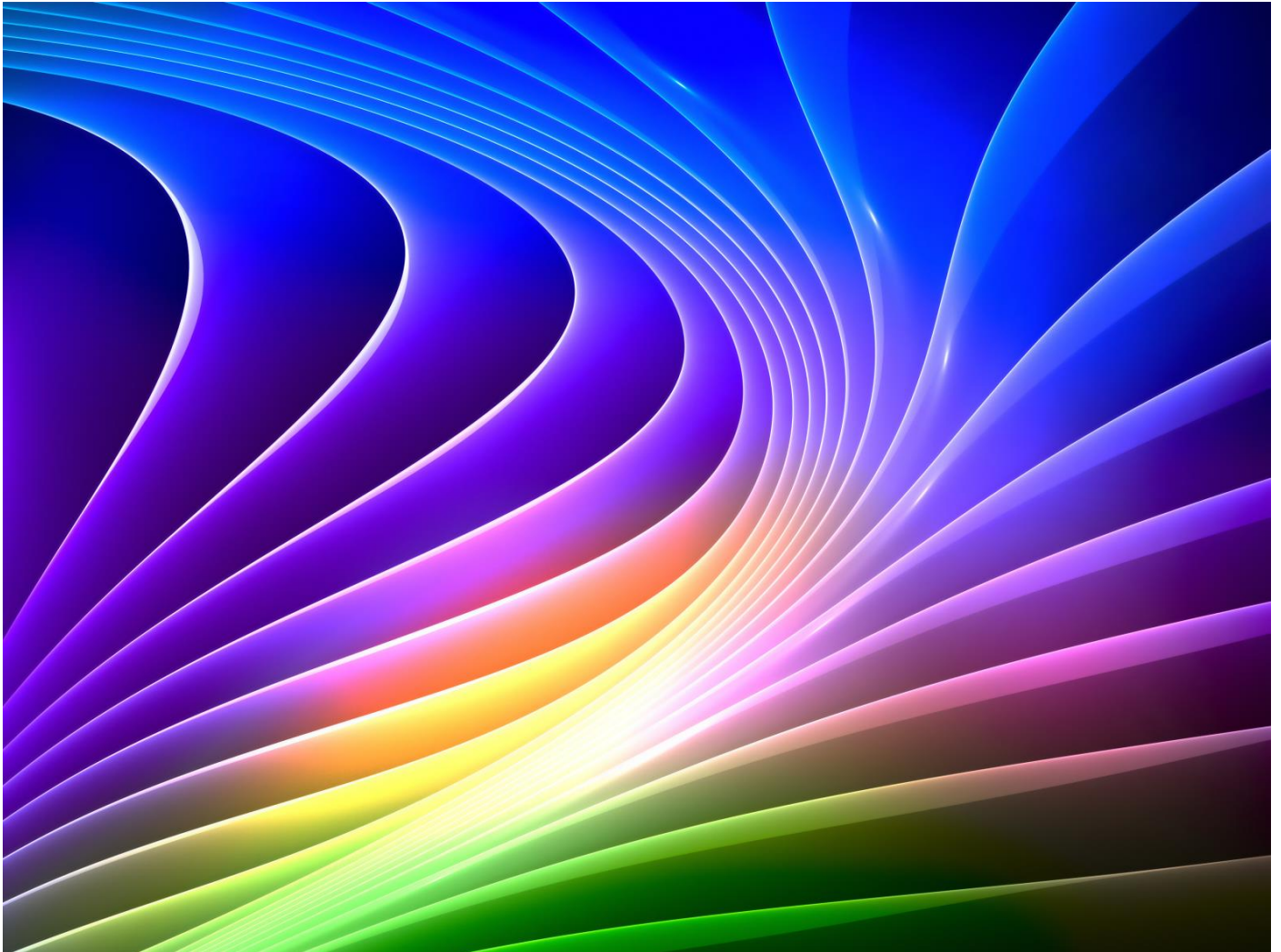


# Audit Completion Report

Sunderland City Council – year ended 31 March 2015

September 2015



Sunderland  
City Council

Mazars LLP  
Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

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

15 September 2015

Dear Members

**Audit Completion Report – Year ended 31 March 2015**

We are delighted to present our Audit Completion Report for the year ended 31 March 2015. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks was outlined in our Audit Strategy Memorandum which we presented on 27 March 2015. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks remain appropriate.

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

If you would like to discuss any matters in more detail then please do not hesitate to contact me 0191 383 6300 or [mark.kirkham@mazars.co.uk](mailto:mark.kirkham@mazars.co.uk).

Yours faithfully

Mark Kirkham  
Partner  
Mazars LLP

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

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# 01 Executive summary

## Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2015 to the Audit and Governance Committee of Sunderland City Council and forms the basis for discussion at the Audit and Governance Committee meeting on 25 September 2015.

Our communication with you is important to:

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

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

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

## Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2015.

At the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of Tyne & Wear Pension Fund (PWC) over IAS 19 (pensions) related entries in the financial statements. We will provide an update to you in a follow up letter to this report should any issues arise in relation to this matter.

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

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources except for the areas that were assessed as inadequate by Ofsted in their report on children's services in July 2015. This is explained further in section 5 of this report.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 2 October 2015.

Our proposed audit report is set out in Appendix B.

## 02 Commentary on the financial statements

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

### Comprehensive Income and Expenditure Statement (CIES)

The CIES shows the cost of providing services for 2014/15 prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2014/15. The statement shows a surplus for the year for the provision of services of £38.0m. As with other local authorities the statement differs from the Council's reported performance on its revenue budget for 2014/15 because of items of expenditure which are correctly charged to the CIES under accounting rules but are not charged to the General Fund under statute.

The Council's performance against its revenue budget is set out in the Explanatory Foreword to the Statement of Accounts. The outturn position represented a net underspend on the revenue budget of £0.6m.

The CIES then accounts for other items, primarily the gains arising from the revaluation of Property, Plant and Equipment and a significant actuarial adjustment in the defined benefit liability for pensions, and the bottom line result on the CIES is a deficit of £63.5m.

### Movements in Reserves Statement (MIRS)

The MIRS takes the deficit on the provision of services of £63.5m, and adjusts it for the entries in the CIES that were required under accounting rules, but which are not chargeable to the General Fund under statute.

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

The MIRS statement culminates in the closing balance on each of the Council's reserves. Total Usable Reserves represent real resources available to the Council. Between 31 March 2014 and 31 March 2015 these increased from £182.9m to £189.7m. The General Fund balance, which is available to meet unforeseen circumstances, was maintained at £7.57m, with an additional £9.7m held by schools.

### Capital expenditure

The Council's capital programme aims to ensure that the city has the assets and infrastructure it needs, within the limits of affordability. Capital expenditure in 2014/15 was £71.5m, and £28.8m of this was financed from capital grants and contributions.

### Balance Sheet

The Balance Sheet shows the value of the Council's assets and liabilities on a single date at the year end. It shows the Council's net assets of £389.6m which was a decrease of £63.5m or 14% on last year. The most significant movement from last year relates to an increase in the net pension liability of £59.4m following the assessment by the actuary.

The Council's net assets are matched by reserves which comprise both usable and unusable reserves. In addition to the General Fund balance and funds held by schools, the Council also has £8.0m in a capital receipts reserve and £5.3m of capital grants unapplied. A further £159.1m is held in earmarked reserves. Note 8 to the financial statements sets out the Council's earmarked reserves in more detail, showing that £132.3m is held in earmarked revenue reserves and £40.1m relates to earmarked capital reserves. Although these reserves are earmarked, they do provide the Council with some flexibility in managing in the current challenging financial environment.

## 03 Significant findings

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

- Our audit conclusions regarding the significant risks outlined in the Audit Strategy Memorandum;
- Our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 6 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- Any significant difficulties we experienced during the audit.

### Significant risks

#### Management override of controls

##### Description of the risk

International Standards on Auditing (ISA) 240 – The auditor’s responsibility to consider fraud in an audit of financial statements requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

##### How we addressed this risk

We addressed this risk through performing audit work on:

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

##### Audit conclusion

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

#### Revenue recognition

##### Description of the risk

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 but, given the Council’s range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2014/15. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.

##### How we addressed this risk

We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. We also undertook a range of substantive procedures including:

- testing receipts in March, April and May 2015 to ensure they were recognised in the right year;
- testing adjustment journals; and
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

### **Audit conclusion**

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

## **Pensions estimates (IAS19)**

### **Description of the risk**

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

### **How we addressed this risk**

We discussed with 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:

- 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 was commissioned by the Audit Commission.

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

### **Audit conclusion**

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of Tyne & Wear Pension Fund (PWC) over IAS 19 (pensions) related entries in the financial statements. Subject to a satisfactory response from PWC, our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

## **Accounting for the Council's investment in Siglion LLP**

### **Description of the risk**

The Council has transferred the majority of its rental properties to Siglion LLP in return for loan notes and an equity share in the LLP. The values involved are material to the Council's statements. The accounting entries required for this transaction are still to be clarified, and will require an assessment of the treatment of revenue and capital transactions. Judgements will need to be exercised around the valuation of assets.

### **How we addressed this risk**

We reviewed the Council's accounting treatment and assessed it against the requirements of the CIPFA Code of Accounting Practice and International Accounting Standards, as well as the Capital Financing Regulations (2003, as amended).

### **Audit conclusion**

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

## Accounting policies and disclosures

We have reviewed Sunderland City Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting.

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

## Significant 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.



## 04 Internal control recommendations

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

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

### IT general controls

As part of Mazars commitment to audit quality, our IT specialists have carried out a review of IT general controls, including:

- physical security;
- back-up and disaster recovery arrangements;
- access management and logical security;
- strategy and internal control; and
- change management.

Although there are some issues raised, our IT specialists have concluded that the significant IT risks are being substantially mitigated by the control environment in place, and they have not identified any significant weaknesses which could significantly threaten IT reliability in respect of the production of the financial information in the financial statements.

The detailed work has only recently been completed and our findings and recommendations are still being discussed with officers. When these discussions are complete, we will update members through a future Audit Progress Report if there are any further matters of detail that require reporting.

## 05 Summary of misstatements

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

Our final calculated materiality level for the 2014/15 audit, based on the final statement of accounts, is unchanged from that previously reported.

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

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

### Adjusted misstatements 2014/15

	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Revaluation gains (other comprehensive income and expenditure) / Property, Plant and Equipment	1,124	1,124	
	Movement in Reserves Statement / Revaluation Reserve	1,124		1,124
	Waste Facility PFI – recognition of the asset. The Council's share of the new waste treatment facility was brought into the Council's accounts at a figure that did not agree to the payments made as part of the PFI scheme. The closing position as at the balance sheet date was not affected as the asset was revalued after being brought into use, and so the change in additions has resulted in a lower revaluation gain being reflected in the Council's statements. Consequential amendments were made to various disclosure notes as a result of this amendment, such as the Revaluation Reserve, the Capital Adjustment Account and the Capital Financing and Expenditure note.			
2	Property, Plant and Equipment		2,944	
	Cost of Services – Environmental and Regulatory Services, Depreciation	2,944		
	The Council's depreciation policy is not to depreciate assets in the year of acquisition. In the draft statements the New Waste Treatment Facility had been depreciated. This was amended to ensure that this asset is depreciated in line with the Council's policy. This has the effect of decreasing the amount of depreciation charged in year and increasing the value of the asset as at the balance sheet date. The impact on the surplus/deficit on the CIES is reversed out through the Movement in Reserves Statement as part of the statutory overrides which determine which charges can fall on Council Tax payers. Consequential amendments were made to the Movement in Reserves Statement, note 12, note 7 and the Capital Adjustment Account.			
3	Cost of Services – Education Services, expenditure	901		
	Financing and Investment Income and Expenditure	901		
	Guidance was issued by CIPFA in LAAP bulletin 103 that suggested that schools transferring to academies should be accounted for by writing out the net assets of the transferring school as part of Financing and Investment Income. In the statements this was initially done through the Education Services line in Cost of Services expenditure. The amount transferred out has now been shown in Financing and Investment Income (with detail added to note 10). There is no impact on the overall surplus/deficit on the provision of services shown in the CIES.			

## Adjusted misstatements 2014/15 (continued)

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
4	Cash and cash equivalents	<b>2,388</b>			
	Cash and cash equivalents overdrawn		<b>2,388</b>		
<p>Group balance sheet. There was a presentational error identified in the treatment of bank balances held by the subsidiary companies which led to them being netted off the overall bank overdraft figure of the Council. This had the effect of understating both assets and liabilities by the same amount.</p>					

### Disclosure amendments

There were several changes required to the disclosure notes:

- Sandhill View Secondary School (PFI) has converted into an academy post balance sheet date. An events after the balance sheet note was added to explain the implications of this;
- The external audit fee note was amended to correct minor errors; and
- other minor typographical and grammatical errors within the statements have been corrected.

### Uncertainties relating to PFI schemes

During 2014/15 officers have sought to address issues relating to the Street Lighting and Sandhill PFI schemes that were raised in our 2013/14 audit. Significant work was undertaken by officers, including revisiting the PFI model in detail and addressing the issues previously identified. However, there remain some non-material differences when comparing the accounting entries and balances to those in the PFI models:

- actual payments were higher than those in the updated models by £246k (Street Lighting) and £219k (Sandhill). Officers have already identified events which account for some of the difference and will analyse the models further in 2015/16; and
- there is a difference of £2.6m between the net book value of scheme assets when compared to the PFI model. Officers will revisit the model in 2015/16 to ensure that all known events are correctly recorded.

These differences are not necessarily errors in the accounts, and are uncertainties that require follow up and clarification by officers.

The Waste PFI scheme became operational in 2015/16. We found that there was a difference between the estimated charge in the accounts for the scheme and the actual outturn of £281k. The overstatement of estimated costs will be adjusted for in 2015/16.

## 06 Value for money

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, and to report our conclusion to those charged with governance, having regard to criteria specified by the Audit Commission.

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

As part of our work, we also:

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

We are not required to consider, nor have we, all aspects of the Council's arrangements. We adopt a risk based approach, designed to identify any significant issues that might exist.

We report if significant matters come to our attention which prevent us from concluding that the Council has put in place proper arrangements.

### Focus for this year's work

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

We took into account the matters disclosed in the Council's annual governance statement in undertaking our work.

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

We did not identify a need to carry out additional risk-based audit work in relation to other areas.

### Our 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 secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

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.

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

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

## Significant Value for Money risk

### VFM risk

#### Description of the risk

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

#### How we addressed this risk

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

#### Conclusion

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

## Financial resilience and securing economy, efficiency and effectiveness

The Council has a strong track record of delivering savings and keeping within budget. The Council also has a reputation for strong leadership and innovation. Over the five year period from 2010/11 to 2014/15 the Council has achieved savings of £171m while implementing its Community Leadership Programme and its Business Transformation Programme. Measures taken have included:

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

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

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

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

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

## Ofsted inspection

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

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

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

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

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

The Council is addressing the issues raised in the Ofsted inspection, and have appointed an Interim Director for Children's Services with experience of leading improvement in other authorities. Following the inspection, the Government appointed a Commissioner for Children's Services in Sunderland to work with the Council to advise on improvements in children's services and to advise ministers on the improvements that are achieved.

## Appendix A – Draft management representation letter

**Sunderland City Council**

25 September 2015

Dear Mr Kirkham

### **Sunderland City Council - audit for year ended 31 March 2015**

This representation letter is provided in connection with your audit of the statement of accounts for Sunderland City Council and its group for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

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

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

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

I have provided you with:

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

I confirm as s151 Officer 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 affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Cabinet, Council and Committee meetings, have been made available to you.

## **Accounting policies**

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

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

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

## **Contingencies**

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

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

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

There are no contingent gains which should be disclosed.

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

## **Laws and regulations**

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

## **Fraud and error**

I acknowledge my responsibility as s151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

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



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

### **Related party transactions**

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

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

### **Group statements consolidation process**

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

### **Impairment review**

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

### **Future commitments**

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

### **Subsequent events**

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

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

### **Going concern**

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

Yours faithfully

Sonia Tognarelli  
Director of Finance

## Appendix B – Draft audit 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 2015 under the Audit Commission Act 1998. 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 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 2014/15.

This report is made solely to the members of Sunderland City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance 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, 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 and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Sunderland City Council as at 31 March 2015 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 2015 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 2014/15.

### **Opinion on other matters**

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

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

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

### **Conclusion on the 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 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

#### **Basis of conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice 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 2015.

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.

### **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.

### **Qualified conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, 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 2015.

### **Certificate**

We certify that we have completed the audit of the accounts of Sunderland City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mark Kirkham  
For and on behalf of Mazars LLP

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30 September 2015

## 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.