



# Audit Completion Report

Sunderland City Council

Year ending 31 March 2018

# CONTENTS

1. Executive summary
2. Opinion audit
3. Internal control recommendations
4. Summary of misstatements
5. Value for Money conclusion

Appendix A – Draft management representation letter

Appendix B – Draft audit report

Appendix C – Independence

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

Reports and letters prepared by appointed auditors and addressed to the Council 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.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

Mazars LLP  
Salvus House  
Aykley Heads  
Durham  
DH1 5TS

Members of the Audit and Governance Committee  
Sunderland City Council  
Civic Centre  
Burdon Road  
Sunderland  
SR2 7DN

12 July 2018

Dear Members

**Audit Completion Report – Year ended 31 March 2018**

We are pleased to present our Audit Completion Report for the year ended 31 March 2018. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, key audit matters and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented to the Audit and Governance Committee on 23 March 2018. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks, key audit matters and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully



Mark Kirkham  
Mazars LLP

Mazars LLP – Salvus House, Aykley Heads, Durham, DH1 5TS  
Tel: 0191 383 6300 – [www.mazars.co.uk](http://www.mazars.co.uk)

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861.  
VAT number: 839 8356 73

# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Sunderland City Council ('the Council') for the year ended 31 March 2018, and forms the basis for discussion at the Audit and Governance Committee meeting on 20 July 2018.

The detailed scope of our work as your appointed auditor for 2017/18 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014.

Sections 3 and 6 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. As we outline on the following page, our work is substantially complete and, subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

### Value for money conclusion

We anticipate concluding that 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. Our draft auditor's report, including the proposed conclusion, is provided in Appendix B. **If Ofsted publish an updated assessment before we issue our VFM conclusion, as is expected, we will update our VFM conclusion accordingly.**

### Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 31 August 2018. We anticipate reporting that the WGA submission is consistent with the audited financial statements.

### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. There have been no objections or questions from local electors during the audit.

## Misstatements and internal control recommendations

Section 4 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 5 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Governance Committee in a follow-up letter.

# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and value for money conclusion for the year ended 31 March 2018.

Given the very tight timescales between the publication of the draft financial statements (on 31 May 2018) and the final date for issuing our audit report in compliance with the statutory timetable (31 July 2018), our work is likely to continue up to the point of signing off.

At the time of preparing this report the following matters remain outstanding:

Audit area	Description of outstanding matters
Property, Plant and Equipment valuations	Our testing of valuations is still in process.
Group statements	We are still awaiting final communications from a number of component auditors.
Pensions work	We are still awaiting a response for our request for information from the auditor of the Tyne & Wear Pension Fund.
Other areas	Our work is still continuing in a number of areas.
VFM Conclusion	Ofsted are expected to publish their updated assessment of children's safeguarding services before we issue our VFM conclusion on 31 July 2018.

We will provide the Audit and Governance Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.



## 2. OPINION AUDIT

### Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2018. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

### Council Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both.

In the context of public bodies, professional, political and public attention focuses primarily on the revenue account and in particular gross operating expenditure so this is the most appropriate benchmark for determining materiality. In addition, revenue expenditure is a key factor in setting council tax levels which is of considerable interest to resident council tax payers.

We set materiality at the planning stage of the audit at £13.4m using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, is £11.9m using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Governance Committee) at £357k based on 3% of overall materiality.

In addition, we have identified separate lower specific materiality levels for particular classes of transactions, account balances or disclosures which are more sensitive in nature:

- officers remuneration – ensure that the correct banding is used;
- senior officers emoluments – only rounding errors accepted;
- members allowances – specific materiality of £50k; and
- termination benefits – specific materiality of £250k.

### Summary of our audit approach

Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Sufficiency of controls	Significant audit findings
Net Cost of Services	Significant	Revenue recognition risk – fees and charges only	No	None	●	None
Other operating expenditure	Standard	-	No	None	●	None
Financing and investment I&E	Standard	-	No	None	●	None
Taxation and non-specific grant I&E	Standard	-	No	None	●	None

#### Sufficiency of controls

- High-priority control deficiency noted
- Medium-priority control deficiency noted
- Low-priority control deficiency noted
- No control deficiency noted / not evaluated





## 2. OPINION AUDIT (CONTINUED)

Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Sufficiency of controls	Significant audit findings
Property, plant and equipment / Investment property	Significant	Property valuation risk	Yes	None	●	Unadjusted misstatement
Heritage assets	Standard	-	No	None	●	None
Investments	Standard	-	No	None	●	None
Debtors	Standard	-	No	None	●	None
Cash and cash equivalents	Standard	-	No	None	●	None
Borrowing	Standard	-	No	None	●	None
Creditors	Standard	-	No	None	●	None
Provisions	Standard	-	No	None	●	Adjusted misstatement
Defined benefit pension liability	Significant	Estimation uncertainty risk	Yes	None	●	None
PFI liability	Standard	-	No	None	●	None
Usable and unusable reserves	Standard	-	No	None	●	Unadjusted misstatement

Sufficiency of controls

- High-priority control deficiency noted
- Medium-priority control deficiency noted
- Low-priority control deficiency noted
- No control deficiency noted / not evaluated

A non-material misstatement has been identified and adjusted by management. This was a reclassification between short and long term provisions relating to NNDR appeals. Section 5 provides further details on the nature and impact of the identified error.

A non-material misstatement has been identified and not adjusted by management. This was an understatement of the value of a PFI asset. Section 5 provides further details on the nature and impact of the identified error.

## 2. OPINION AUDIT (CONTINUED)

### Overview of our group audit approach

Our Audit Strategy memorandum provided details of our intended group audit approach, including our initial assessment of group materiality. The table below confirms the approach we have taken to auditing the Council's consolidated financial statements.

Entity	Nature of entity audit	Auditor	Description of audit procedures undertaken on the component	Changes to audit approach
Sunderland City Council (parent)	NAO Code audit	Mazars	Full scope audit as described in this report.	None
Together for Children Sunderland Limited (subsidiary)	Statutory audit	Robson Laidler	<p>Identified as a significant component:</p> <ul style="list-style-type: none"> <li>We set a component materiality level, and discussed significant risks with the component auditor.</li> <li>We ensured that the statutory audit of this significant component provided sufficient assurance for the group audit.</li> <li>We reviewed the work of the component auditor to ensure that the work was completed satisfactorily.</li> </ul>	None
Sunderland Care and Support Limited (subsidiary)	Statutory audit	Mazars	Not identified as a significant component, but we identified the need for more limited procedures, to ensure that sufficient audit evidence was available to support the material transactions in the group accounts. We reviewed the work of this separate engagement to ensure it meets the requirements of the group audit.	None
Homes for Sunderland Limited (subsidiary)	None – below audit threshold	Not applicable	Analytical procedures at group audit level; review of the consolidation process; reasonableness checks; review of consolidation adjustments and disclosures.	None
Siglion LLP (joint venture)	Statutory audit	KPMG	Review of information provided by the component auditor. Analytical procedures at group audit level; review of the consolidation process; reasonableness checks; review of consolidation adjustments and disclosures.	None
Sunderland Lifestyle Partnership Limited (joint venture)	Statutory audit	RSM UK	Review of information provided by the component auditor. Analytical procedures at group audit level; review of the consolidation process; reasonableness checks; review of consolidation adjustments and disclosures.	None
IAMP (International Advanced Manufacturing Park) LLP (joint venture)	Statutory audit	Robson Laidler	Review of information provided by the component auditor. Analytical procedures at group audit level; review of the consolidation process; reasonableness checks; review of consolidation adjustments and disclosures.	None



## 2. OPINION AUDIT (CONTINUED)

### Group materiality

We set group materiality at the planning stage of the audit at £13.5m using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £12.6m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Governance Committee) at £377k based on 3% of overall materiality.

Of the group entities, those with material transactions were Sunderland City Council, Together for Children Sunderland Limited (audited by Robson Laidler LLP), and Sunderland Care and Support Limited (audited by Mazars LLP, but with a different Engagement Lead to the Council auditor).



### 3. OPINION AUDIT (CONTINUED)

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

- our findings on key audit matters, including:
  - why the matter was considered to be one of the most significance in the audit and therefore determined to be a key audit matter;
  - how the matter was addressed in the audit including a summary of our response;
  - where relevant, key observations arising with respect to each matter; and
  - a clear reference to the relevant disclosures in the financial statements
- our audit conclusions regarding significant risks and key areas of management judgement 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 13 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.

#### Key audit matters, significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified key audit matters and significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new key audit matters and significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

#### Key Audit Matters (and significant risks)

##### Property, plant and equipment valuations

##### Description of the key audit matter

The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.

Although the Council employs a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations.

*Group audit – PPE valuations was also a Key Audit Matter for the group audit, although most of the other components do not hold assets.*

---

##### How we addressed the key audit matter

We considered the Council's arrangements for ensuring that PPE values were reasonable and engaged our own expert to provide data to assist us in assessing the reasonableness of the valuations provided by the Council's valuer.

We also assessed the competence, skills and experience of the valuer.

We performed further audit procedures on individual assets to ensure that the basis and level of revaluation was appropriate.

---

##### Key observations

There are no significant issues arising from our work to date. At the point of issuing this report, our work is still ongoing.

### 3. OPINION AUDIT (CONTINUED)

#### Key audit matters (continued)

Defined benefit liability valuation	Description of the key audit matter
	<p>The financial statements contain material pension entries in respect of the 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><i>Group audit – Defined benefit liability valuation was also a Key Audit Matter for the group audit.</i></p>

---

#### How we addressed the key audit matter

We discussed with officers any significant changes to the pension estimates. In addition to carrying out analytical procedures on the pension disclosures and obtaining a letter of assurance from the auditor of Tyne and Wear Pension Fund, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by National Audit Office.

---

#### Key observations

There are no significant issues arising from our work. At the point of issuing this report we are still awaiting information from the auditor of Tyne & Wear Pension Fund.

---

#### Other significant risks, key areas of management judgement and enhanced risks

Significant risk	Description of the risk
Management override of controls	<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. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p> <p><i>Group audit – management override of controls is also a significant risk for the group audit.</i></p>

---

#### How we addressed this risk

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.

---

#### Audit conclusion

There were no significant issues arising from our work.

---

### 3. OPINION AUDIT (CONTINUED)

#### Other significant risks, key areas of management judgement and enhanced risks (continued)

Significant risk	Description of the risk
<b>Revenue recognition – fees and charges</b>	<p>In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted, and we have done this in relation to the Council's most significant sources of income, taxation and grant income.</p> <p>Our view is that there is insufficient scope within the recognition of fees and charges to conclude that there are grounds for rebuttal in that particular income stream. 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><b><i>Group audit – revenue recognition in its entirety, not just fees and charges, is also a significant risk for the group audit.</i></b></p>

---

#### How we addressed this risk

ISA 240 allows the presumption of a risk of fraud in respect of the recognition of revenue to be rebutted, and we have done this in relation to the Council's most significant sources of income, taxation and grant income.

We decided that there was less scope for rebuttal for your fees and charges revenues so we carried out a higher level of audit testing on those income streams. This does not imply that we suspected actual or intended manipulation but that we continued to deliver our audit work with appropriate professional scepticism.

---

#### Audit conclusion

There were no significant issues arising from our work.

---

### 3. OPINION AUDIT (CONTINUED)

#### Other significant risks, key areas of management judgement and enhanced risks (continued)

**Management judgement**  
**Group accounts consolidation**

**Description of the management judgement**

The group accounts include a number of additional components in 2017/18.

Together for Children Sunderland Limited has been identified as a significant component. Two further new entities are also to be consolidated for the first time; Homes for Sunderland Limited and IAMP LLP, the latter being a joint venture with South Tyneside Council.

There is a risk of error in consolidating these entities.

---

**How our audit addressed this area of management judgement**

We reviewed the judgement made that IAMP LLP should be accounted for as a joint venture.

We reviewed the consolidation process to ensure that Together for Children Sunderland Limited, Homes for Sunderland Limited and IAMP LLP were properly consolidated in the group accounts. This included consideration of the arrangements for accounts preparation for each entity, quality review by the Council and consolidation into the group financial statements.

---

**Audit conclusion**

There were no significant issues arising from our work.

---

**Management judgement**  
**Business rates appeals**

**Description of the management judgement**

The Council is dependent on the Valuation Office Agency (VOA) for information regarding appeals against business rates bills. Council staff are required to use their judgement in order to create a reasonable basis for the provision, given the level of appeals and other relevant information.

---

**How our audit addressed this area of management judgement**

We reviewed the basis for the judgements used in creating the provision and assessed the reasonableness of the estimates made.

---

**Audit conclusion**

There were no significant issues arising from our work. One non-material misstatement was adjusted for by management as a reclassification between short term provisions and long term provisions, as summarised on page 15 of this report.

## 3. OPINION AUDIT (CONTINUED)

### Qualitative aspects of the entity's accounting practices

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting (the Code). We have considered the appropriateness of the use of the going concern assumption and have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 31 May 2018 and were of a good quality. The working papers supporting the financial statements were comprehensive.

### 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.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability 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 powers as part of our 2017/18 audit.

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. There have been no objections or questions from local electors during the audit.





## 4. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported here would be limited to those deficiencies and other control recommendations that we identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

We are pleased to report that we have not identified any deficiencies in internal control that require reporting.



## 5. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £357k.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table (Council) and third table (Group) outlines the misstatements that have been adjusted by management during the course of the audit.

### Unadjusted misstatements 2017/18 (Council and Group)

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Property, Plant and Equipment		862	
	Cr: Unusable Reserves			862
	To correct the incorrect valuation information reflected in the apportionment of the Waste PFI asset values (shown net of trivial depreciation).			

### Adjusted misstatements 2017/18 (Council)

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Short Term Provisions		2,377	
	Cr: Long Term Provisions			2,377
	Reclassification of part of the NNDR appeals provision from short term to long term provisions.			

## 5. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Adjusted misstatements 2017/18 (Group)

	Group Comprehensive Income and Expenditure Statement		Group Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Short Term Provisions Cr: Long Term Provisions		2,377	2,377
Reclassification of part of the NNDR appeals provision from short term to long term provisions.				
2	Dr: Short Term Debtors Dr: Short Term Provisions Cr: Defined Benefit Pension Scheme Liability		4,576 598	5,174
Together for Children Sunderland Ltd – reclassification to show deferred tax asset relating to the pension liability in debtors rather than offsetting it against the pension liability, and an adjustment to remove an element from short term provisions.				

### Disclosure amendments

A number of corrections and clarifications were made to the disclosures in the notes to the financial statements.

## 6. VALUE FOR MONEY CONCLUSION

### Our audit approach

We are required to form a conclusion as to 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.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

#### Sub-criteria and commentary on arrangements in place at Sunderland City Council

#### Arrangements in place?

##### Informed decision making

Yes

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.

The Council has a clear and comprehensive Corporate Plan that sets out its priorities, including regenerating the city, safeguarding its residents and developing new models of working for the Council. The Council has made decisions in the context of public sector austerity and significant reductions in available resources.

The Council has enhanced its performance management arrangements for both delivering new initiatives and delivering day-to-day operational activity.

A key priority is to improve children's safeguarding services following an Ofsted inspection in July 2015, and work on this has been ongoing and a new children's company, Together for Children Sunderland Limited, went live from 1 April 2017.

The Council is leading on the delivery of a number of major infrastructure and regeneration projects, including the creation of an International Advanced Manufacturing Park, a new Wear bridge and other transport improvements and development in the City Centre including the Vaux site.

New decisions are supported by reports that outline appropriate options and relevant considerations, including references to financial, legal and performance issues where appropriate.

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. In addition, regular financial reporting takes place, with formal reporting quarterly to the Cabinet.

The Council's system of internal control is subject to Internal Audit using an in-house function, and for 2017/18, the Council's internal auditors have given an opinion that there continues to be an adequate system of internal control.

## 6. VALUE FOR MONEY CONCLUSION (CONTINUED)

### Sub-criteria and commentary on arrangements in place at Sunderland City Council

### Arrangements in place?

#### Informed decision making (continued)

Yes

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.

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.

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.

#### Sustainable resource deployment

Yes

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.

The final revenue outturn for 2017/18 was an under spend of £0.788m. This was after making an additional contribution of £8.036m to Together for Children Sunderland Limited to address financial pressures, in particular, demand pressures around the costs of looked after children and continued reliance on agency costs. It was also after providing additional support for Sunderland Care and Support Limited of £2.693m to support workforce transformation costs.

In the 2018/19 budget round the Council identified a funding gap of £53m over the three year period 2018/19 to 2020/21. The Council has plans to meet the funding gap, whilst further work is undertaken to identify savings. The Council noted that these additional savings are needed on top of the £290m savings that have already been delivered between 2010/11 and 2017/18.

The Council has significant levels of usable reserves, and these increased marginally to £159.1m at 31 March 2018. Although these are mainly earmarked for specific purposes, they do provide flexibility to manage the medium term financial position. The focus is now on the delivery of the identification and delivery of further savings to address the funding gap.

The Council has maintained a substantial capital programme of investment projects. The final outturn for 2017/18 was a capital spend of £94.1m, and the capital programme for 2018/19 amounts to £186m.

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.

The Council was impacted in 2017/18 by the collapse of Carillion Construction, which was delivering a project on the Vaux site. A new contractor is being identified to complete this scheme.

## 6. VALUE FOR MONEY CONCLUSION (CONTINUED)

### Sub-criteria and commentary on arrangements in place at Sunderland City Council

### Arrangements in place?

#### Sustainable resource deployment (continued)

Yes

Carillion Maple Oak is the Council's strategic partner in the Siglion LLP joint venture. The options for the future of Siglion LLP are being considered by the Council, but the Council has acted to ensure that its interests have been protected.

The Council's workforce planning arrangements have been focused in recent years on implementing a new pay and grading structure, and on managing the downsizing of the workforce, particularly as the Council has implemented alternative models of service delivery, such as the establishment of the children's company.

#### Working with partners and other third parties

Yes

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.

The Corporate Plan identifies four key partnerships for the Council, which are managed through boards:

- economic leadership board;
- education leadership board;
- health and wellbeing board; and
- cultural and safer Sunderland partnership board.

Commissioning and procurement are closely aligned. The Council has a corporate procurement function, with a range of commissioning activity in directorates. The Council's commissioning role has grown as it has extended its use of alternative models of service delivery.

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.

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. Although there are variations in the costs within and between services, overall the Council compares reasonably well with the authorities in its comparator group.



## 6. VALUE FOR MONEY CONCLUSION (CONTINUED)

### Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our value for money conclusion exists. Risk, in the context of our 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 audit risks. The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
<p><b>Responding to financial pressures</b></p> <p>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>	<p>We reviewed budget monitoring and reporting, focusing on areas where action plans are in place to make savings and improvements, and seek to minimise any adverse impact on service delivery. We reviewed the plans that are developed to deliver savings and improvements</p>	<p>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 there have been effects on the range and level of services that can be delivered by the Council.</p> <p>In 2017/18, significant additional savings were delivered by the Council and overall there was a small underspend against budget. This was a considerable achievement as the Council was able to meet significant financial pressures in children's services in particular from savings elsewhere in the budget.</p> <p>In the 2018/19 budget round the Council identified a funding gap of £53m over the three year period 2018/19 to 2020/21. The Council has plans to meet the funding gap, whilst further work is undertaken to identify savings. The Council noted that these additional savings are needed on top of the £290m savings that have already been delivered between 2010/11 and 2017/18.</p> <p>The Council has significant levels of usable reserves, and these increased marginally to £159.1m at 31 March 2018. Although these are mainly earmarked for specific purposes, they do provide flexibility to manage the medium term financial position.</p>

## 6. VALUE FOR MONEY CONCLUSION (CONTINUED)

### Significant Value for Money risks (continued)

#### OFSTED's assessment 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, 2015/16 and 2016/17 VFM Conclusions. 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 '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 implemented and progress monitored; improvements have been made although it is acknowledged that there is still work to do; and
- the Council has established an alternative service delivery model for children's services and a children's company (Together for Children Sunderland Limited) became fully operational on 1 April 2017.

Ofsted carried out a number of monitoring visits after the inspection in 2015, and has recently carried out a full reassessment of children's safeguarding services. The results of the full reassessment have not yet been published.

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.

Risk	Work undertaken	Conclusion
<p><b>OFSTED's assessment of children's safeguarding services</b></p> <p>The Council does not make the required improvements to children's services, or does not make the improvements rapidly enough.</p>	<p>We considered the progress made by the Council in relation to children's services at the point we give our 2017/18 VFM conclusion. This requires an expert judgement, and we will rely on the updated assessment of Ofsted in determining whether another 'except for' qualification is needed for the 2017/18 VFM conclusion or whether sufficient improvement has been made to avoid a further qualification.</p>	<p>Ofsted have not yet published their recent full assessment of children's safeguarding services and consequently, we will include an 'except for' qualification to our VFM conclusion for the fourth year running, based on their 2015 assessment.</p> <p><b>If Ofsted publish an updated assessment before we issue our VFM conclusion, as is expected, we will update our VFM conclusion accordingly.</b></p>

## 6. VALUE FOR MONEY CONCLUSION (CONTINUED)

### Our overall value for money 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 consideration of which were set out above in this report.

The wording of the Value for Money conclusion is set out in our draft audit report in Appendix B. **If Ofsted publish an updated assessment before we issue our VFM conclusion, as is expected, we will update our VFM conclusion accordingly.**



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

To be on Sunderland City Council letter headed paper and addressed to the external auditor:

20 July 2018

### **Sunderland City Council - audit for year ended 31 March 2018**

This representation letter is provided in connection with your audit of the statement of accounts for Sunderland City Council ('the Council') for the year ended 31 March 2018, and for the Group financial statements, 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 2017/18 (the Code).

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 Code.

#### **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 Head of Financial Management 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 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 Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council'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 in making accounting estimates, including those measured at fair value, are reasonable.

Executive summary

Opinion audit

Internal control  
recommendations

Summary of  
misstatements

Value for Money  
conclusion

Appendices

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

### 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 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 Code.

### 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 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 Head of Financial Management 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 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 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 Code.

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

### 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. An impairment review is therefore not considered necessary.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

### **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.

### **Service Concession Arrangements**

I am not aware of any material contract variations, payment deductions or additional service charges in 2017/18 in relation to the Council's PFI schemes that you have not been made aware of.

### **Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code 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 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**

I confirm that the effects of the uncorrected misstatements as included in the auditor's Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Karen Davison  
Head of Financial Management

Date: 20 July 2018



# APPENDIX B

## DRAFT AUDITOR'S REPORT

### Independent auditor's report to the members of Sunderland City Council

#### Opinion on the financial statements

We have audited the financial statements of Sunderland City Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Council and Group Movement in Reserves Statement, the Council and Group Comprehensive Income and Expenditure Statement, the Council and Group Balance Sheet, the Council and Group Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18.

In our opinion, the financial statements:

- give a true and fair view of the state of the financial position of Sunderland City Council and its group as at 31<sup>st</sup> March 2018 and of the Council's and the group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

Key audit matter	Our response and key observations
<p><b>Property, plant and equipment valuations</b></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 PPE.</p> <p>Although the Council employs a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations.</p> <p>Group audit – PPE valuations was also a Key Audit Matter for the group audit, although most of the other components do not hold assets.</p>	<p>We considered the Council's arrangements for ensuring that PPE values were reasonable and engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer.</p> <p>We also assessed the competence, skills and experience of the valuer.</p> <p>We performed further audit procedures on individual assets to ensure that the basis and level of revaluation was appropriate.</p> <p>There were no significant issues arising from our work.</p>
<p><b>Defined benefit liability valuation</b></p> <p>The financial statements contain material pension entries in respect of the 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>Group audit – Defined benefit liability valuation was also a Key Audit Matter for the group audit.</p>	<p>We discussed with officers any significant changes to the pension estimates. In addition to carrying out analytical procedures on the pension disclosures and obtaining a letter of assurance from the auditor of Tyne and Wear Pension Fund, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by National Audit Office.</p> <p>There were no significant issues arising from our work.</p>

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the financial statements and our audit. Materiality is used so we can plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. The level of materiality we set is based on our assessment of the magnitude of misstatements that individually or in aggregate, could reasonably be expected to have influence on the economic decisions the users of the financial statements may take based on the information included in the financial statements.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

Based on our professional judgement, we determined materiality for Sunderland City Council and its group for the financial statements as a whole as follows:

	Council	Group
<b>Overall materiality</b>	£11.906m	£12.577m  Component Materiality of Significant Component – Together for Children Sunderland Limited: £1.878m
<b>Basis for determining materiality</b>	approximately 2% of operating expenses of continuing operations	approximately 2% of operating expenses of continuing operations
<b>Rationale for benchmark applied</b>	Operating expenses of continuing operations was chosen as the appropriate benchmark for overall materiality as this is a key measure of financial performance for users of the financial statements.	Operating expenses of continuing operations was chosen as the appropriate benchmark for overall materiality as this is a key measure of financial performance for users of the financial statements.
<b>Performance materiality</b>	£9.525m	£10,061k
<b>Specific materiality</b>	Officers remuneration – included in the correct banding Senior officers emoluments – only rounding errors accepted Members allowances £50k Termination benefits £250k	Officers remuneration – included in the correct banding Termination benefits £250k

### An overview of the scope of our audit

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 and its group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Executive Director of Corporate Services and the overall presentation of the financial statements. The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed in the "Key audit matters" section of this report. In addition we read all the financial and non-financial information in the annual report 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.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### Other information

The Executive Director of Corporate Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Responsibilities of the Executive Director of Corporate Services for the financial statements

As explained more fully in the Executive Director of Corporate Services' Statement of the Responsibilities for the Statement of Accounts, the Executive 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 2017/18, and for being satisfied that they give a true and fair view. The Executive Director of Corporate Services is also responsible for such internal control as the Executive Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Executive Director of Corporate Services is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Executive Director of Corporate Services is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

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

#### Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, with the exception of the matter reported in the basis for qualified conclusion paragraph below, we are satisfied that, in all significant respects, Sunderland City Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### 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.

[It is expected that Ofsted will publish a report updating this assessment before we issue our VFM conclusion. We will update our VFM conclusion to reflect Ofsted's updated assessment if the report is published before we issue our VFM conclusion, planned for 31 July 2018.]

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. 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.

#### Responsibilities of the Council

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.

#### Auditor's responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) 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 requires us to report to you our conclusion relating to proper arrangements. 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.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### **Matters on which we are required to report by exception under the Code of Audit Practice**

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### **Other matters which we are required to address**

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Council or its group and we remain independent of the Council and its group in conducting our audit.

Our audit opinion is consistent with the Audit Completion Report to the Audit and Governance Committee.

### **Use of the audit report**

This report is made solely to the members of Sunderland City Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

### **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 authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

[Signature]

Mark Kirkham  
For and on behalf of Mazars LLP

Salvus House, Aykley Heads, Durham, DH1 5TS

31 July 2018 [Planned issue date, subject to resolution of outstanding queries]

# APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

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

We confirm that we have received confirmation from our external experts regarding their independence.

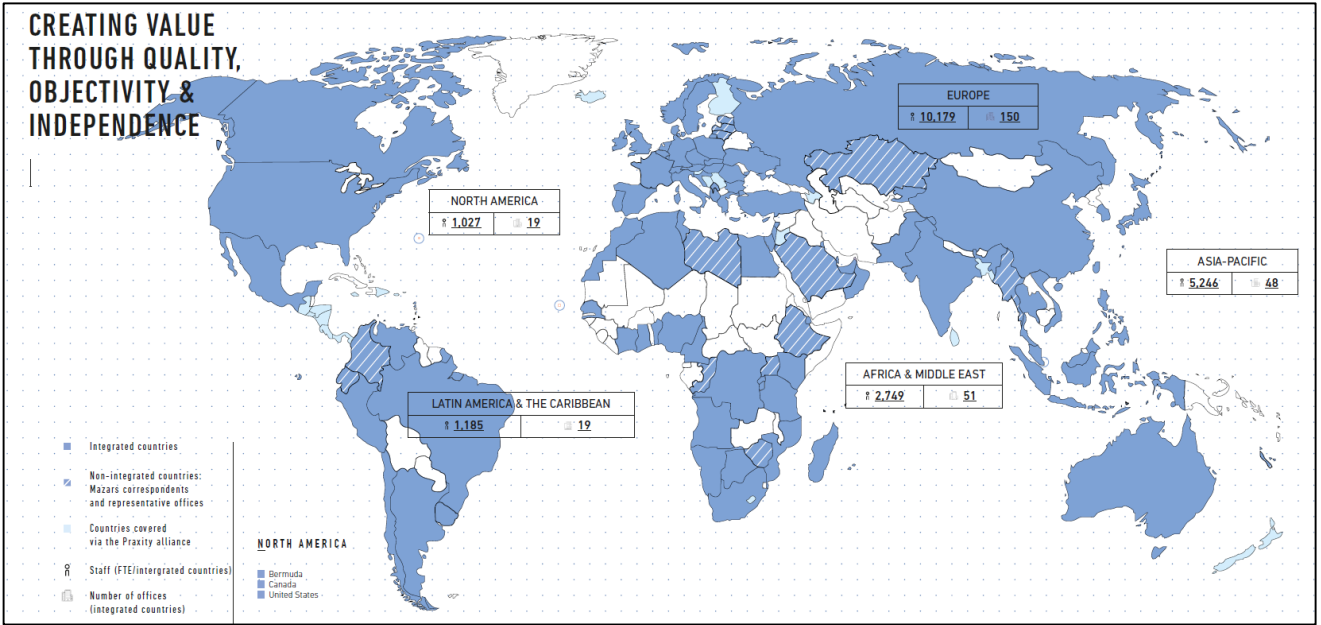


# MAZARS AT A GLANCE

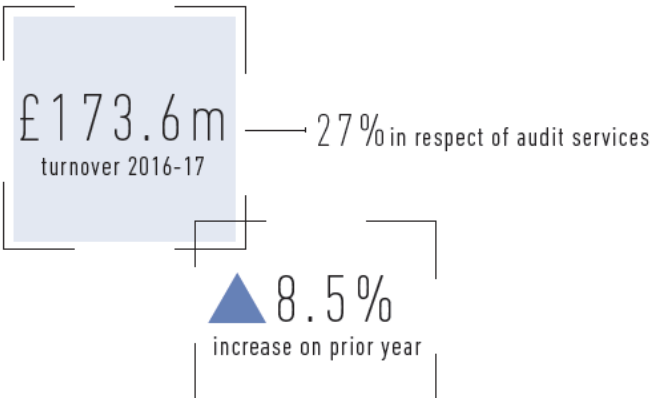
## Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

## Mazars Internationally



## Mazars in the UK



As at 31 August 2017



## CONTACT

### **Mark Kirkham**

Partner

Phone: 0191 383 6300

Mobile: 07747 764 529

Email: [mark.kirkham@mazars.co.uk](mailto:mark.kirkham@mazars.co.uk)

### **Gavin Barker**

Senior Manager

Phone: 0191 383 6300

Mobile: 07896 684 771

Email: [gavin.barker@mazars.co.uk](mailto:gavin.barker@mazars.co.uk)