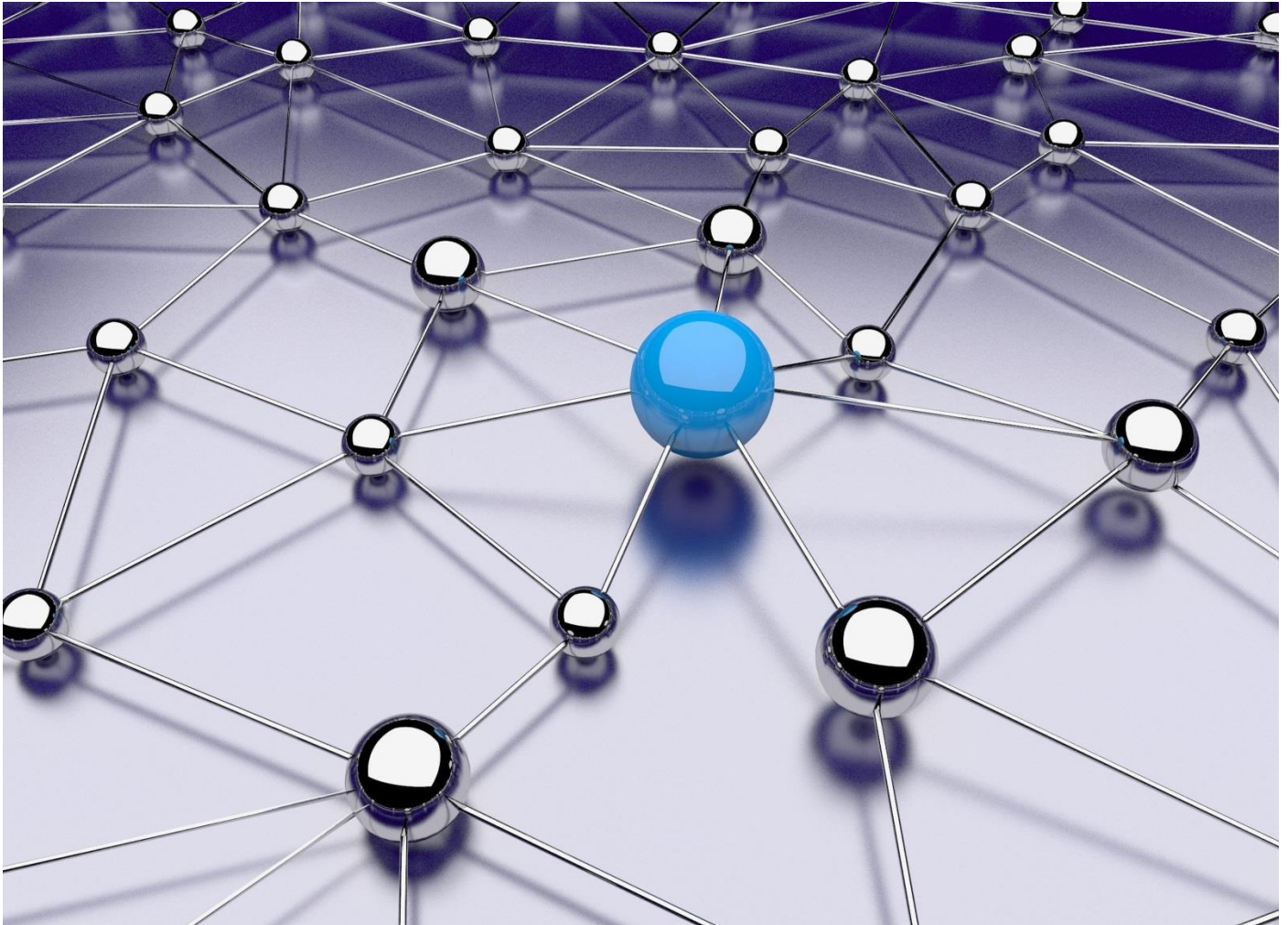


# Audit Completion Report

Sunderland City Council – year ended 31 March 2016

September 2016



  
**Sunderland**  
City Council

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Audit and Governance Committee  
Sunderland City Council  
Civic Centre  
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Sunderland  
SR2 7DN

20 September 2016

Dear Members

**Audit Completion Report – Year ended 31 March 2016**

We are delighted to present our Audit Completion Report for the year ended 31 March 2016. The purpose of this document is to summarise our audit findings and conclusions.

The scope of our work, including identified significant audit risks, was outlined in our Audit Strategy Memorandum which we presented to the Committee on 18 March 2016. We reviewed our Audit Strategy Memorandum upon receipt of your statement of accounts and concluded that the original significant audit risks were still appropriate. We then planned and completed our audit procedures accordingly.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

This document will be presented to the Audit and Governance Committee on 30 September 2016. If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300 or [mark.kirkham@mazars.co.uk](mailto:mark.kirkham@mazars.co.uk).

Yours faithfully

Mark Kirkham  
Partner  
Mazars LLP

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Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ and ‘Terms of Appointment’ issued by Public Sector Audit Appointments Limited. 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 Executive summary

## Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2016 to the Audit and Governance Committee of Sunderland City Council and forms the basis for discussion at the Audit and Governance Committee meeting on 30 September 2016.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Sunderland City Council; and
- receive feedback from you on the performance of the engagement team.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 3 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 4 and a summary of misstatements identified as part of the audit in section 5.

We can confirm that no new threats to our independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

## Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2016.

At the time of preparing this report, we have not yet received and reviewed the following:

- Assurance from the auditors of Tyne & Wear Pension Fund (Ernst & Young) over IAS 19 pension related entries in the financial statements.

We will provide an update to you in a follow up letter to this report should any issues arise in relation to these matters.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources except for the areas that were assessed as inadequate by Ofsted in their report on children's services in July 2015. This is explained further in section 6 of this report.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 21 October 2016.

Our proposed audit report is set out in Appendix B.

## 02 Commentary on the financial statements

Well-managed finances are the foundation of the Council's ability to deliver essential services and to achieve value for money for taxpayers. The Statement of Accounts is the key medium by which the Council communicates financial performance with external stakeholders. As such it provides valuable data on how resources have been employed and what assets and liabilities are outstanding, and is a useful indicator as to the financial health of the organisation.

### Comprehensive Income and Expenditure Statement (CIES)

The CIES shows the cost of providing services for 2015/16 prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2015/16. The statement shows a deficit for the year for the provision of services of £27.8m. As with other local authorities the statement differs from the Council's reported performance on its revenue budget for 2015/16 because of items of expenditure which are correctly charged to CIES under accounting rules but are not charged to the General Fund under statute.

The Council's performance against its revenue budget is set out in the Narrative Statement in the Statement of Accounts. The outturn position represented a net underspend on the revenue budget of £0.2m.

The CIES then accounts for other items, primarily an actuarial adjustment in the defined benefit liability for pensions, and the bottom line result on the CIES is a surplus of £28.9m.

### Movements in Reserves Statement (MIRS)

The MIRS takes the deficit on the provision of services of £27.8m, and adjusts it for the entries in the CIES that were required under accounting rules, but which are not chargeable to the General Fund under statute.

Note 7 to the financial statements sets out the adjustments between the accounting basis and the funding basis.

The MIRS statement culminates in the closing balance on each of the Council's reserves. Total Usable Reserves represent real resources available to the Council. Between 31 March 2015 and 31 March 2016 these increased from £189.7m to £217.3m. Although this seems like a significant increase in usable resources, the underlying trend is that these are reducing. The closing position has been inflated by the receipt of grants of approximately £30m in advance of incurring the expenditure to which they relate.

The General Fund balance, which is available to meet unforeseen circumstances, was maintained at £7.57m, with an additional £10.4m held by schools.

### Capital expenditure

The Council's capital programme aims to ensure that the city has the assets and infrastructure it needs, within the limits of affordability. Capital expenditure in 2015/16 was £86.8m, and £83.7m of this was financed from capital grants and contributions.

### Balance Sheet

The Balance Sheet shows the value of the Council's assets and liabilities on a single date at the year end. It shows the Council's net assets of £420.5m which was an increase of £28.9m or 7.4% on last year.

The most significant movements from last year relate to a reduction in the net book value of property, plant and equipment of £59.5m (mainly relating to the disposal of £52.3m of assets to the leisure joint venture), which was more than offset by a combination of a reduction in the net pension liability of £46.3m following the assessment by the actuary, a net increase in cash and short term investments of £26.8m and smaller reductions in a number of current liabilities.

The Council's net assets are matched by reserves which comprise both usable and unusable reserves. In addition to the General Fund balance and funds held by schools, the Council also has £11.7m in a capital receipts reserve and £40.6m of capital grants unapplied. A further £147.1m is held in earmarked reserves.

Note 8 to the financial statements sets out the Council's earmarked reserves in more detail, showing that £117.7m is held in earmarked revenue reserves and £29.4m relates to earmarked capital reserves. Although these reserves are earmarked, they do provide the Council with some flexibility in managing in the current challenging financial environment.

## Group accounts

The Council's group accounts consolidate the Council's single entity accounts with the activities of its wholly owned subsidiaries and joint ventures:

- Sunderland Care and Support (Holding Company) Ltd (wholly owned subsidiary);
- Sunderland Live Ltd (wholly owned subsidiary);
- Siglion LLP (a joint venture); and
- Sunderland Lifestyle Partnership Ltd (a joint venture).

Sunderland Lifestyle Partnership Ltd has been incorporated into the Council's group accounts for the first time in 2015/16. This is the leisure joint venture which was operational from 1 June 2015.

## 03 Significant findings

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding the significant risks outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

#### Management override of controls

##### Description of the risk

International Standards on Auditing (ISA) 240 – The auditor’s responsibility to consider fraud in an audit of financial statements requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

##### How we addressed this risk

We updated our understanding and evaluation of internal control processes and procedures as part of our audit planning, including completion of a fraud risk assessment.

As part of this process we obtained information from the Audit and Governance Committee and management on processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud.

Our testing included:

- consideration and review of accounting estimates impacting on amounts included in the financial statements;
- consideration and review of any unusual or significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

##### Audit conclusion

Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

## Pension entries (IAS 19)

### Description of the risk

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.

### How we addressed this risk

We discussed with officers any significant changes to the pension estimates prior to the preparation of the financial statements.

In addition to our standard programme of work in this area, we also:

- evaluated the management controls you have in place to assess the reasonableness of the figures provided by the actuary (Aon Hewitt); and
- considered the reasonableness of the actuary's output, referring to an expert's report on all actuaries nationally which was commissioned by the National Audit Office.

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of Tyne & Wear Pension Fund (Ernst & Young) over IAS 19 pension related entries in the financial statements.

### Audit conclusion

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of Tyne & Wear Pension Fund (EY) over IAS 19 pension related entries in the financial statements.

Subject to a satisfactory response from EY, our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

## Accounting policies and disclosures

We have reviewed Sunderland City Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting. There have been no significant changes to accounting policies from the previous year.

We have reviewed the overall neutrality, consistency and clarity of the disclosures in the statement of accounts relating to areas where judgements are made in formulating particularly sensitive financial statement disclosures (for example disclosures related to remuneration, going concern, subsequent events, and contingencies). There are no reporting issues arising from our review.

## Significant matters discussed with management

During the course of the audit we did encounter one complex technical matter that required discussion with management, relating to the accounting treatment of leisure assets transferred to the leisure joint venture.

The Council correctly derecognised the leisure assets (£52m valued at depreciated replacement cost) from its single-entity accounts as these assets were transferred to the joint venture company on a long term finance lease (125 years). The joint venture company prepared its accounts under Financial Reporting Standard 102 (FRS102) and included the leisure assets in its accounts at historic cost (nil), plus capital expenditure and less depreciation and impairment. This is a permissible accounting treatment under FRS102.

The issue arises on consolidation by the Council in the group accounts. The Council's single entity accounts reflect the disposal of £52m of assets, but the joint venture company in question values these same assets effectively at nil (the historic cost basis).



Following discussions with our financial reporting specialists and discussions with officers, management decided to make an adjustment in the group accounts to bring the valuation of the joint venture assets in line with a permissible valuation method under International Financial Reporting Standards (IFRS) as reflected in the Code of Practice for Local Authority Accounting. Depreciated replacement cost was the obvious method to use and information on this value was readily available.

Consequently, the Council made an adjustment to the group accounts to recognise that, on an IFRS basis rather than FRS102, the net asset value of the leisure joint venture company would increase by £52m and the Council's share of this (£26m) would be reflected in the group balance sheet. A disclosure note was added to the group accounts to set out the rationale and reasoning for this adjustment.

The adjustments made are included in the schedule of adjusted misstatements in section 5 of this report.

### **Significant difficulties during the audit**

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

### **Electors' rights to inspect the accounts**

The Accounts and Audit (England) Regulations 2015 ('the regulations'), introduced new requirements in respect of publishing the financial statements and the period within which local electors may raise questions on the financial statements or make an objection to an item of account. For 2015/16 the Authority set this period as 28 June 2016 to 8 August 2016. We received no formal questions or objections within this period.

## 04 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have not identified any matters to report. If we had performed more extensive procedures on internal control we might have identified deficiencies to be reported. Our comments should not be regarded as a comprehensive record that there are no deficiencies or improvements that could be made.

## 05 Summary of misstatements

In our Audit Strategy Memorandum we reported that we had set materiality at the planning stage at £7.57m with a clearly trivial threshold of £227k below which identified errors would not usually be reported. We do not purely use a formula for our calculation of materiality and we look at any errors identified on their merits and can choose to report errors and uncertainties below our thresholds if we deem this to be appropriate.

Our final calculated materiality level for the 2015/16 audit, based on the final statement of accounts, remains at the same levels as reported in the Audit Strategy Memorandum.

We set out below the misstatements identified during the course of the audit, above the trivial level, for adjustment.

There were no unadjusted misstatements and management has amended all the misstatements identified and reflected the corrections in the final version of the financial statements presented to Members for approval.

### Adjusted misstatements 2015/16

		Group CIES		Group Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Group Accounts: Property, Plant and Equipment			<b>26,145</b>	
	Cr: Group Accounts: Revaluation Reserve - Associates				<b>26,145</b>
<p>The background to this adjustment was set out on pages 7 and 8 of this report. The Council made an adjustment to its group accounts to recognise that on an IFRS basis rather than FRS102, the value of the property assets transferred to the leisure joint venture company would increase by £52m and the Council's share of this (£26m) would then be reflected in the group balance sheet. A consequential adjustment is also reflected in the group MIRS statement, increasing group unusable reserves by £26.145m. A disclosure note was also added to the group accounts to set out the rationale and reasoning for this adjustment.</p>					
2	Dr: Group Accounts – Cultural and related Services Expenditure	<b>1,494</b>			
	Cr: Group Accounts – Planning Services Expenditure		<b>1,494</b>		
<p>This corrects expenditure relating to the leisure joint venture which was initially included in the planning services line of the group comprehensive income and expenditure statement rather than the cultural and related services line. This is a classification issue and purely presentational.</p>					
3	Dr: Group Accounts – Cultural and related Services Income		<b>1,560</b>		
	Cr: Group Accounts – Planning Services Income	<b>1,560</b>			
<p>Similarly to (2) above, this corrects income relating to the leisure joint venture which was initially included in the planning services line of the group comprehensive income and expenditure statement rather than the cultural and related services line. This is also a classification issue and purely presentational.</p>					

## Adjusted misstatements 2015/16 (continued)

		Group cash flow statement	
		Dr £'000	Cr £'000
4	Dr: Group cash flow statement – Investing activities	<b>300</b>	
	Dr: Group cash flow statement – Adjustment to net (surplus) or deficit on the provision of services for non cash movement	<b>1,806</b>	
	Cr: Cash flow statement – Net (surplus) or deficit on the provision of services		<b>2,106</b>
<p>This adjustment corrects an error in the original Group Cash Flow Statement and also the correction of a cash flow statement transposition error in the calculation of cash flow statement entries in the Council's single entity Cash Flow Statement (see item 5 below).</p>			
		Council (single-entity) cash flow statement	
		Dr £'000	Cr £'000
5	Dr: Cash flow statement – Investing activities	<b>300</b>	
	Cr: Cash flow statement – Adjustment to net deficit on the provision of services for non-cash movement		<b>300</b>
<p>This corrects a transposition error in the calculation of cash flow statement entries. This amendment is also reflected in the Group Cash Flow Statement in item 4 above.</p>			

## Disclosure amendments

A number of amendments were made to disclosures in the accounts:

- note 6, events after the balance sheet date, was updated by officers to explain the impact of a number of schools being set up as academies between the balance sheet date and the date the accounts are to be approved by members of 30 September 2016; and
- a number of other relatively minor errors, omissions, clarifications and typographical errors were corrected.

## 06 Value for money

We are required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by considering one overall criterion which is made up of three sub-criteria.

The overall criterion set out by the NAO is:

*'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'*

In the Audit Strategy Memorandum we identified two significant risks relevant to the value for money conclusion:

- responding to financial pressures; and
- children's safeguarding services.

We detail below how we have addressed these risks and our conclusions.

### Significant Value for Money risks

#### Responding to financial pressures

##### VFM risk – Responding to financial pressures

###### Description of the risk

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.

###### How we addressed this risk

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

###### Conclusion

The Council has delivered significant savings in recent years, aiming to do this whilst minimising the impact on service delivery. The level of savings is, however, challenging and effects on service delivery are now noticeable. In 2015/16, significant additional savings were delivered by the Council and there was a small underspend against budget. Further significant savings are planned for 2016/17 and beyond. The first quarter monitoring report in 2016/17 highlights good progress to date in achieving planned savings and careful monitoring of the financial position, including additional emerging financial pressures. This will be increasingly important in future as expenditure reductions could be more difficult to achieve.

#### Ofsted inspection of children's safeguarding services

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we are required to consider the 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.

Our response to the conclusions reached by Ofsted, was to incorporate an 'except for' qualification into our 2014/15 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 were highlighted as inadequate in the Ofsted report.

We have noted that since the Ofsted report in July 2015, the Council has continued to tackle the issues raised in the Ofsted inspection:

- it has worked with a Government-appointed Commissioner for Children's Services who has advised on improvements and kept ministers informed about progress;
- an action plan has been developed and progress monitored; improvements have been made, although it has also been recognised that there is still significant work to do and challenges to address; and
- the Council is exploring an alternative service delivery model for children's services and a separate children's company (Together for Children - Sunderland) will operate in shadow form from the autumn and be fully in place from 1 April 2017.

Although Ofsted have carried out some follow up work, they have not yet carried out a full reassessment of children's safeguarding services.

The Ofsted assessment remained a significant risk that was relevant to our value for money conclusion, and the risk, our consideration of it and our conclusions are summarised below.

#### VFM risk – Children's safeguarding services

##### Description of the risk

The Council does not make the required improvements to children's services, or does not make the improvements rapidly enough.

##### How we addressed this risk

We considered the progress made by the Council in relation to children's services. Significant work has been undertaken and progress has been made, and recent reporting of serious case reviews relating to past incidents highlights the importance of the Council driving through the improvements that are being made. Ultimately, the conclusion in this area requires an expert judgment and we will only be able to revise our assessment that an 'except for' qualification is not needed when Ofsted fully update their assessment and services are no longer assessed as inadequate. Ofsted have not yet updated their full assessment.

##### Conclusion

Ofsted have not yet updated their full assessment of children's safeguarding services and consequently, we will include an 'except for' qualification to our VFM conclusion for the second year running.

#### Overall conclusion

On the basis of our work, with the exception of the matter reported below, we are satisfied that in all significant respects Sunderland City Council put in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The exception to this are the areas of children's safeguarding services that were identified as inadequate in Ofsted's report to the Council in July 2015, and the considerations of which were set out in the previous section of this report.

The wording of the Value for Money conclusion is set out in Appendix B.

The basis for our assessment of the Council's wider arrangements is set out in more detail on the following pages.

## Financial management

Overall, the Council has responded well to the financial pressures it has faced, at a time of unprecedented reductions in public sector spending, and has a strong track record of delivering savings and keeping within budget.

Ongoing pressure on the public finances presents significant challenges for the Council and the need to plan for further reductions in spending power coupled with increased demand for services. The 2015/16 revenue budget included £35.7m of savings proposals to address reduced funding and cost pressures.

The Council achieved a better than expected revenue outturn in 2015/16, and sustained a significant capital programme.

Area	Original Budget	Outturn Position	General Fund Balance at year end
Net revenue expenditure	£236.1m	£220k Underspend	£7.57m (previous year £7.57m)
Capital expenditure	£111.8m	£86.8m	n/a

While funding reductions have reduced the resources available to the Council, increased service demand in some key areas has created additional financial pressures during the year. The most significant in-year budget pressure in 2015/16 was in children's safeguarding services (£9.1m), where the Council sought to implement its improvement plans following the children's safeguarding services assessment by Ofsted.

The Council has a significant capital programme, and the outturn for 2015/16 was £86.8m, compared to an original budget of £111.8m, the reduction mainly arising from slippage in the programme and re-profiling of budgets to future years.

The Council also has a range of earmarked reserves for specific plans and projects that will help the Council to deliver its priorities. These reserves provide some flexibility if the Council needs to invest to save, for example, but there is a recognition that reserves cannot continuously be used to sustain services and the underlying budget reductions identified will need to be delivered.

The Council has set its revenue budget for 2016/17, including a 4% council tax increase. The Council needs to deliver a further £46.6m of reductions in 2016/17 and potentially a further £74m in the following three years. This is against a backdrop of £207m of reductions already required in the period 2010/11 to 2015/16.

The first quarter monitoring report for 2016/17, reported to the Executive on 22 June 2016, identified that of the £46.6m savings required:

- £38.0m of savings had been realised
- £3.8m of savings not yet fully implemented, but good progress is being made on plans; and
- £5.1m of savings where delays and issues have been identified and corrective action or alternative options are being considered.

In addition, it was reported that a further £3.1m of additional financial pressures were being experienced in areas including safeguarding and adult social care. This demonstrates the continued close monitoring of the financial position by the Council, which coupled with its strong record, provides us with assurance that proper arrangements are in place for financial management.

## Corporate direction and management arrangements

The Council is currently going through the approval process for a new Corporate Plan 2016 – 2020.

This sets out the Council's vision that "Sunderland will be a welcoming, internationally recognised city where people have the opportunity to fulfil their aspirations for a healthy, safe and prosperous future" and the part that the Council will play in the vision that "Sunderland City Council will be the most effective community leadership council possible, in order to serve our communities and to ensure the city and its people fulfil their potential".

The table below summarises the Council's key corporate priorities.

Key Priorities	
Regenerating the city	<ul style="list-style-type: none"><li>• Growing the economy;</li><li>• Improving education and skills; and</li><li>• Improving health and wellbeing.</li></ul>
Safeguarding our residents	<ul style="list-style-type: none"><li>• Supporting vulnerable children and families;</li><li>• Supporting vulnerable adults and carers; and</li><li>• Building resilient communities.</li></ul>
Future council	<ul style="list-style-type: none"><li>• New ways of working and collaboration; and</li><li>• New ways of delivering services.</li></ul>

The Corporate Plan builds on the Council's previous work and sets out a clear vision of its aspirations for the city and the high level actions that underpin its priorities. It places this in the context of the difficulties the Council has faced and continues to face in relation to public sector austerity and recognises the need for change, not just in the Council but in the communities it serves:

*"We must focus on those services we need to provide and make sure we are as efficient as possible in doing so. Given the level of savings needed we must radically rethink the way we work and this will inevitably impact on the services. The frequency and standards of some services may reduce in some areas of activity, and we may need to stop offering some non-essential services altogether.*

*We will also need to make sure we operate as commercially as possible in generating external income. Our aim is to do all this in a way that minimises the impact on residents, communities and businesses, and on the city itself.*

*We need to think of more innovative and collaborative ways to make sure the people in the greatest need are supported. More must be done to reduce demand and build individual and community resilience through encouraging self-help and greater personal responsibility."*

Extract from Corporate Plan 2016 - 2020

Whilst the Council has continued to progress its priorities over the last year, the Council has experienced significant changes in senior management, and interim arrangements have been in place in some areas, including at Chief Executive and Executive Director of Corporate Services level. In these circumstances it is clear that some direction and momentum has been lost during 2015 and early 2016.

The current Interim Chief Executive took up post in April 2016 and has proposed changes to the senior management structure that aim to realign resources with priorities. This should provide clarity for senior management on their roles and responsibilities and end a period of considerable uncertainty. The size and shape of the Council has changed in recent years and future plans, including the creation of a children's services company, suggest the potential need for further structural change to reflect the new realities.



With the focus in recent years on downsizing the organisation significantly, during 2016, the Council has also recognised the need to reinvigorate its performance management framework.

Work to date has focused on establishing monthly performance clinics at which the Chief Executive holds senior management to account for delivery of the Corporate Plan and ongoing core service delivery, as well as implementation and management of key changes and improvements.

In addition, service plans are being developed to underpin the Corporate Plan and key priorities and establish the key measures of performance that will demonstrate whether the Council is achieving its objectives. The first formal reporting to Members on performance management has taken place recently, and quarterly reporting to Members is planned throughout 2016/17 and beyond.

These measures are very encouraging and we can see the Council is establishing the 'golden thread' so that key priorities are evident at a corporate and strategic level through the Corporate Plan and other strategies, but are also the focus of work in directorate, service and individual performance plans, with robust monitoring at officer level and appropriate reporting and opportunity for challenge by Members.

## Future challenges

Our observations on the key challenges for the future include:

- fully implementing and embedding the new management structure;
- making a reality of the key priorities in the Council Plan 2016 – 2020;
- continuing to develop and implement the performance management framework along the lines envisaged to underpin the Council's key priorities and make sure that they are delivered effectively;
- delivering the improvements in children's safeguarding services and make a success of the new children's services company;
- continuing to develop the foundations that have been put in place through Council-owned companies, such as Sunderland Care and Support Ltd, and through its two joint ventures, Siglion LLP, a local asset-backed vehicle and Sunderland Lifestyle Partnership Ltd, a leisure service delivery vehicle;
- progressing delivery of the infrastructure projects that have been put in place, 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;
- positioning the city to best advantage in terms of devolution, although we recognise there have been some recent setbacks in this respect; and
- managing the risks to the city of Brexit (some of the immediate risks are already well documented and have been subject to media reports), and positioning the city as well as possible to deal with any challenges and opportunities that arise.

At the time of drafting this report, the Council has recently experienced a major failure in its IT systems arising from issues in the computer room at its main data centre. The Council is currently restoring systems from its back-up site. These issues present an immediate short-term challenge and, depending on the outcomes, may also have medium to long term implications.

In the tables below we comment briefly on our assessment using the sub-criteria of the VFM conclusion.

## Informed decision making

Proper arrangements	Comments on Sunderland City Council
<p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance.</p>	<p>The Council operates a Cabinet with a Leader model, and this is governed by a Council Constitution including all of the normal features of a governance framework in local government.</p> <p>We have not identified any evidence of decisions being taken that are not supported by reports that outline appropriate options and relevant considerations.</p> <p>The Council's system of internal control is subject to Internal Audit using an in-house function, and for 2015/16, the Council's internal auditors have given an opinion that there continues to be an adequate system of internal control.</p> <p>An Audit and Governance Committee is in place to oversee the governance framework including approval of the Council's financial statements.</p> <p>We attend all Audit and Governance Committee meetings and have observed some good examples of challenge and oversight, including holding officers to account in relation to improvements in children's safeguarding services, information assurance and IT issues.</p>
<p>Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.</p>	<p>We have not identified any evidence of decisions being taken that are not supported by reports that outline appropriate options and relevant considerations.</p> <p>All reports include references to financial, legal and performance issues where appropriate.</p>
<p>Reliable and timely financial reporting that supports the delivery of strategic priorities.</p>	<p>Financial issues are set out in reports related to individual decisions. In addition, regular financial reporting takes place, with formal reporting quarterly to the Cabinet.</p> <p>There is evidence of financial reporting being used to deliver strategic objectives, for example, through the Medium Term Financial Strategy and in allocating resources to priority areas.</p> <p>The development of the Council's vision and priorities and the reinvigoration of its performance management framework described earlier in this report provides an opportunity for the Council to better align resources to strategic priorities over the medium term.</p>
<p>Managing risks effectively and maintaining a sound system of internal control.</p>	<p>The Council has a risk management strategy and framework in place. Key corporate risks are monitored quarterly by the Audit and Governance Committee as part of its overall assurance reports.</p> <p>The Council's internal auditors, have given an opinion that there continues to be an adequate system of internal control.</p> <p>The assurance framework delivers assurance work that goes beyond traditional internal audit retrospective review of systems and includes a proactive ongoing assurance input as major initiatives and projects are being delivered.</p>

## Sustainable resource deployment

Proper arrangements	Comments on Sunderland City Council
<p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>	<p>The Council has made 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>Managing and utilising assets effectively to support the delivery of strategic priorities.</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, including initially the Vaux site, Chapelgarth and Seaburn.</p> <p>Proposals for the Council's remaining asset portfolio are currently being developed.</p>
<p>Planning, organising and developing the workforce effectively to deliver strategic priorities.</p>	<p>The Council's workforce planning arrangements have been focused on two key areas:</p> <ul style="list-style-type: none"> <li>• managing the downsizing of the workforce, the headcount of which has reduced significantly arising from both reductions in staff numbers and the transfer of staff to new ventures such as Sunderland Care and Support Ltd; and</li> <li>• implementing the new pay, grading, terms and conditions of employment of the council's workforce, under the Workforce Transformation Project; this process has been protracted and only recently completed.</li> </ul> <p>The new Corporate Plan highlights that "we have already shed 59% of our non-school posts since 2010 and a further 600 posts will disappear by 2018".</p>

## Working with partners and other third parties

Proper arrangements	Comments on Sunderland City Council
<p>Working with third parties effectively to deliver strategic priorities.</p>	<p>One of the most important partnerships in terms of immediate budgetary pressures is with health bodies, for example, working with the Sunderland Clinical Commissioning Group to reduce emergency admissions to hospital and provide as much support as possible in a social care setting through the Better Care Fund.</p> <p>The new Corporate Plan identifies four key partnerships for the Council, which are managed through boards:</p> <ul style="list-style-type: none"> <li>• Economic leadership board;</li> <li>• Education leadership board;</li> <li>• Health and wellbeing board; and</li> <li>• Cultural and safer Sunderland partnership board.</li> </ul> <p>In the Annual Governance Statement it was noted that "the Council's Code of Practice for Partnerships and supporting arrangements are currently being reviewed and new arrangements will be implemented in 2016/17."</p>

## Working with partners and other third parties (continued)

Proper arrangements	Comments on Sunderland City Council
<p>Commissioning services effectively to support the delivery of strategic priorities.</p>	<p>Commissioning and procurement are closely aligned. The Council has a corporate procurement function, with a range of commissioning activity in directorates, notably children’s services and adult social care.</p> <p>As part of our work on the VFM conclusion we consider the information in VFM profiles, which provides comparative data with other similar authorities on costs and other measures.</p> <p>Although there are variations in the costs within and between services, overall, the Council compares favourably with the authorities in its comparator group.</p>
<p>Procuring supplies and services effectively to support the delivery of strategic priorities.</p>	<p>The Council has procurement procedures in place and maintains a contracts register. The Council seeks to achieve best value from the procurement process, driving savings where possible, but also aiming to deliver sustainable services. The Council has a corporate procurement team to oversee procurement. Along with other authorities in the area, the Council also makes use of the North East Purchasing Organisation (NEPO) for some aspects of procurement.</p> <p>The Council is currently refreshing its Procurement Strategy.</p>

## Appendix A – Draft management representation letter

**Sunderland City Council**

30 September 2016

Dear Mr Kirkham

### **Sunderland City Council - audit for year ended 31 March 2016**

This representation letter is provided in connection with your audit of the statement of accounts for Sunderland City Council and its group for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

#### **My responsibility for the statement of accounts and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

#### **My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Interim Director of Corporate Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

### **Accounting records**

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Cabinet, Council and Committee meetings, have been made available to you.

### **Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's and the group's financial position, financial performance and cash flows.

### **Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used by the Council and the group in making accounting estimates, including those measured at fair value, are reasonable.

### **Contingencies**

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council and its group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Laws and regulations**

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council and its group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

### **Fraud and error**

I acknowledge my responsibility as Interim Director of Corporate Services for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council and its group involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's and group statement of accounts communicated by employees, former employees, analysts, regulators or others.

### **Related party transactions**

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I have disclosed to you the identity of the Council's and group's related parties and all related party relationships and transactions of which I am aware.

### **Group statements consolidation process**

I confirm that I have been provided with access to information from the Council's subsidiaries and associates that has enabled a thorough consolidation process for the preparation of the group statements.

### **Impairment review**

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. A further impairment review is therefore not considered necessary.

### **Future commitments**

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

### **Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

### **Going concern**

To the best of my knowledge there is nothing to indicate that the Council and its group will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

### **Unadjusted misstatements**

There are no unadjusted misstatements and all misstatements identified in the course of the audit have been amended in the final version of the financial statements submitted to Members for approval.

Yours faithfully

Barry Scarr

Interim Director of Corporate Services



## Appendix B – Draft audit report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUNDERLAND CITY COUNCIL

#### Opinion on the Council financial statements

We have audited the financial statements of Sunderland City Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, and the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Sunderland City Council in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Sunderland City Council, as a body, for our audit work, for this report or for the opinions we have formed.

#### Respective responsibilities of the Interim Director of Corporate Services and auditor

As explained more fully in the Statement of the Responsibilities for the Statement of Accounts, the Interim Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Interim Director of Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Sunderland City Council as at 31 March 2016 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2016 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 Authority Accounting in the United Kingdom 2015/16.

#### Opinion on other matters

In our opinion, the information given in the Narrative Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## **Conclusion on Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Council and the auditor**

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required to conclude whether the Council has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the National Audit Office and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Basis for qualified conclusion**

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. Ofsted have not yet updated their assessment and this qualification will remain until the assessment is updated and the services are no longer assessed as inadequate.

### **Qualified conclusion**

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Sunderland City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or a material impact on the value for money conclusion.

Mark Kirkham

For and on behalf of Mazars LLP

The Rivergreen Centre  
Aykley Heads  
Durham DH1 5TS

30 September 2016