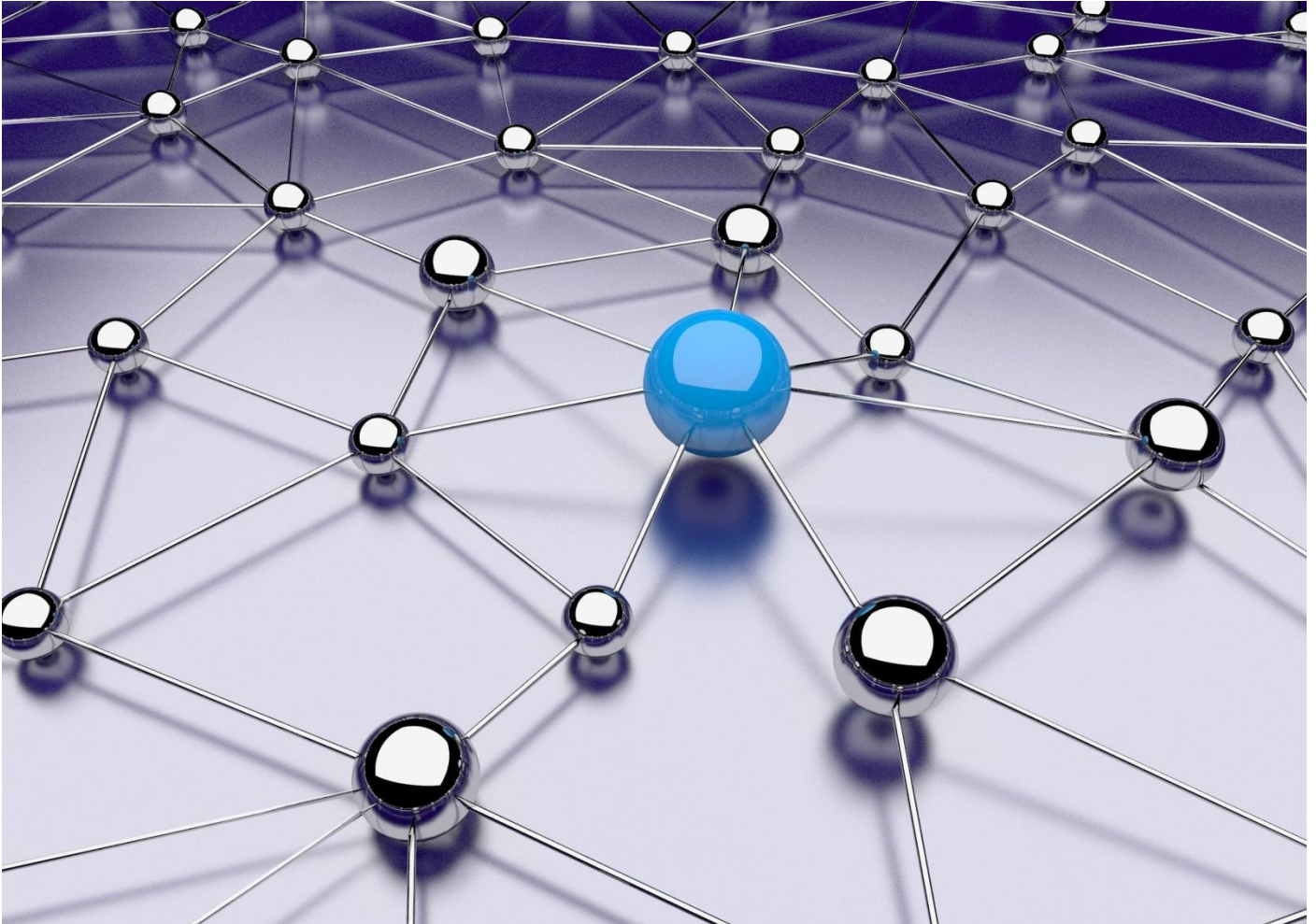


Annual Audit Letter 2014/15

Sunderland City Council



Sunderland
City Council

October 2015

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Members
Sunderland City Council
Civic Centre
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30 October 2015

Dear Members

Sunderland City Council - Annual Audit Letter 2015

I am delighted to present to you Sunderland City Council's (the Council's) Annual Audit Letter. The purpose of this document is to summarise the outcome of the audit of the Council's 2014/15 annual accounts and our work on our value for money conclusion.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

2014/2015 has been another challenging year for the Council and like most other authorities in the North East, Sunderland City Council made some tough decisions on its spending priorities and plans for the future. We reflect on these matters in the value for money and future challenges sections of this letter.

Given the difficult circumstances we were pleased to issue an unqualified opinion on the statement of accounts. In relation to value for money, we concluded that, in all significant respects, the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for the areas that were assessed as inadequate by Ofsted in their report on children's services in July 2015. We explain this further in the value for money part of this letter.

I would like to express my thanks for the assistance of the Council's finance team, as well as senior officers and the Audit and Governance Committee; the continued constructive approach to our audit is appreciated.

If you would like to discuss any matters in more detail then please do not hesitate to contact me or my senior manager Gavin Barker on 0191 383 6300.

Yours faithfully

Mark Kirkham
Partner
Mazars LLP

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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the Council and we take no responsibility to any Member or officer in their individual capacity or to any third party.

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01 Key messages

Our Annual Audit Letter provides a summary of our work and findings for the 2014/15 audit period for Members and other interested parties.

In 2014/15 our audit of the Council included the following main elements:

- auditing your financial statements; and
- assessing arrangements for achieving value for money (VFM) in your use of resources.

We reported the detailed findings from our audit work to the Audit and Governance Committee in our Audit Completion Report on 25 September 2015.

The key conclusions for each element are summarised below.

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's financial statements on 30 September 2015.

Our VFM conclusion

We carried out sufficient, relevant work, in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We were required to consider two specified criteria:

- the Council has proper arrangements in place for securing financial resilience; and
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued our VFM conclusion on 30 September 2015. This included an 'except for' qualification which is explained further in section 3 of this report.

Whole of Government Accounts

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your WGA consolidation pack with the audited statement of accounts. We reported that your consolidation pack was consistent with the audited statement of accounts on 30 September 2015.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions or objections in relation to your 2014/15 accounts from local electors, nor did we exercise our wider reporting powers.

02 Financial statements

Audit of the financial statements

We audited your financial statements in line with auditing standards and we reported our detailed findings to the meeting of the Audit and Governance Committee on 25 September 2015. We issued an audit report, including an unqualified opinion, on the statement of accounts on 30 September 2015.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline. The production of the statement of accounts is a significant technical challenge involving a great deal of work by the Council's officers. We appreciate the cooperation of management and the patience, courtesy and assistance shown to us in the completion of our work. The working papers supporting the statement of accounts were of good quality and officers were responsive in following up the queries we raised.

Issues arising from the audit of the accounts

We highlight the following key points:

- officers prepared good quality draft statements and working papers;
- we identified very few errors requiring adjustment in the financial statements;
- there were no unadjusted errors and no errors impacting on the Council's general fund balance or earmarked reserves;
- we recorded no significant deficiencies in internal control (noting our work is not intended to express an opinion on the effectiveness of the system of internal control); and
- the positive outcome of the audit and in particular the continued constructive and responsive approach of officers is noteworthy.

Annual Governance Statement (AGS)

The AGS is drafted by the Council to provide assurance to the reader over how it is managed and how it has dealt with risks in the year. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the Council. We found no areas of concern to report.

03 VFM conclusion

We performed our work in line with the Audit Commission's Code of Audit Practice for Local Government bodies and the guidance on the VFM conclusion for 2014/15.

Our work in this area focused on the two criteria specified by the Audit Commission namely:

Criteria	Focus of the criteria
The Council has proper arrangements in place for securing financial resilience.	The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

As part of our work, we also:

- review your Annual Governance Statement;
- review the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carry out any risk-based work we determine to be appropriate.

We are not required to consider, nor have we, all aspects of the Council's arrangements. We adopt a risk based approach, designed to identify any significant issues that might exist. We report if significant matters come to our attention which prevent us from concluding that the Council has put in place proper arrangements.

In the Audit Strategy Memorandum we identified a significant risk relevant to the value for money conclusion. We carried out work to address this risk area.

There was one report by other regulatory bodies or inspectorates that was relevant to our work this year. This was the Ofsted report in relation to the Council's children's safeguarding services.

Like other public sector bodies, the Council faces a number of challenges and in light of these we reviewed the Council's arrangements for managing financial risks and securing a stable financial position. We included the results of our review of arrangements for securing VFM in a separate report to the Audit and Governance Committee on 25 September 2015.

Overall conclusion

Our audit report included a conclusion that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources except for the areas that were assessed as inadequate by Ofsted in their report on children's services in July 2015.

Significant risk

VFM risk

Description of the risk

The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.

How we addressed this risk

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

Conclusion

There is strong evidence of the Council's delivery of savings. Over the five year period from 2010/11 to 2014/15 the Council has achieved savings of £171m. In 2014/15, the Council delivered significant savings and still achieved a small net budget underspend of £0.6m. The Council has identified the need for significant future savings and plans are in place or are being developed to address these challenges.

Financial resilience and securing economy, efficiency and effectiveness

The Council has a strong track record of delivering savings and keeping within budget. The Council also has a reputation for strong leadership and innovation. Measures taken have included:

- significant changes in the way the Council provides services including new models of service delivery, for example, establishing Sunderland Care and Support Ltd, and closer working with partners, for example, with Sunderland Clinical Commissioning Group through the Better Care Fund;
- investment in regeneration including the establishment of Siglion LLP, a local asset backed vehicle, as a joint venture with the private sector to accelerate investment in the City; and,
- other investment in infrastructure including: the City Deal and the creation of a new International Advanced Manufacturing Park; the Sunderland Strategic Transport Corridor, including the building of a new Wear Crossing; and development of the Vaux site and St Mary's Boulevard aimed at reinvigorating the city centre.

The future looks even more challenging. The Government has not yet clarified how much funding levels will reduce but the outlook for the Council is that resources available will not be sufficient to pay for the services it currently provides. The Council forecasts that the savings requirements in the next 5 years from 2015/16 to 2019/20 will be a further £149m and shows an understanding of what these challenges will mean:

"The outlook is therefore extremely challenging and it is clear that as more savings are required the ability to protect frontline services will become increasingly difficult.

The Council continues to plan for these further significant reductions and risks. As set out in the Medium Term Financial Strategy, the achievement of savings will be through a programme of activity based around the council's Community Leadership approach. The Council's role will increasingly shift from delivering services to enabling individuals, communities and other organisations in the public, private and voluntary sectors to work together to address the needs of the city and to encourage people to be more self-supporting."

Source: Explanatory Foreword, Sunderland City Council Financial Statements 2014/15

Ofsted inspection

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

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

We have identified much good practice in the Council's overall corporate arrangements, however, the Ofsted assessment of children's safeguarding services as 'inadequate' provides evidence of a significant service failure. We note that corporate management had identified that there were significant issues that needed to be addressed, had already taken action and planned further improvement measures. This provides some evidence of the Council's corporate arrangements operating effectively in terms of identifying risks and seeking to address them. Progress with the actions to date, however, has not yet led to the improved outcomes that are needed.

The Ofsted report, although acknowledging some of the measures that have been taken, concluded that they have not yet improved practice or outcomes for young children. The issues raised by Ofsted focus on "widespread, systematic poor practice" in the management of social work for children, which has left significant numbers of cases that have not been fully assessed or progressed, issues over the stability of the workforce and high caseloads, and issues over partnership working, performance management and quality assurance and oversight. Ofsted describe this as "a corporate failure by senior leaders and management that leaves children and young people unsafe."

Our response to the conclusions reached by Ofsted, was to incorporate an 'except for' qualification into our VFM Conclusion. In effect, based on the required scope of our work, our conclusion was that the Council, in all significant respects, put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015 'except for' the areas that have been highlighted as inadequate in the Ofsted report.

The Council is addressing the issues raised in the Ofsted inspection, and has appointed an Interim Director with experience of leading improvement. Following the inspection, the Government appointed a Commissioner for Children's Services in Sunderland to work with the Council to advise on improvements and to inform ministers about progress.

04 Future challenges

Financial challenges

The Council has made good progress in addressing its biggest challenges to date and has a proven track record of strong budget management and delivering planned budget reductions. The Council's budget for 2014/15 reflected £36m of savings, and overall there was an underspend of £0.6m against the original budget.

The Council identified that significant savings of £39.8m are required in 2015/16, and forecasts that the savings requirements in the next 5 years from 2015/16 to 2019/20 will be £149m.

Other challenges

Improving children's safeguarding services is a key priority for the Council, and is being closely monitored.

The wider difficulty of maintaining good service performance levels at the same time as reducing budgets is recognised by the Council. The Council is exploring a number of options including alternative models of service delivery.

The Council faces a number of other challenges in the coming year which include:

- Better Care Funding and associated pooled budgets;
- joint working with health and others; and
- the ongoing impact of the Welfare Reform Act.

With a financial outlook that is increasingly challenging, to develop locally responsive services that maintain standards of access and quality, the Council will need to continue to:

- carefully forecast and effectively monitor budgets;
- identify and address financial pressures as they emerge;
- deliver a long term financial strategy that addresses immediate pressure while allowing scope for strategic service change;
- maintain effective arrangements for public engagement; and
- use constructive relationships with partners to safeguard service quality and resilience.

We will focus our 2015/16 audit on the risks that these challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

We will also share with you relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key area in this respect includes liaising with officers as they make preparations for the change in valuation basis for transport infrastructure required by the accounting Code. This will require significant changes in the 2016/17 financial statements and we are already working with both finance and highways officers to ensure all required systems are in place.

05 Fees

As outlined in our Audit Strategy Memorandum presented to the Audit and Governance Committee on 27 March 2015, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2014/15 are summarised below.

Element of work	2013/14 Final Fee	2014/15 As previously reported	2014/15 Final Fee
Code audit work	£183,802	£181,032	£181,032
Certification work	£12,412	£10,300	£10,300
Non-audit work	£35,500	£7,955	£16,870
Total	£231,714	£199,287	£208,202

All fees are shown excluding VAT

The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim.

Analysis of non-audit work for 2014/15:

Non-audit services	2014/15 Actual Fee
2013/14 Teachers' Pensions Return (included in 2014/15 fees due to the timing of this work)	£2,750
2013/14 Review of s256 Agreements (included in 2014/15 fees due to the timing of this work)	£5,205
2014/15 Teachers' Pensions Return	£2,750
Officer attendance at Mazars' accounting workshops relating to Transport Infrastructure Assets and Group Accounting	£300
Tax advisory services	£865
Advisory review of Better Care Fund plans for health and social care integration	£5,000 ¹
Total fee	£16,870

All fees are shown excluding VAT

¹ Plus travel expenses

Mazars is also the auditor of Sunderland Care and Support Ltd, one of the Council's trading companies. In addition, the firm provides accounts preparation and taxation services to the company.

Should you require any further information on this letter or on any other aspects of our work, please contact:

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