audit.
Financial instrument disclosures	Link Asset Services	We do not typically engage an audit expert to assess the reasonableness for your expert's financial instrument valuation estimates. Where this is required we will engage our own internal experts.



04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council and Group. We have summarised our audit response to these risks on the following pages.



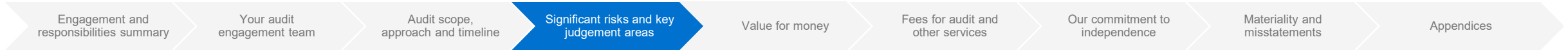
4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Audit and Governance Committee.

Significant risks

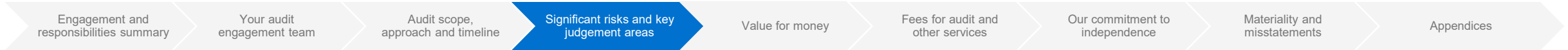
	Description	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	We plan to address 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.



4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p>Valuation of property, plant and equipment</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 (including the Council's PFI shared waste facility).</p> <p>The Council employs valuation expert(s) to provide information on valuations, however, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none">critically assess the Council's arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated;critically assess 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;consider the competence, skills and experience of the Valuer(s) and the instructions issued to the Valuer(s);substantively test a sample of revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated;carry out procedures to gain assurance over the consolidation adjustments for group accounts which impact on property, plant and equipment and associated financial statement areas; andwhere necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.



4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p>Net defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of the retirement benefits.</p> <p>The calculation of the net pensions liability, made up of the gross pension assets and gross pension 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>We will:</p> <ul style="list-style-type: none"> critically evaluate the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and challenge 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; critically assess the competency, objectivity and independence of the Actuary; liaise with the auditors of the Pension Fund to gain assurance that the overall procedures and controls in place at the Pension Fund are operating effectively; reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets and evaluating whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets. reviewing the actuarial allocation of Pension Fund assets to the Council by the Actuary, including comparing the Council's share of the assets to other corroborative information. compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; agree data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements; and critically review the component auditor's work in respect of Together for Children's pensions liability which is consolidated in the group financial statements.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
4	<p>Enhanced risk: accounting for PFI arrangements</p> <p>The Council has three PFI arrangements, covering:</p> <ul style="list-style-type: none">• Sandhill View Academy and Community Centre;• street lighting and highway signs; and• a shared waste facility. <p>The method of accounting for PFI assets/liabilities is complex, therefore, this increases the risk of misstatement.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none">• review the Council's adopted approach for accounting for its PFI arrangements;• review any changes from prior years to the long term financial model used;• critically review the assumptions made by management; and• assess the completeness and accuracy of disclosures.

05

Section 05: **Value for money**

5. Value for money

The framework for Value for Money work

We are required to form a view as to 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 view, and sets out the overall criterion and sub-criteria that we are required to consider.

2021/22 will be the second audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

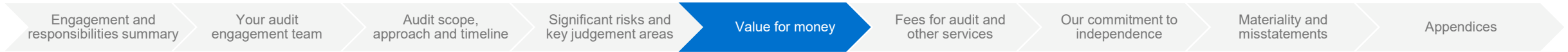
The Code requires us to structure our commentary to report under three specified criteria:

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

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include: <ul style="list-style-type: none">• NAO guidance and supporting information;• information from internal and external sources including regulators;• knowledge from previous audits and other audit work undertaken in the year; and• interviews and discussions with staff and Members.
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: <ul style="list-style-type: none">• significant weaknesses identified and our recommendations for improvement; and• emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.



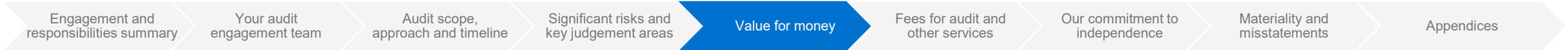
5. Value for money

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, work completed to-date has not identified any risks of significant weaknesses in arrangements.

We will report any identified risks to the Audit and Governance Committee, if any arise, as part of our continuous risk assessment.



06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Council’s appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA, subject to consideration by Public Sector Audit Appointments (PSAA) Limited of any recurring fee increases arising from the 2020/2021 audit, in relation to testing of:

- property, plant and equipment valuations; and
- audit work in respect of the net defined benefits liability.

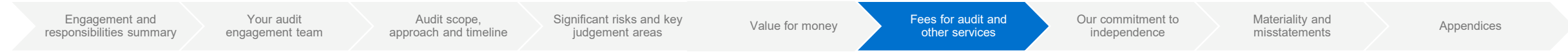
Area of work	2020/2021 fee	2021/2022 proposed fee
Code audit work – scale fee	£104,546	£104,546
Fee variation (Note 1)	£55,388	To be agreed

Note 1: an additional fee in respect of our 2020/2021 work has been calculated and discussed with officers and was reported in our Auditor’s Annual Report; the next stage is consideration and approval by PSAA.

Note 1 (continued)

The main elements of the additional fee variation for 2020/2021 were:

- additional work required in respect of the group financial statements;
- additional work in respect of property, plant and equipment valuations, due to increased regulatory requirements;
- additional work in respect of pensions, including the material amendments to the financial statements as a result of the revised actuarial estimates (linked to the significant movement in pensions assets in the final quarter of 2020/2021); and
- additional work in respect of the new Value for Money approach.



6. Fees for audit and other services

Fees for non-PSAA work

In addition to the fees outlined on the previous page in relation to our appointment by PSAA, we anticipate being separately engaged by the Council to carry out additional work as set out in the table below.

Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2020/2021 fee	2021/2022 proposed fee
Assurance services: Housing Benefits Subsidy return – additional work required by DwP in respect of the 2019/2020 return (carried out in 2020/21)	£6,500	n/a
Assurance services: Housing Benefit Subsidy return	£13,000*	£10,850*
Assurance services: Teachers’ Pension return	£4,205	£4,300*

* estimated fees, subject to agreement: the 2020/2021 Housing Benefits fee included a fee variation of £2,400 due to additional testing required

07

Section 07:

Our commitment to independence

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

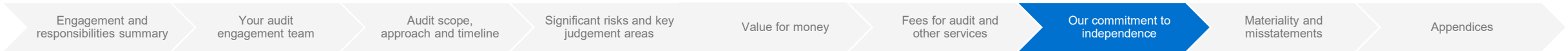
We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate

procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report. Principal threats to our independence and identified associated safeguards in relation to the non-audit work listed in section 6 are summarised below.

Area of work	Perceived threat	Safeguards and commentary
Assurance Services: Housing Benefits Subsidy return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council.
Assurance Services: Teachers' Pensions Return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council.



08

Section 08:

Materiality and misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Group initial threshold £'000s	Single entity initial threshold £'000s
Overall materiality	14,518	13,506
Performance materiality	11,615	10,796
Specific materiality: senior officers' remuneration (10% of total)	113	113
Specific materiality: officers' remuneration 'bandings' table	Correct band £5,000	Correct band £5,000
Specific materiality: exit packages (10% of total)		109
Specific materiality: Members allowances and expenses (10% of total)	n/a	101
Trivial threshold for errors to be reported to the Audit and Governance Committee	436	405

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors. Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

8. Materiality and misstatements

Materiality (continued)

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross expenditure at the net cost of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee. We consider that the gross expenditure at the net cost of services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of the benchmark. Based on the prior year financial statements, we anticipate the overall materiality for the year ending 31 March 2022 to be in the region of £13.506 million for the Council (£13.538 million in the prior year at the planning stage) and £14.518 million for the Group (£13.898 million in the prior year at the planning stage).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a

level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.405 million for the Council and £0.436 million for the Group based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

Group materiality for components

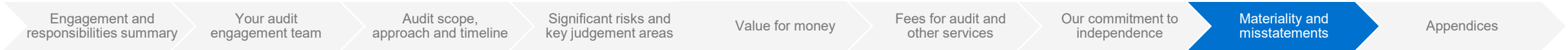
In the context of a group audit, materiality is established for both the group financial statements as a whole and for the financial information of components. Component materiality is determined for those components whose financial information will be audited as part of the group audit.

- **Together for Children (TfC) component materiality:** calculated as £2.5 million, being 2% of total expenditure. However, where a component is subject to audit itself, use can be made of the component auditor's materiality, as long as it is lower than our calculated component materiality. This is the case for TfC, therefore, we will make use of their auditor's calculation of materiality.
- **Sunderland Lifestyle Partnership component materiality:** as set out in the audit scope section, this component is being treated as a material but not significant component as a result of a material financial statement area for which we will obtain assurance via specific procedures on the accounting consolidation adjustment. Therefore, we do not need to issue group audit instructions to this component or specify component materiality.

Reporting to the Audit Governance Committee

The following three types of audit differences above the trivial threshold will be presented:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).





Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

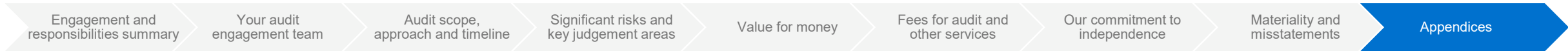
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



Appendix: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none">• uncorrected misstatements and their effect on our audit opinion;• the effect of uncorrected misstatements related to prior periods;• a request that any uncorrected misstatement is corrected; and• in writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none">• enquiries of the Audit and Governance Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and• a discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Audit and Governance Committee Audit planning and clearance meetings

Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: <ul style="list-style-type: none">• non-disclosure by management;• inappropriate authorisation and approval of transactions;• disagreement over disclosures;• non-compliance with laws and regulations; and• difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: <ul style="list-style-type: none">• our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;• significant difficulties, if any, encountered during the audit;• significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;• written representations that we are seeking;• expected modifications to the audit report; and• other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit and Governance Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of.	Audit Completion Report and Audit and Governance Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements. 	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity.	Audit Completion Report

Mazars

Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

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

*where permitted under applicable country laws.

