

Audit Completion Report

Sunderland City Council



For the year ended 31 March 2017



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1. Executive summary

Purpose of this report

The Audit Completion Report sets out the findings of our audit of Sunderland City Council (the Council) for the year ended 31 March 2017, and forms the basis for discussion at the Audit and Governance Committee meeting on 21 July 2017.

The scope of our work and overall summary

The detailed scope of our work as your appointed auditor for 2016/17 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 and include the matters outlined in the following table.

Financial statements	<p>In our Audit Strategy Memorandum we reported that materiality for the financial statements as a whole was set at £7.5m. We have updated our assessment as part of our continuous planning processes and have set materiality at £9.95m. Our clearly trivial threshold for reporting matters to you has been set at £298k. Group materiality was set at £10m.</p> <p>We communicated identified significant risks to you as part of our Audit Strategy Memorandum in March 2017. Section 2 of this report outlines the work we have undertaken, and the conclusions we have reached, for each significant risk.</p> <p>At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our draft auditor's report is provided in Appendix C.</p>
Identified misstatements	<p>Our work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is provided in Appendix A.</p>
Value for Money	<p>At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate 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 4 of this report. Our draft auditor's report is provided in Appendix C.</p>
Whole of Government Accounts (WGA)	<p>We anticipate completing our work on your WGA submission, in line with the group instructions issued by the National Audit Office, by the deadline of 30 September 2017. We anticipate reporting that the WGA submission is consistent with the audited financial statements.</p>

The status of our work

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2017.

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

Group Accounts – Response from External Auditors of Sunderland Lifestyle Partnership Limited	<p>We wrote to the external auditor of Sunderland Lifestyle Partnership Limited on 4 April 2017, requesting information relating to their qualifications and experience and matters relating to their audit of this component to the group accounts.</p> <p>We have received an acknowledgment of our request, and the external auditor has promised to respond to our request within our timetable for concluding the audit by 31 July 2017.</p>	Direct confirmations of investments and borrowing	<p>We are awaiting direct confirmation of cash investments held with Nat West and Standard Life.</p> <p>In addition, we are awaiting direct confirmation of loans held with Barclays.</p> <p>We continue to seek a response from these financial institutions by our deadline of 31 July 2017. If this is not forthcoming, although direct confirmation is the best and most effective form of assurance in these cases, we will be able to explore an alternative means of assurance.</p>
Pension Fund Auditor Assurance	<p>We are awaiting a response from the external auditor of Tyne & Wear Pension Fund. They have acknowledged our request for information and have promised to reply by 31 July 2017.</p>		

As the timetable has been brought forward significantly this year, at the time of drafting our report our internal review procedures have not yet been completed.

If any matters arise from this, we will provide an update to you in a follow up letter prior to giving our opinion.

2. Significant findings

This section sets out the significant findings from our audit and provides information on a number of matters that we are required to report to you by ISA 260 'Communication with those charged with governance'.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in your financial statements that required special audit consideration. Although we report identified 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 significant risks have arisen and how we will mitigate these risks. One new risk has been recorded since we issued our Audit Strategy Memorandum, in relation to the presumption of a risk of fraud in relation to revenue recognition. The significant risks identified, and our conclusions against each are outlined below.

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We address this risk through performing audit work on:</p> <ul style="list-style-type: none"> • 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. 	<p>Our work on the financial statements did not identify any manipulation of the financial position, and we did not identify any evidence of management override of controls.</p>

Significant risk	How we addressed the risk	Audit conclusion
<p>Pension Entries</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and include estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We discussed with key contacts 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:</p> <ul style="list-style-type: none"> • evaluated the management controls 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 the National Audit Office. 	<p>Our work confirmed that reasonable assumptions had been used by the actuary. The pension entries have been correctly reflected in the financial statements.</p>

Additional significant risk in relation to the presumption of a risk of fraud in relation to revenue recognition

Our previous decision to rebut the presumption of the risk of fraud in relation to revenue recognition has been challenged internally through our EQCR (External Quality Control Review) processes, and we have revisited our assessment as set out below.

Significant risk	How we addressed the risk	Audit conclusion
<p>Revenue recognition</p> <p>There is a risk of fraud in financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period.</p> <p>We have reviewed the Council's income sources, and determined that a significant risk exists in relation to one category of income, namely fees and charges.</p>	<p>We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:</p> <ul style="list-style-type: none">• testing a sample of income items throughout the financial year;• testing receipts in March, April and May 2017 to ensure that they had been recognised in the correct year; 'cut off' testing;• testing adjustment journals; and• obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger. <p>To address the significant risk in relation to income from fees and charges we have applied a higher risk factor leading to higher sample sizes for this category of income. In addition, we applied an enhanced risk factor to 'cut off' testing which also resulted in higher sample sizes than would otherwise have been the case.</p>	<p>Our work on the financial statements provided us with the assurance we sought and there are no matters to bring to your attention.</p>

Key areas of management judgement

In addition, we also identified accounting for Property, Plant and Equipment as a key area of management judgement which we focused on during our audit.

Key areas of management judgement	How we addressed the risk	Audit conclusion
<p>Property, Plant and Equipment (PPE)</p> <p>PPE values and related accounting entries are based on valuations provided by your in-house valuer. This includes key judgements in relation to:</p> <ul style="list-style-type: none"> • asset classifications; • identifying an appropriate valuation basis for each class of assets; • determining appropriate asset values; • assessments of the estimated useful lives of assets; • recognition of impairments or other significant changes in asset values; and • making the correct distinction between revenue and capital expenditure. 	<p>We reviewed the arrangements in place for:</p> <ul style="list-style-type: none"> • instructing the valuer and relying on their work; • maintaining an accurate fixed asset register; • establishing estimates of asset lives; and • identifying impairments. <p>We also carried out tests of detail on capital transactions, balances and disclosures in the accounts.</p>	<p>Our work confirmed that appropriate arrangements were in place for the work of the valuer and that the outcome of this work was properly reflected in the financial statements.</p> <p>Our wider testing of capital transactions, balances and disclosures in the accounts relating to PPE did not identify any significant issues that required reporting.</p>

Qualitative aspects of the Council's accounting practices

We are required to communicate to you our views on the significant qualitative aspects of the Council's accounting practices, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	<p>We have reviewed your accounting policies and disclosures and found these to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code).</p> <p>In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2017.</p>
Quality of the draft financial statements	<p>We received draft financial statements from management on 31 May 2017. The draft financial statements were produced a month earlier than previously, ahead of the statutory requirement to do so for next year's 2017/18 financial statements. This was a considerable achievement by officers. The draft financial statements we received were comprehensive and of a high standard. It was clear that officers had built in sufficient time for its own quality assurance procedures as the audit did not identify any significant issues.</p>
Quality of supporting working papers	<p>Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit.</p> <p>The working papers supporting the financial statements were of a high standard. We are grateful to officers for their assistance in responding to requests for information and in dealing with our queries in a timely and efficient manner.</p>

Significant matters discussed with management

There were no significant matters arising from the audit that required discussion with management.

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.

3. 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 that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have 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 or concluded that some of the reported deficiencies need not in fact have been 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.

4. Value for Money Conclusion

Our approach to Value for Money

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	Commentary	Arrangements in place?
<p>Informed decision making</p> <p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance.</p> <p>Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.</p> <p>Reliable and timely financial reporting that supports the delivery of strategic priorities.</p> <p>Managing risks effectively and maintaining a sound system of internal control.</p>	<p>The Council operates a Cabinet with a Leader model, and this is governed by a Constitution that includes the expected features for a governance framework in local government.</p> <p>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.</p> <p>The Council has enhanced performance management arrangements for both delivering new initiatives and delivering day-to-day operational activity.</p> <p>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.</p>	<p>Yes</p>

Sub-criteria	Commentary	Arrangements in place?
<p>Informed decision making (continued)</p> <p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance.</p> <p>Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.</p> <p>Reliable and timely financial reporting that supports the delivery of strategic priorities.</p> <p>Managing risks effectively and maintaining a sound system of internal control.</p>	<p>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.</p> <p>New decisions are supported by reports that outline appropriate options and relevant considerations, including references to financial, legal and performance issues where appropriate.</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. In addition, regular financial reporting takes place, with formal reporting quarterly to the Cabinet.</p> <p>The Council's system of internal control is subject to Internal Audit using an in-house function, and for 2016/17, your 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> <p>An Audit and Governance Committee is in place to oversee the governance framework, including risk management and internal audit, and approval of the Council's financial statements.</p> <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>Yes</p>

Sub-criteria	Commentary	Arrangements in place?
<p>Sustainable resource deployment</p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> <p>Managing and utilising assets effectively to support the delivery of strategic priorities.</p> <p>Planning, organising and developing the workforce effectively to deliver strategic priorities.</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>In 2016/17, significant additional savings were delivered and there was a small underspend against budget.</p> <p>In the 2017/18 budget round the Council recorded its plans to deliver savings over the three year period 2017/18 to 2019/20. The budget identified a savings requirement of £74.4m over this period as a result of government grant reductions and financial pressures. Savings plans were put in place for the full three year period and at the time the budget was set there was a gap of £3.6m between savings required and measures identified.</p> <p>The focus is now on the delivery of the savings identified and bridging the relatively small budget gap.</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>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.</p>	<p>Yes</p>

Sub-criteria	Commentary	Arrangements in place?
<p>Working with partners and other third parties</p> <p>Working with third parties effectively to deliver strategic priorities.</p> <p>Commissioning services effectively to support the delivery of strategic priorities.</p> <p>Procuring supplies and services effectively to support the delivery of 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 Corporate Plan identifies key partnerships for the Council, which are managed through boards:</p> <ul style="list-style-type: none"> • Economic leadership board; • Education leadership board; • Health and wellbeing board; and the • Cultural and Safer Sunderland partnership boards. <p>During 2016/17 the Council carried out a review of governance and partnership arrangements, and agreed an action plan for further improvement.</p> <p>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.</p> <p>Procurement procedures are in place and the Council 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.</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>Yes</p>

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the 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 risks. The work we carried out in relation to significant risks is outlined below.

Responding to financial pressures

Value for Money conclusion risk	Work undertaken	Conclusion
<p>The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements, including transformation activity, working with partners and use of 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 to minimise any adverse impact on service delivery. We also considered those areas such as social care where there are particular financial pressures. We reviewed the plans that are being developed to deliver future 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.</p> <p>In 2016/17, significant additional savings were delivered by the Council and there was a small underspend against budget.</p> <p>In the 2017/18 budget round the Council recorded its plans to deliver savings over the three year period 2017/18 to 2019/20. The budget identified a savings requirement of £74.4m over this period as a result of government grant reductions and financial pressures. Savings plans were put in place for the full three year period and at the time the budget was set there was a gap of £3.6m between savings required and measures identified.</p> <p>The focus is now on the delivery of the savings identified and bridging the relatively small budget gap.</p>

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 and 2015/16 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 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 implemented and progress monitored; significant 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 have carried out three monitoring visits (two in 2016 and one to date in 2017), and have confirmed that progress is being made, but 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.

Value for Money conclusion risk	Work undertaken	Conclusion
<p>The risk that Council does not make the required improvements to children’s services, following Ofsted’s assessment of services as ‘inadequate’ in July 2015, or does not make the improvements rapidly enough.</p>	<p>We considered the progress made by the Council in relation to children’s services, including the establishment of a children’s company, Together for Children, from 1 April 2017, and the results of the three monitoring visits since the July 2015 report. 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.</p>	<p>Ofsted have not yet updated their full assessment of children’s safeguarding services and consequently, we will again include an ‘except for’ qualification to our VFM conclusion.</p>

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 Appendix C.

Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £298k, are set out below.

The table below outlines the identified misstatements 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 outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2016/17				
	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr: Unusable Reserves – Revaluation Reserve			2,944	
Cr: Property, Plant and Equipment (PPE) – Land and Buildings (PFI Assets)				2,944
1	<p>Explanation: The revaluation of the waste PFI was accounted for in the balance sheet as though it took place on 31 March 2017, but the revaluation was at 1 April 2016, and consequently depreciation for 2016/17 was written out to the revaluation reserve in error. The correction of this entry would have a number of consequential impacts on disclosure notes to the statements, including the PPE note and unusable reserves note. There would also be an impact on the Comprehensive Income and Expenditure Statement (CIES) in relation to the surplus / deficit on the revaluation of non-current assets. Management's view is that the error is not material and a correction will be made in the 2017/18 financial statements. Consequently, the 2016/17 financial statements are not to be amended for this error.</p>			

Adjusted misstatements

This is a Prior Period Adjustment relating to 2015/16 and does not impact on 2016/17 figures

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr: Gross Expenditure – Health, Housing & Adult Services	35,731			
Cr: Gross Income – Health, Housing & Adult Services		35,731		
1	<p>Explanation: Gross expenditure and gross income in relation to health, housing and adult services were both understated by £35.731m in the prior year. A prior period adjustment has been made to the 2015/16 comparative figures in the 2016/17 financial statements. This did not impact on the net position in the financial statements.</p> <p>The same adjustment is also reflected in the Group Comprehensive Income and Expenditure Statement and also in note 27, Expenditure and Income Analysed by Nature – in this note, the gross expenditure is reflected in additional employees expenditure of £1.530m and other service expenditure of £34.201m; the total gross income of £35.731m impacts on the other grants, reimbursements and contributions line of note 27.</p>			

Disclosure amendments

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

The main changes were:

- a note was added to the Comprehensive Income and Expenditure Statement to explain the change in classification of cost of services - "in accordance with changes to the Code, the Cost of Services analysis is now presented in line with the Council's internal management reporting arrangements (2015/2016 analysis was previously presented in a prescribed national format)."
- the line in the Comprehensive Income and Expenditure Statement for 'items that may be reclassified to (surplus) / deficit on provision for services' was removed because there were nil values for the current and prior year;
- in the Collection Fund, one of the business rates entries was corrected; the £221k was originally shown against the Police and Crime Commissioner for Northumbria, but was moved to the central government line;

- in note 38 leases, operating leases where the Council is lessor, the table was updated for a reassessment of minimum lease payments receivable on operating leases; the total amount changed from £194,430k to £190,464k;
- a note was added to note 5, material items of income and expenditure, to explain that the £18.410m of donated assets related to three new schools which were built under the Priority School Building Programme and donated to the Council by the Department for Education;
- the wording of note 6, events after the balance sheet date, was corrected to clarify that the events identified were non-adjusting events which required disclosure in the note for information;
- the fair value table in Note 13, property plant and equipment, was updated to reflect a £922k revaluation change to waste PFI assets;
- also in note 13, gross book value and depreciation were amended by £387k relating to embedded leases in the vehicles, plant, furniture and equipment category; there was no impact on the net position reflected in the balance sheet;
- note 16, financial instruments, was amended to separately record cash and cash equivalents within the debtors and liabilities section of the table;
- in note 32, officers' remuneration, the total column was added to the 2016/17 table for senior officer emoluments;
- the related parties disclosure in note 36 was updated to clarify the full range of transactions with Sunderland Care and Support, and prior year comparatives were added where applicable throughout the related parties note;
- in note 42, pension schemes accounted for as defined contribution schemes, for the NHS staff pension scheme, the employers contribution disclosed for next year was corrected from £0.91m to £0.091m; and
- some relatively minor clarifications were made to note 43, defined benefit pension schemes.

Officers identified that two additional schools, South Hylton Primary School and Hetton Lyons Primary School converted to academy status on 1 July 2017. A note on the value of assets relating to these schools which will be written out in the 2017/18 accounts, was added as a non-adjusting post balance sheet event in Note 6 to the financial statements, Post Balance Sheet Events.

Appendix B – Draft management representation letter

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

21 July 2017

Sunderland City Council - audit for year ended 31 March 2017

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 2017 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 2016/17 (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 Executive 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 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.

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 Executive 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 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.

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 2016/17 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 draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Mr B Scarr

Executive Director of Corporate Services

Date: 21 July 2017

Appendix C – 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 2017 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 2016/17.

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 as set out in 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 the Sunderland City Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Executive Director of Corporate Services and auditor

As explained more fully in the Statement of 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 2016/17, 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 Executive 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2017 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 2017 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 2016/17.

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 comply with Delivering Good Governance in Local Government: Framework (2016);
- 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 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. 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 Comptroller and Auditor General, 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 2017.

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.

[To be signed]

Mark Kirkham

For and on behalf of Mazars LLP

*Salvus House
Aykley Heads
Durham DH1 5TS*

28 July 2017

Appendix D – 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.