

Members of the Audit and Governance Committee
Sunderland City Council
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21 July 2017

Dear Members of the Audit and Governance Committee

Update to our Audit Completion Report, 2016/17 Audit

I am writing to update matters included within our Audit Completion Report issued on 17 July 2017 and included on the agenda of the Audit and Governance Committee for 21 July 2017.

A number of amendments have been made to the financial statements since we finalised our report. I have therefore attached to this letter an updated Appendix A to our Audit Completion Report. The items highlighted in red are the changes since our initial report was issued.

None of these changes were significant or impact on our overall audit conclusions.

In addition, Appendix B included a letter of representation for single entity accounts. I have attached a revised Appendix B to this letter with the version of the letter of representation for group accounts. It is this revised version that we now ask to be signed by the Executive Director of Corporate Services.

I would be grateful if this letter could be added as an Addendum to our report in the official agenda papers of the Audit and Governance Committee of 21 July 2017 on the Council's website.

Yours sincerely



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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> <p>Notes were added for a Prior Period Adjustment in both the Council's single entity statements and the Group statements. This explained the changes and the reason for the adjustments.</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 note clarified that the changes impacted on the service lines but did not impact on the total at the cost of services level.**
- 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;

- in note 33, external audit costs, an additional £6k of fees payable in respect of other services provided by the external auditors during the year was added to the disclosure for 2016/17;
- 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;
- note 37, capital expenditure and capital financing was updated to include £4.548m of transformation costs funded from capital under new rules, and the corresponding financing from capital receipts of the same amount;
- in note 39, Private Finance Initiative and similar contracts, the profiling of PFI payments in future years was corrected for some relatively minor errors; these changes were also reflected in the narrative statement;
- 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 - UPDATED

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

21 July 2017

Sunderland City Council and Group - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the single entity and group 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 you 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 group's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the 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 group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

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

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the group'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 group'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 group'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 group will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

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