

Annual Audit Letter

Sunderland City Council

Year ending 31 March 2019





CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for Money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Sunderland City Council (the Council) for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council and the Group's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	<p>Our report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019, except for those areas assessed as inadequate in Ofsted's re-inspection report on Children's Safeguarding Services in July 2018.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, we reported by the deadline of 13 September 2019 to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts (WGA) return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
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The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and the Group and whether they give a true and fair view of the Council and the Group’s financial position as at 31 March 2019 and of its financial performance for the year then ended.

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

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

Our auditor’s report, issued to the Council on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council and the Group’s financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

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

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

The table below provides details of the materiality levels applied in the audit of the financial statements of the Council and the Group for the year ended 31 March 2019:

Materiality element	Basis	Council	Group
Financial statement materiality	Our financial statement materiality is based on 2% of gross operating expenditure at surplus / deficit on provision of services level	£13.320m	£13.861m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality	£0.400m	£0.416m



2. AUDIT OF THE FINANCIAL STATEMENTS

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

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

The following table outlines those risks, the work we carried out on those risks and our conclusions.

Identified risk	Our response	Our findings and conclusions
<p>Key audit matter - defined benefit liability valuation (pensions)</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p>Due to the high estimation uncertainty of pension calculations, we consider this to be a 'key audit matter'.</p>	<p>How we addressed the key audit matter:</p> <ul style="list-style-type: none">• we critically assessed the competency, objectivity and independence of the Actuary;• we liaised with the auditors of the Pension Fund to gain assurance that the controls in place at the Pension Fund were operating effectively;• we gained assurance over the processes and controls put in place by management to ensure data provided to the Actuary by the Pension Fund for the purposes of the pension valuation was complete and accurate;• reviewed the appropriateness of the pension asset and liability valuation methodologies applied by the Pension Fund Actuary and the key assumptions included within the valuation;• we compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office;• we agreed the data in the Actuary's valuation report for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements; and• we challenged the Council on the completeness of pension liabilities in relation to the McCloud judgement and guaranteed minimum pension equalisation.	<p>Following the amendments in respect of McCloud liabilities and several presentational amendments, we obtained the assurance required, with no other significant issues arising we are required to highlight to you.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risks (continued)

Identified risk	Our response	Our findings and conclusions
<p>Key audit matter - Property, Plant and Equipment and Investment Property valuations</p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of Property, Plant and Equipment (PPE) and Investment Properties. Due to the volatility of valuations, we consider this area to be a 'key audit matter'.</p> <p>The Council employs a valuation expert to provide information on valuations, however there remains a high degree of estimation uncertainty associated with the (re)valuations of PPE and Investment Properties due to the significant judgements and number of variables involved.</p>	<p>How we addressed this key audit matter:</p> <ul style="list-style-type: none">• we critically assessed the Council's arrangements for ensuring that PPE and Investment Property valuations are reasonable;• we critically assessed the data provided by Gerald Eve (an expert commissioned by the NAO), as part of our challenge of the reasonableness of the valuations provided by the Council's Valuer;• we considered the competence, skills and experience of the Valuer and the instructions issued to the Valuer, including checking whether planned revaluations had taken place;• substantively tested capital expenditure additions and disposals during the year;• substantively tested the Council's PPE and Investment Properties to gain assurance that they existed and were owned by the Council;• substantively tested revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they were not materially misstated; and• where necessary, performed further audit procedures on individual assets to ensure the basis of valuations was appropriate.	<p>Testing identified the following:</p> <ul style="list-style-type: none">• an omitted leisure centre from the Group balance sheet consolidation adjustment for the leisure joint venture; and• two properties which should have been brought back onto the Council's balance sheet. <p>There are no other significant issues arising from our work to date that we are required to report to you.</p>
<p>Significant risk - management override of controls</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>	<p>We addressed the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p> <p>We raised a recommendation during the audit that senior officers carry out a review of material journals during the year; this was appropriately actioned.</p>	<p>There are no significant issues arising from our work that we are required to report to you.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risks and key areas of management judgement (continued)

Identified risk	Our response	Our findings and conclusions
<p>Significant risk: risk of fraud in revenue recognition - fees, charges and other income</p> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and grant income.</p> <p>However, we do not feel that sufficient scope exists to rebut this risk in respect of the recognition of fees, charges and other income. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>How we addressed this risk</p> <ul style="list-style-type: none"> • we substantively tested fees, charges and other income to ensure they had been correctly classified and recognised; • we tested journals; and • we obtained direct confirmation of year-end bank balances and tested the reconciliations to the ledger. 	<p>There are no significant issues arising from our work to date that we are required to report to you.</p>
<p>Key area of management judgement - unquoted equity investment valuations</p> <p>The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, including those in Newcastle Airport and several joint ventures.</p> <p>The underlying accounting requirements are subject to change in 2018/19, which increases the risk in respect of these valuation judgements, therefore they have been assessed as enhanced risks.</p>	<p>How our audit addressed this:</p> <ul style="list-style-type: none"> • we critically reviewed the basis of valuation for the Council's unquoted equity investments; and • we assessed whether disclosures were in line with the Code of Audit Practice. <p>Following the audit, the Council decided to change the basis of measurement of its investment in Siglion from fair value to cost, which is permitted by the Code.</p>	<p>Following amendments to the financial statements in respect of the changed basis of valuing the Council's investment in Siglion and the amendments to the valuation of the Airport shares, we have obtained the assurance sought, with no significant issues arising from our work that we are required to report to you.</p>
<p>Key area of management judgement – impairment of debtors allowance</p> <p>The Council has disclosed its impairment of debtors allowance as an area of estimation uncertainty.</p> <p>The underlying accounting requirements are subject to change in 2018/19, which increases the risk in respect of the assumptions and uncertainties relevant to this area, therefore they have been assessed as enhanced risks.</p>	<p>How our audit addressed this:</p> <ul style="list-style-type: none"> • we critically reviewed the Council's calculation of its impairment of debtors allowance; and • we assessed whether disclosures were in line with the Code of Audit Practice, including any exemptions relevant to non-contractual debt. 	<p>We have obtained the assurance sought, with no significant issues arising which we are required to report to you.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

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

We identified no significant deficiencies in internal control as part of our audit. Other recommendations, as well as our follow-up of prior year recommendations, are detailed in this section.

Description of deficiency	Housing Benefit system walkthrough (Level 2 – medium priority) Our walkthrough of a new claim within the housing benefits system identified two errors, namely: <ul style="list-style-type: none">evidence of Child Tax Credit income was not retained on the system as required; andthe assessment of income incorrectly included a figure for the claimant’s capital, resulting in an underpayment of benefit. We were able to obtain evidence for the Child Tax Credit income at the time of our walkthrough, however this should have been retained on file. We note the assessment of income for benefits is prone to error due to its complexity.
Potential effects	Non-compliance with DWP subsidy requirements. Incorrect calculation of benefits.
Recommendation	The Authority should consider strengthening quality assurance and training in relation to the assessment of income.
Management response	Further instructions and reminders have been issued to staff regarding the retention of evidence of income on a claim and regarding the importance of ensuring that the assessment of income used in the calculation of a claim is correct. More targeted checks on income assessment are planned and any identified areas of concern will be addressed. Training and/or coaching will be delivered where appropriate, and this will be followed up with additional monitoring of staff and procedures.

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

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations (continued)

Description of deficiency	Reporting actual versus planned savings at the year-end (Level 2 – medium priority) The Council has robust monitoring arrangements for the delivery of savings required during the year. At the year-end, the Council reports its outturn position overall, which takes into account the achievement of savings. However, it is not clear which savings were achieved and which were compensated for by other budget underspends.
Potential effects	Lack of clarity on savings, impacting on decision-making.
Recommendation	The Council should expand existing monitoring reports on planned and actual savings to report on year-end outcomes.
Management response	The Council has refreshed its budget monitoring and reporting approach with the aims of improved transparency and understandability. This recommendation will be considered in line with these aims.

Description of deficiency	Evidence of Treasury Management reconciliation review (Level 3 – low priority) A monthly reconciliation of the Treasury Management system to the general ledger is carried out. This is checked and authorised by a second person, however no evidence is retained of this review. Treasury Management is a key system, with highly material figures, therefore such evidence should be retained (this does not have to be via a hardcopy working paper, but could be electronic).
Potential effects	Risk of fraud and / or error.
Recommendation	Retain evidence of the approval of the monthly Treasury Management system reconciliation to the general ledger.
Management response	This has been actioned.

Description of deficiency	Completeness of bank account confirmations (Level 3 – low priority) Testing identified that the direct confirmation provided to us by the Council's bank had omitted one bank account in respect of a school. In this particular case, the letter we received listed all accounts (including schools) where there was a right of set-off in one section of the letter, but had then omitted one of the schools' actual bank balance in the earlier section of the letter in error. Whilst we were able to gain the assurance required, the completeness and accuracy of bank confirmations is an important source of assurance.
Potential effects	Lack of assurance over bank accounts - a key area.
Recommendation	The Council should liaise with its relationship manager at the bank to discuss the controls in place for ensuring bank confirmations provided are accurate and complete.
Management response	This has been actioned.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Qualified
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Our approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

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

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

Our auditor’s report, issued to the Council on 31 July 2019, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019 except for those areas assessed as inadequate in Ofsted’s re-inspection report of July 2018 on children’s safeguarding services.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below, followed by consideration of significant risks identified to our Value for Money conclusion.

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



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The Council has continued to make good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions.</p> <p><i>Financial resilience</i></p> <p>The final revenue outturn for 2018/19 was an underspend of £0.682 million (prior year £0.788 million). This was after making an additional contributions to Together for Children Sunderland Limited to address financial pressures, in particular, demand pressures around the costs of looked after children. It was also after providing additional support for Sunderland Care and Support Limited to support workforce transformation costs.</p> <p>The Council has maintained comparatively healthy levels of usable reserves; these have decreased slightly to £154.022 million as at 31 March 2019 (£159.1 million at 31 March 2018). Although these are earmarked for specific purposes, they do provide flexibility to manage the medium-term financial position.</p> <p>The Council continues to face a funding gap to address in coming years, therefore further savings and / or sources of additional income continue to be required. We comment on this further in the next section on our VfM significant risks.</p> <p><i>Capital programme</i></p> <p>The Council has maintained a substantial capital programme of investment projects. The final outturn for 2018/19 was a capital spend of £80.9 million (prior year £94.1 million), and the capital programme for 2019/20 amounts to £168.9 million. Similar to other local government bodies, there is a degree of slippage in capital projects, resulting in significant changes between the original and revised budgets; this should be kept under review.</p> <p>A major part of the Council's asset management strategy involved transferring its commercial property portfolio to its joint venture local asset-backed vehicle, Siglion LLP, with the aim of accelerating regeneration schemes. Earlier this year, the Council bought out it's partner in Siglion and therefore now wholly owns the company.</p> <p><i>Workforce development</i></p> <p>Going forward, the Council faces the challenge of supporting the cultural change that will be needed, as resources continue to reduce and new ways of working are sought – including the move to the new civic centre when it is built.</p>	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>As set out earlier, the Council's new City Plan sets out its strategic direction, as well as for its strategic partnership arrangements. The City Plan sets out the key challenges facing the Council and is clear that it requires the input of all partners in the city if it is to be delivered.</p> <p>The Council already has well developed partnership arrangements in place, however, a new focus will be needed to deliver the ambitions of the City Plan, with, as set out in the peer review feedback report, alignment of performance and risk management frameworks.</p> <p>Continuing to build upon working arrangements with the local health economy is important, with April 2019 seeing the start of the new 'All Together Better' alliance in Sunderland, which brings together health and social care professionals together in commissioning services in the most effective manner to support individuals.</p> <p>The Council continues to work closely with its various interests, namely:</p> <ul style="list-style-type: none">• Together for Children;• Sunderland Care and Support;• Sunderland Homes;• Siglion;• Sunderland Lifestyle Partnership; and• International Advanced Manufacturing Park. <p>The use of separate entities and joint ventures by the Council to achieve its aims presents both opportunities and challenges. It is important that good governance arrangements continue to be maintained in respect of these various interests, as well as wider partnership working arrangements.</p> <p>We note the deterioration in arrangements at Together for Children, as highlighted by Ofsted in its recent monitoring letter of June 2019. However, some sub-areas of Children's Services such as fostering, adoption and Children's homes were rated as good or outstanding. We consider this further in our significant risks section overleaf.</p> <p>Sunderland Care and Support, after adjusting for pension liabilities, reported a small profit for 2018/19 and is refreshing its business plan and actively seeking other income streams.</p>	<p>Yes – other than in respect of those aspects of Children's Services rated as inadequate by Ofsted (see significant risks section overleaf).</p>

3. VALUE FOR MONEY CONCLUSION

Significant Value for Money risks

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

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

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

Risk	Work undertaken	Conclusion
Responding to financial pressures The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements, including alternative models of service delivery. Without robust budgetary control and delivery of its action plans, the Council’s financial resilience and service performance could deteriorate.	<p>We reviewed budget monitoring and reporting. We note the refreshed format of budget monitoring and reporting going forward.</p> <p>We also considered the adequacy of plans that are developed to deliver savings and improvements.</p> <p>The Council set out it needed to deliver savings of approximately £25 million for 2018/19. This target has been met overall by virtue of the net underspend of £0.682 million.</p> <p>We note there is regular monitoring of the delivery of savings during the year, but there is no formal year-end position statement on whether planned savings have been delivered as it is considered to be covered via the overall budget monitoring outturn. We would recommend the actual versus planned savings position is formally reported, to aid good decision-making.</p> <p>The Council has plans to meet the funding gap identified for future years and recognises this remains very challenging, in particular given the scale of savings already delivered to date.</p>	<p>We obtained the assurance sought, with no significant issues arising.</p> <p>We highlighted one best practice recommendation, as set out to the left.</p>
Ofsted inspection: Children’s Services There is a risk Council does not make the required improvements to Children’s Services, or does not make the improvements rapidly enough.	<p>We considered the progress made by the Council in relation to Children’s Services. This requires an expert judgement, therefore, we have relied on the updated assessment of Ofsted made in July 2018. This concluded that whilst some improvement had been made, their overall assessment remained that Children’s Services was ‘inadequate’.</p> <p>We note the most recent Ofsted monitoring visit in 2019 which highlighted a deterioration in some areas of performance. However, some sub-areas of Children’s Services such as fostering, adoption and Children’s homes were rated as good or outstanding</p>	<p>Children’s Services has been rated as ‘inadequate’ by Ofsted.</p> <p>This resulted in a qualification of our VFM conclusion, on an ‘except for’ basis (i.e. that adequate arrangements are in place, except for those aspects assessed as inadequate by Ofsted.</p>



4. OTHER REPORTING RESPONSIBILITIES

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

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

Matters on which we report by exception

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

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

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

The NAO, as group auditor, requires us to complete the Whole of Government Accounts (WGA) Assurance Statement in respect of its consolidation data. In line with group audit instructions issued by the NAO, we reported by the deadline of 13 September 2019 to the group auditor in line with the requirements applicable to the Council’s Whole of Government Accounts (WGA) return.

Other information published alongside the financial statements

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

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Governance Committee in February 2019.

Having completed our work for the 2018/19 financial year, we can confirm our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£104,546	£104,546*

*subject to discussions in respect of the additional audit work arising from the McCloud pensions issue.

Fees for other work

We have been engaged to carry out the area of work detailed below. We also anticipate carrying out work in respect of the Council's Teachers' Pensions return.

Area of work	2018/19 proposed fee	2018/19 final fee
Housing Benefits Subsidy return	£9,210	£9,210*

* subject to completion of work

Services provided to other entities within the Council's Group

Mazars LLP carries out the external audit of Sunderland Care and Support Ltd, one of the Council's subsidiaries. The fees for 2018/19 are set out below. In order to ensure independence, this external audit is led by a separate audit Engagement Lead, based from our Leeds office.

Area of work	2018/19 proposed fee	2018/19 final fee
External audit of Sunderland Care and Support (Holding) Company Limited	£2,300	£2,300
External audit of Sunderland Care and Support Limited	£15,400	£15,400

6. FORWARD LOOK

Financial outlook

The Council has continued to make good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions, with the final revenue outturn for 2018/19 being an under spend of £0.682m.

Progress in the implementation of the £17.364m approved savings plans for 2019/2020 has continued and overall shows positive progress. However, the position reflects the continued challenge the Council faces in delivering significant savings year on year.

Longer-term uncertainties continue in relation to business rates retention and the fair funding review.

Strategic and operational challenges

The Council has set out its ambitions for the city in its new 'City Plan'. The City Plan sets out the key challenges facing the Council and city as being:

- stemming outward migration;
- ensuring the city centre functions as the economic motor for the whole city,
- growing Sunderland businesses;
- improving the skills and qualifications of local residents to match the needs of industry in the city;
- changing poor health behaviours; and
- addressing the high levels of children in need and in care.

On top of these the Council also has the continued pressures arising from the government's austerity measures, increasing adult social care costs and the potential impacts of Brexit.

In addition, the Council has summarised the main areas for on-going improvement in the coming year in its Annual Governance Statement for 2018/19 as including:

- ensuring appropriate performance management arrangements are in place to monitor delivery of the City Plan;
- reviewing partnership arrangements to ensure they support the delivery of the City Plan;
- implementing the action plan arising from the recent LGA Corporate Peer Challenge report; and
- continuing to work collaboratively with Together for Children Sunderland Ltd (TfC) to maintain the improvement of services.

Next year's audit and how we will work with the Council

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money. In the coming year we will continue to:

- attend Audit and Governance Committee meetings and present Audit Progress Reports including updates on regional and national developments; and
- host events for officers such as our Local Government Accounts workshop.

We will meet officers to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector. In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Council has taken a positive and constructive approach to our audit and we wish to thank Members, the Audit and Governance Committee and officers for their support and co-operation.



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