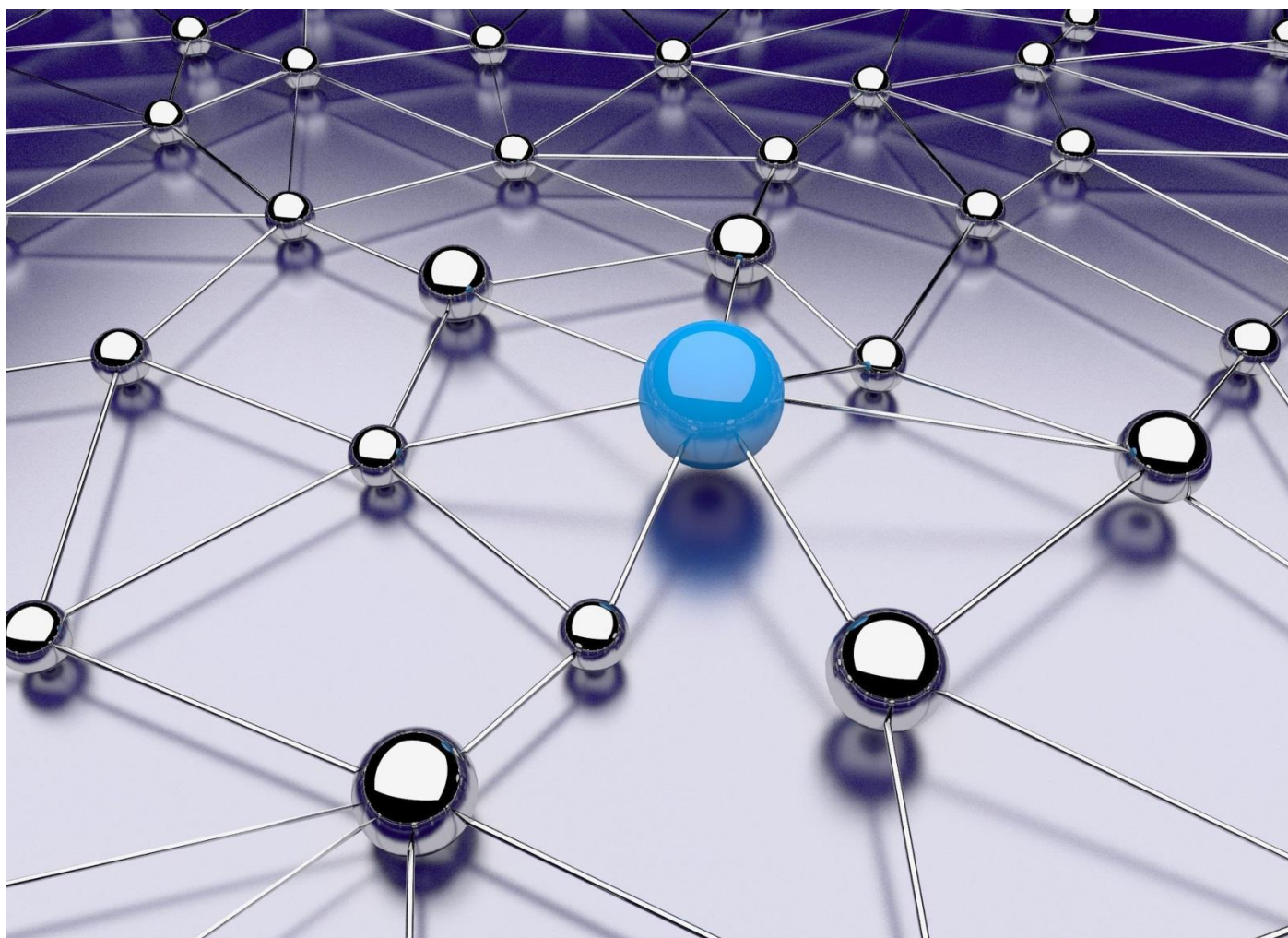


Sunderland City Council

Audit Progress Report

December 2016



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Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Sunderland City Council, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.

01 Introduction

The purpose of this report is to update the Audit and Governance Committee of Sunderland City Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

02 Audit progress

Completion of the 2015/16 audit

At the meeting of the Audit and Governance Committee on 30 September 2016 we reported that we would issue an audit opinion and VFM conclusion later that day.

On 30 September 2016, we were able to issue:

- an unqualified opinion on the Authority's financial statements; and
- our conclusion that the Council, in all significant respects, put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016 'except for' the areas that were highlighted as inadequate in the Ofsted report of July 2015 on children's safeguarding services.

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your Whole of Government Accounts (WGA) consolidation pack with the audited statement of accounts. We reported that your consolidation pack was consistent with the audited statement of accounts on 11 October 2016.

Following this, we issued an audit certificate formally concluding the 2015/16 audit, also on 11 October 2016.

We finalised our Annual Audit Letter in October 2016 and we will be presenting it as a separate agenda item to this meeting. This summarises our work and findings as well as outlining future challenges.

Certification of claims and returns

Work on the 2015/16 Housing Benefits Subsidy Claim is complete, and we certified the claim before the Department of Work and Pensions deadline of 30 November 2016.

This is now the only claim remaining part of the national arrangements managed by Public Sector Audit Appointments Ltd (PSAA), successor to the Audit Commission. As the Council's appointed auditor, we acted as an agent of PSAA. Each year auditors must report the results of our certification work to those charged with governance. For 2015/16 the only claim or return within this regime was the Housing benefit subsidy return.

Results of certification work 2015/16

In 2015/16 the prescribed tests for our Housing benefits work were set out in the HBCOUNT module and BEN01 Certification Instructions issued by PSAA. For the Housing benefit subsidy return, on completion of the specified work we issue a certificate. The certificate states whether the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter. Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

Sunderland City Council's 2015/16 Housing benefit subsidy return was submitted with amendment and a qualification letter as set out below.

Claim or return	Value of claim	Amended	Qualified
Housing benefit subsidy	£124,188,041	Increase of £76,982 mainly related to clarification of ownership of certain properties and hence their classification for subsidy purposes (these had initially been omitted from the claim pending this clarification)	Yes, one qualification relating to misclassification of rent allowance overpayments from sample testing (one error was identified from a sample of 40 cases); if this was extrapolated over the whole population, there would have been a gain in subsidy of £11,536. The Government Department will not normally pay additional subsidy where potential gains are extrapolated.

As was also the case in 2014/15, we did not make any recommendations or highlight any significant issues for improvement.

Fees

PSAA set an indicative fee for our work on the Council's Housing benefit subsidy return. We confirm that the final fee payable for this work as outlined in the table below is in line with the indicative fee. The following fee was charged for the 2015/16 work.

Claim or return	2015/16 indicative fee	2015/16 final fee	2014/15 final fee
Housing benefit subsidy	£9,309	£9,309	£10,300

Additional schemes outside the national arrangements

The Council is required by funding bodies to arrange independent certification of certain grant claims and returns that are now outside the PSAA regime.

As reported in the annual audit letter, we made arrangements for the certification of the Teachers' Pension Return for 2015/16, for an agreed fee of £2,750 plus VAT.

The work on the Teachers' Pensions return was completed and reported ahead of the deadline of 30 November 2016.

2016/17 audit planning

Planning for the 2016/17 audit will be the focus of our work in the first quarter of 2017.

03 National publications and other updates

This section contains updates on the following:

1. **Regularity, Compliance and Quality Report 2015-16, PSAA August 2016**
2. **Local Public Service Reform, NAO, September 2016**
3. **Understanding Local Authorities Financial Statements, CIPFA, September 2016**
4. **Alternative Delivery Models, CIPFA, October 2016**

1. **Regularity, Compliance and Quality Report 2015-16, PSAA, August 2016**

Public Sector Audit Appointments Ltd (PSAA) is responsible for appointing the Authority's auditor, and assessing the performance of all appointed auditors. This consists of monitoring both the quality of the work undertaken and the regulatory compliance of all firms appointed under the Local Audit and Accountability Act.

The audit quality and regulatory compliance monitoring for 2015/16 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) conclusion and housing benefit (HB COUNT) work;
- an assessment as to whether PSAA could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;
- the results of the inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of PSAA's commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to PSAA's Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with PSAA's regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2014/15 work.

PSAA has recently completed this process for 2015/16. A 'RAG' rating system is used, and we are delighted to inform you that Mazars is one of only two firms that have been consistently graded '*green*' in all areas, scoring joint-highest for quality of work undertaken, and highest for client satisfaction.

2016 Comparative performance for audit quality and regulatory compliance

BDO Green	Deloitte Green	EY Green	GT Amber	KPMG Amber	Mazars Green	PwC Amber
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2015 Comparative performance for audit quality and regulatory compliance

BDO Amber	Deloitte Amber	EY Green	GT Amber	KPMG Amber	Mazars Green	PwC Amber
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Areas for improvement were identified in the report, and we are committed to acting on the recommendations and further strengthening our audit approach for 2016/17.

The report can be found at: <http://www.psaa.co.uk/audit-quality/>

2. Local Public Service Reform, NAO, September 2016

The NAO undertook research early in 2016 to ascertain:

- How local public service reform is being pursued in eight places in England;
- What the enablers and barriers are; and
- How the Government is supporting reform at a local level.

In September 2016 they published a report summarising their findings and identifying sources of help for public services needing to redesign services to be financially sustainable. The report concludes that by working together, and with service users and citizens, local public services can both improve outcomes and save money but a strategy is needed that:

- prevents or reduces demand for costly services;
- makes it easier for people to get access to the support they need; and
- re-designs services to meet people's needs in a more integrated and effective way.

The report is available on their website.

<https://www.nao.org.uk/report/local-public-service-reform/>

3. Understanding Local Authority Financial Statements, CIPFA, September 2016

This publication updates previous CIPFA guidance designed to make the complex financial statements required for local authorities more understandable. The 2016/17 Code includes a revised format that is closer to that used for management reporting during the year. The document describes the changes and identifies opportunities to simplify presentation and make the messages clearer regarding:

- Comparison with budgets;
- Reserves positions; and
- Cash Flow.

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/simplification-and-streamlining-the-presentation-of-local-authority-financial-statements>

4. Alternative Delivery Models, CIPFA, October 2016

Alternative service delivery models of various shapes and sizes are increasingly being used to deliver a growing number and range of public services in many locations in the UK.

An alternative delivery model can be a different way of managing, collaborating and contracting, or it can involve the establishment of a completely new organisation that could be wholly, or partly owned by the parent body or a completely independent enterprise.

They range from small community-based initiatives, employee led spin outs (large and small), local authority companies, to substantial multi-stakeholder partnerships involving private and public sector organisations.

At their best, these new models can provide greater flexibility and dynamism, while maintaining continued commitment to public service and wellbeing. This combination of innovation in public enterprise and public/social purpose can make them effective vehicles for improving service outcomes.

<http://www.cipfa.org/policy-and-guidance/publications/a/a-practical-guide-to-alternative-delivery-models-online>

04 Contact details

Please let us know if you would like further information on any items in this report.

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