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Date: 31<sup>st</sup> May 2018  
Our ref:  
Your ref:

Dear Gavin,

**Audit of Sunderland City Council's Single Entity and Group Financial Statements for the year end 31 March 2018 - Understanding your management processes and arrangements**

I refer to your letter dated 17<sup>th</sup> May 2018 in respect of the above management arrangements and processes in place within the Council. The assurances are provided below, representing Sunderland City Council's formal response from management in this respect.

I, as section 151 officer of the Council and group entities that are council subsidiaries, on behalf of management, have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the Council which might have had an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where myself and other senior officers, along with yourselves, have identified and discussed key risks faced by the Council) and, to the extent that it is necessary, in the production of the financial statements. The processes and arrangements in place and adhered to by senior management in the production of the Annual Governance Statement also shows that all key risks which would relate to the financial statements have been fully and appropriately considered. In response to your letter please find responses to your specific questions and I have also attached the completed Appendix 1, as requested.

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

Specific assurances:

**1) What are management processes in relation to:**

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

**Sunderland City Council**

A risk management assessment is carried out and updated regularly (but at least annually) and this helps to ensure that all risks are identified and then addressed appropriately. The review of risks is also reported formally to the Audit and Governance Committee throughout the year.

I along with the Chief Officers Group ensure that arrangements are in place within the Council that achieve the effective and efficient use of resources, have policies and procedures in place so that the Council is effectively managed and that internal control mechanisms are put in place and operating effectively within the Council to help mitigate against all identified risks and therefore that the financial statements are not materially misstated each year.

I, as the Executive Director of Corporate Services (EDCS) and Section 151 Officer, along with the Head of Assurance, Procurement and Performance Management (HAPPM) attend all meetings of the Audit and Governance Committee to discuss and review findings of all Internal and External Audit reviews and ensure members are kept informed through the regular reporting mechanisms in place. The Committee receives and approves the accounts on behalf of the Council and as such is kept informed of all issues and risks that could impact upon the financial statements and operates within the guidelines recommended by CIPFA. Management also considers and informs the Annual Governance Statement and the actions set out in order to further improve governance arrangements, the achievement of value for money in its use of resources and to improve the internal control environment as required.

Management also receives the independent Internal Audit Strategy and Annual Internal Audit Plan and is able to comment on areas proposed for review. The Council's Strategic and Corporate Risks are regularly reported and reviewed by the Management and the Council's Internal Audit Plan ensures that fraud risk or related concerns are escalated through to the appropriate level as appropriate. Ad-hoc meetings between the Committee and the HAPPM and/or myself also take place where necessary to discuss matters as they arise. Roles and responsibilities of members and officers are clearly set out in Codes of Conduct, the Scheme of Delegation, Anti Fraud and Corruption Policy (including the Fraud Response Plan) and in the Risk Management Policy and Strategy which also describe the relevant registers, declarations and escalation processes to be complied with.

### **Group Entities (council owned companies)**

I, along with appropriate senior officers and Board of Directors from group entities, ensure that arrangements are in place that achieve the effective and efficient use of resources, have policies and procedures in place so that the group entities are effectively managed and that internal control mechanisms are put in place and operating effectively to help mitigate against all identified risks and therefore that the financial statements are not materially misstated each year.

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

I would declare on behalf of management that I have no knowledge of any actual, suspected or alleged fraud that could affect the Council or group entities in relation to the 2017/2018 financial statements.

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

### **Sunderland City Council**

The Council has an Anti Fraud and Corruption Policy which is regularly updated and is also approved by the Audit and Governance (A&G) Committee. Regular reviews and achievement of the annually reviewed audit plan is reported separately to the A&G Committee. The Internal Audit Strategy and Annual Internal Audit Plan, which includes the Counter Fraud Work Programme for the year is established independently by the HAPPM in accordance with best practice.

The Counter Fraud Work Programme is based on a Fraud Risk Assessment for the effective deployment of resources and includes both reactive and proactive work. I receive regular updates on progress against the Counter Fraud Work Programme with any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud, through the Risk and Assurance Map Update Reports. Updates are also presented on the implementation of the control improvements and all findings are reported to members as appropriate.

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

### **Group Entities (council owned companies)**

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

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

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

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

The Counter Fraud Strategy which supports the delivery of the aims of the Council's Anti Fraud and Corruption Policy sets out in detail the approach that has been adopted by the Council in tackling fraud across the broad spectrum of the Council and Council funded services. This was last presented to the Audit and Governance Committee in December 2012 and is currently under review, an updated version will be brought back to the Committee during 2018/2019.

The key elements of this Strategy include:

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

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

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

The Internal Audit Team maintains the fraud risk assessment for the Council and

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

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

The Audit and Governance Committee met five times to consider the business of 2017/2018 with a Risk and Assurance Map Update report being submitted to four of the meetings as part of the Integrated Assurance Framework. The Update reports set out the work done to identify fraud and the results of this work and the updated position regarding each risk area identified in the Risk and Assurance Map.

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

#### **Group Entities (council owned companies)**

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

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

During 2017/2018, I was not made aware of any significant breaches of control.

- ***communicating to those charged with governance the processes for identifying and responding to fraud and error.***

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

This process covers both council and subsidiary companies.

**2) How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2017/18?**

**Sunderland City Council**

Reports to Cabinet and Council are reviewed for their legality to ensure Council expenditure, services and actions are within the law. A legal representative attends all Cabinet, Council and "quasi-judicial" meetings and also other Committee meetings where appropriate. In addition, the Monitoring Officer attends Chief Officers' Group and Joint Leadership Team in order to ensure that she is aware of significant proposals at a formative stage, so that legal advice may be provided, when required. As such we have, as senior management, appropriate legal arrangements in place headed by the Monitoring Officer, which gives reassurance that legal advice is sought where appropriate.

Solicitors are required to keep up to date with new and emerging legislation which affects local government. To assist in this role, the team subscribe to an electronic legal update service and various legal publications and regularly attend relevant training courses. As a member of the Lawyers in Local Government Group and actively participating in the regional branch of this group, information is shared with other local authorities both regarding new legislation and case law and the approach and application of existing legal requirements.

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

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

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

I am not aware of any non-compliance within the Council during 2017/18.

**Group Entities (council owned companies)**

Council owned companies work closely with council officers. An SLA is in operation with council owned companies to ensure that any queries raised by these companies are appropriately responded to. In addition in respect of Together for Children, an in house legal team deals with child protection and safeguarding cases. There is close liaison between officers of the companies and the Council providing ample opportunity and mechanisms for any areas of concern to be flagged within the Council.

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

On behalf of Management I declare that I have no knowledge of and the Council (or its entities) is not on notice of any non-compliance with laws and regulations that could impact on the 2017/2018 financial statements. All contingent liabilities are discussed and identified and or updated and reviewed annually in order to reflect the known position as at the balance sheet date.

- 4) What controls do you have in place to: identify, authorise, approve; account for and disclose, related party transactions and relationships? For any new related parties (i.e. any not already disclosed in your year end 31 March 2017 audited financial statements) please provide a list of them, explain the nature of these, and whether you have entered into any transactions with these related parties during the year to 31 March 2018.**

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On behalf of Management, I declare that I have no knowledge of any such related party transactions that require further disclosure from those previously declared.

The Council has robust procedures in place to identify and record any related party transactions in respect of its members and chief officers included within the statement of accounts which has taken place during the year and is informed by the robust formal year end process of signed declarations outlining all detailed related party transactions and relationships which apply to all individual Councillors and Chief Officers. Various sources of information held and recorded by the Council also help to inform the procedures in place including a detailed Partnership Register; Register of Councillor declared interests; its formal Committee protocols (whereby members must declare at meetings they attend any interests of a personal nature (where they can not vote on that item) or of a prejudicial nature where they will have to leave the meeting for that item); the Council's Constitution; and the detailed policies and procedure rules and financial regulations of the Council that are required to be observed which are also in place to ensure any related party transactions are identified, fully disclosed and recorded, properly considered and accounted for as necessary.

**Group Entities (council controlled companies)**

On behalf of Management, I declare that I have no knowledge of any such related party transactions that require further disclosure from those previously declared.

The process outlined above in respect of the council, is followed closely by both Together for Children and Sunderland Care and Support. The limited value and scope of transactions incurred by Sunderland Homes Ltd has negated the need for a formal process during 2017/2018.

Yours sincerely,

Barry Scarr

Executive Director of Corporate Service

## Appendix 1

No.	Questions for management	Management response
1	<p>Are you aware of any instances of actual, suspected or alleged fraud, either within the Council as a whole, within your department, or within group entities during the period 1 April 2016– 31 March 2017?</p>	<p>There were no breaches of control during 2017/2018.</p>
2	<p>Do you suspect fraud may be occurring within Sunderland City Council, within your department or within group entities?</p> <ul style="list-style-type: none"> <li>➤ Have you identified any specific fraud risks within Sunderland City Council/your department/group entities?</li> <li>➤ Do you have any concerns that there are areas within your department, Sunderland City Council or group entities that are at risk of fraud?</li> <li>➤ Are there particular locations within Sunderland City Council or group entities where fraud is more likely to occur?</li> </ul>	<p>A fraud risk assessment is in place and is regularly updated which covers all appropriate parts of the Council. This covers areas of fraud risks, sets out the individual risks, a score for the risks and tests that are carried out to identify potential fraud taking place. A programme of proactive counter fraud work is undertaken every year by Internal Audit which includes group entities and did not identify any areas of concern.</p> <p>The Council also takes part in the Audit Commission's NFI programme which also covers group entities and has not identified any areas of concern.</p>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> <li>➤ If not where are the risk areas?</li> <li>➤ What other controls are in place to help prevent, deter or detect fraud?</li> </ul>	<p>Internal controls regarding segregation of duties are in place and the results of Internal Audit work have not highlighted any material concerns. An adequate opinion on the system of internal control has been reported to the Audit and Governance Committee for the year. The Council has an Anti Fraud and Corruption policy and supporting documents in place which is available to all staff on the Council intranet and is included in the induction process. Other controls in place include a robust budget management framework which includes detailed support for Financial Management, verification checks in key systems such as payroll, BACS payments, Accounts Payable which are aimed at identifying fraud or errors, the majority of payments are through the Supplier Relationship Management system which ensures authorisation of payments by an approved authorised officer. There has been a significant amount of work undertaken across the Council and group entities to raise awareness of Information Governance issues and encourage staff to keep information secure.</p>



No.	Questions for management	Management response
4	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> <li>➤ What concerns about fraud are staff expected to report?</li> </ul>	<p>This is undertaken by officers of the Council. A Whistle Blowing policy is in place and is on the Council's intranet which gives details of how staff can raise concerns. Group entities also have their own arrangements. Publicity campaigns have also taken place where posters have been placed around Council buildings encouraging staff to act on any concerns they may have. Staff are encouraged to raise concerns about any areas where controls are not being complied with, where there is significant non-compliance with policies and procedures or where there are concerns regarding corruption or potential financial loss.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your area of responsibility?</p> <ul style="list-style-type: none"> <li>➤ How are the risks relating to these posts identified, assessed and managed?</li> </ul>	<p>The Internal Audit Fraud Risk Assessments identifies potential fraud risks in specific areas which would cover any specific risks in relation to individual posts. Counter fraud checks would be designed to test these risks to identify any potential fraudulent activity.</p>
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> <li>➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions?</li> </ul>	<p>No</p> <p>The Council and its group entities has robust procedures in place to ensure all related party transactions are identified and then where appropriate are fully disclosed in the relevant Statement of Accounts. The Council has an established Code of Practice for Partnerships and maintains and updates its Partnership Register regularly. Internal practices and processes carried out as part of the closing of accounts timetable also has specific tasks and detailed analysis of all member and chief officer interests and related party transactions which are reviewed and collated to form notes in the statement of accounts. All member interests are also documented and held by democratic services for scrutiny and also help to inform the process. The procedures for the identification and assessment of group accounts process also helps to inform this area in addition to the other processes and policies in place. Reviews by senior management also help inform the control process.</p>

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