

Audit Completion Report

Sunderland City Council – year ended 31 March 2014

September 2014



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Audit and Governance Committee
Sunderland City Council
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Burdon Road
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17 September 2014

Dear Members

Audit Completion Report – Year ended 31 March 2014

We are delighted to present our Audit Completion Report for the year ended 31 March 2014. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented on 28 March 2014. We have reviewed the significant audit risks and areas of management judgement, included in our Audit Strategy Memorandum and during the course of the audit we subsequently removed the following significant risk for the reason specified below:

- Expenditure recognition - we rebutted the presumption of the risk of fraud in expenditure recognition when we reviewed the draft financial statements.

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

This document will be presented to the Audit and Governance Committee on 26 September 2014. If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300 or mark.kirkham@mazars.co.uk.

Yours faithfully

Mark Kirkham
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 Non-Executive Directors, Members or officers are prepared for the sole use of the audited body and we take no responsibility to any Non-Executive Director, 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 2014 to the Audit and Governance Committee of Sunderland City Council and forms the basis for discussion at the Audit and Governance Committee meeting on 26 September 2014.

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 and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 4 and a summary of misstatements 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 2014.

A number of adjustments have been made to the financial statements by officers as set out in section 5 of this report. None of the adjustments identified during the audit resulted in a change to the Council's underlying financial position.

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.

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 3 October 2014.

We require a letter of representation from you as set out in Appendix A.

Our proposed audit report is set out in Appendix B.

02 Commentary on the financial statements

Comprehensive Income and Expenditure Statement (CIES)

The CIES shows the cost of providing services for 2013/14 prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2013/14. The statement shows a deficit for the year for the provision of services of £134.0m. As with other local authorities the statement differs from the Council's reported performance on its revenue budget for 2013/14 because of items of expenditure which are correctly charged to CIES under accounting rules but are not charged to the General Fund under statute.

The Council's performance against its revenue budget is set out in Explanatory Foreword to the Statement of Accounts. The outturn position represented a net underspend on the revenue budget of £5m.

The CIES then accounts for other items, primarily the surplus arising from the revaluation of Property, Plant and Equipment and an actuarial reduction in the defined benefit liability for pensions, and the bottom line result on the CIES is a surplus of £111.9m.

Movements in Reserves Statement (MIRS)

The MIRS takes the deficit on the provision of services of £134.0m, 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 2013 and 31 March 2014 these increased from £165.3m to £182.9m. The General Fund balance, which is available to meet unforeseen circumstances, has remained constant at £7.57m.

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 worth of £453.2m which is an increase of £111.9m or 32.8% on last year.

The most significant movement from last year relates to a decrease in the net pension liability of £201m following the assessment by the actuary, which has been partly offset by reductions in the net book value of property, plant and equipment (£85m). The latter has mainly arisen from disposals of schools from the Council's Balance Sheet when they achieve academy status.

The Council's net assets are matched by reserves which comprise both usable and unusable reserves. Note 8 to the financial statements sets out the Council's usable reserves in more detail, showing that in addition to the General Fund Balance and Schools Balances, the Council has £46.8m of earmarked capital reserves and £115.8m of earmarked revenue reserves. Although these reserves are earmarked they provide the Council with some flexibility in managing in a difficult and challenging public sector environment.

Group Accounts

The Council has successfully produced group accounts for the first time this year. These consolidate the Council's single entity accounts with the accounts of its subsidiaries:

- Sunderland Care and Support Ltd
- Care and Support Sunderland Ltd
- Sunderland Live Ltd

03 Significant findings

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

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

Significant risks and key areas of management judgement

Significant risk: management override of controls

Description of the risk

Auditing standards state that 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 override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits. This does not imply that we suspect actual or intended manipulation but that we approach the audit with due professional scepticism.

How we addressed this risk

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

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

Our testing included:

- general ledger journal testing and other adjustments made in the preparation of the financial statements;
- consideration and review of material accounting estimates;
- consideration and review of any unusual or significant business transactions; and
- consideration of local factors.

Audit conclusion

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

Significant risk: revenue recognition

Description of the risk

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of income recognition and in relation to judgements made by management as to when income has been earned. Mazars' policy is that the scope to apply such a rebuttal is limited. As there is an inherent risk of fraud in revenue recognition we consider it to be a significant risk on all audits. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

How we addressed this risk

We evaluated the design and implementation of controls which mitigated this risk. In addition we undertook a range of substantive procedures including:

- testing of income, including testing of receipts in March and April 2014 to ensure they have been recognised in the right year; and
- testing adjustment journals.

Audit conclusion

Our testing identified that housing benefit overpayments being recovered, and their corresponding provision for bad debts, were not accrued for in the Council's financial statements. The impact is not material and the financial statements have not been amended. This is explained in section 5 of this report.

Our work has provided the assurance we sought and has not highlighted any other issues in relation to revenue recognition to bring to your attention.

Significant risk: pension entries (IAS 19)

Description of the risk

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

How we addressed this risk

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

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

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

Audit conclusion

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

Group accounts

Description of the risk

The Council has determined that group financial statements are required for the first time this year, to consolidate the transactions of the Council with Sunderland Care and Support Ltd, Care and Support Sunderland Ltd and Sunderland Live Ltd. As this is a new and significant accounting development for the Council, there is a risk of material misstatement.

How we addressed this risk

Our work on group accounts included:

- a review of the Council's arrangements to consolidate the accounts of the component entities;
- reliance on the work of the auditors of the component entities;
- review of the consolidation process, ensuring that the group accounts are consistent with the audited accounts of each component.

Audit conclusion

Some amendments to the financial statements were made to reflect changes to the Council's accounts and those of its subsidiaries. Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Equal pay settlements

Description of the risk

The Council has lost a number of Employment Tribunals and appeals, and is now looking to settle equal pay cases; the cases are complex, but it is expected that a significant settlement might be reached before the financial year end and payments made. Issues over the accounting treatment of provisions, and the application of capitalisation directions, make this a technically complex area and there is a risk of material misstatement.

How we addressed this risk

We reviewed the accounting treatment of equal pay settlements in the statements and tested a sample of payments made during the year. We also reviewed the Council's controls that are in place around the settlement of equal pay claims.

Audit conclusion

Our audit testing identified that a payment to Her Majesty's Revenue & Customs (HMRC) of £2.182m in April 2014, which related to equal pay settlements should have been classified as a creditor rather than a provision in the balance sheet. The statements were amended for this.

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

Key areas of management judgement

Property, Plant and Equipment – depreciation, revaluations and impairments

Description of the area of management judgement

Accounting standards and CIPFA's Code of Practice on Local Authority Accounting require that all property, plant and equipment (PPE) are depreciated, unless there is a specific exception. There are also requirements to regularly revalue assets carried at fair value on the Authority's balance sheet and to carry out impairment reviews. These involve management judgements over the useful lives and valuations of assets.

How we addressed this area of management judgement

We evaluated the design and implementation of controls in respect of depreciation, revaluations and impairments as part of our walkthrough of the PPE system. In addition, we undertook a range of substantive procedures including:

- substantive sample testing of depreciation and revaluations per the disclosure note to the financial statements;
- review and evaluation of the work of the in-house valuer, including the valuer's report; and
- consideration of regional valuation trends.

Audit conclusion

The Council accounted for a disposal of VPE (Vehicles, Plant and Equipment) of £770k as a revaluation rather than as a disposal. The statements were amended for this.

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

Accounting policies and disclosures

We recommended that the accounting policies were expanded for the Group Statements where accounting treatment differs from that of the Council. This was addressed in the amended financial statements.

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.

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 of all deficiencies that might exist or improvements that could be made.

05 Summary of misstatements

We set out below the misstatements identified during the course of the audit, above the trivial level, for adjustment. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

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

None of the adjustments identified during the audit resulted in a change to the Council's underlying financial position.

Unadjusted misstatements 2013/14

	CIES		BS	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
1 Dr Financing and investment income and expenditure	362			
Cr NCOS (Education £170k and Highways and Transport £192k)		362		
Being an estimated error in the presentation of additional interest payable on PFI schemes (net nil impact on the Deficit on Provision of Services). The above figure is estimated, and the maximum error possible is £700k.				
2 Dr Debtors			3,596	
Cr Other housing services income		3,596		
Dr Other housing services expenditure	3,000			
CR Provision for bad debts				3,000
Being the omission of the accrual of housing benefit overpayment debtors in the statement of accounts. Income is understated by the total amount of debt, and expenditure is understated by an amount for provision for bad debts relating to that debt. As a detailed age-profile of the debt is not available at the time of preparing this report, the £3,000k is an estimate. The actual figure could be higher (to a maximum of the total debt) or lower, depending on the assessment of collectability of debt. These debts are known to the Council and are subject to the usual debt-recovery procedures in place, which seek to maximise recovery of amounts owed.				
The estimated net error of £596k therefore represents outstanding income at the year end that will be subsequently recovered by the Council.				
Total unadjusted misstatements	3,362	3,958	3,596	3,000

Adjusted misstatements 2013/14

	CIES		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
1 Dr Corporate and Democratic Core gross expenditure	4,370			
Cr Non-distributed costs gross expenditure		4,370		
Being a correction of the service heading for pension past service costs under SeRCOP.				
2 Dr Short term provisions			2,152	
Cr Creditors				2,152
Being the correction of the classification of a payment made to HMRC in the 2014/15 financial year relating to 2013/14 equal pay settlements.				
3 Dr Available for sale reserve			367	
Cr Long term investments				367
Dr Adjustments between accounting basis under regulations (MiRS)	367			
Cr Deficit in revaluation of available for sale financial assets		367		
Being the correction of the treatment of the purchase of shares in Newcastle Airport (an error identified in 2012/13). This change increases the expenditure of the Council shown in the CIES and has an impact on the useable reserves of the Council, reducing them by £367k, coming from a reduction in earmarked reserves which were to fund the purchase of the shares from Darlington Council. There are various other amendments relating to this correction, affecting note 7, note 8, note 16, note 23, notes 24b and h, note 28 and note 38.				
4 Dr Surplus/deficit on provision of services, other operating expenditure	770			
Cr NCOS expenditure (split between Planning, £46k, Education £515k and Adult Services £209k)		770		
Being the correction of the accounting treatment for disposal of Vehicle, Plant and Equipment. Note 12 also amended to move £7.216m from revaluation loss to disposal, and the associated accumulated depreciation of £6.446m from depreciation recognised in provision of services to depreciation on disposals.				

Adjusted misstatements - Group 2013/14

	CIES		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
1 Dr Pension liability			1,239	
Cr Short term debtors				1,239
<p>Amendment is to match a change to the statements of one of the subsidiary's statements prior to approval but after preparation of the draft group statements.</p>				
2 Dr Usable reserves (Profit and Loss reserves applicable to subsidiaries)			6,458	
Cr Pension reserve (unusable reserve)				6,458
<p>Reflecting that the statutory override available to the Council for the off-set of pension liabilities in a specific pension reserve does not apply to the subsidiaries.</p>				

Disclosure amendments

Financial statement area	Details of amendments
Various	Various minor presentational and typographical changes were made to the statements.
Accounting policy 1.19	The policy relating to depreciation was updated.
Note 4 – Assumptions and uncertainty	The note was expanded to include details relating to the new provision for NNDR appeals.
Note 6 – PBSEs	The list of schools transferring to academy status was updated to reflect those schools that had transferred since the production of the draft statements.
Note 8 – transfers to/from earmarked reserves	The transfers in and out of the capital receipts reserve were both overstated by £602k. There was no impact on the balances held as the correct closing position was reflected in the balance sheet.
Note 39 – leases	Information not required by the Code removed.
Group – balance sheet	Reserves expanded on the face of the balance sheet to remove the need for detailed notes.
Group – accounting policies	Accounting policies clarified for the group situation.
Group – note 8	Updated to remove redundant information and to reconcile the pension liability to deferred tax position.

06 Value for money

We are required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do this by considering the Council's arrangements against two criteria specified by the Audit Commission. We have set out below our conclusion.

Financial Resilience

The Council has managed its financial position well. Budget setting is robust and close monitoring ensured delivery of spending within budget. The outturn report for 2013/14 shows that the Council underspent by £5m against the revenue budget. The capital outturn was £51m, with net slippage of £16.7m being carried forward to 2014/15.

Overall, the Council has delivered £135m of savings in the period 2010/2011 to 2013/2014.

The annual revenue budget for 2014/15 included a further £35.6m in savings requirements. The Medium Term Financial Strategy sets out how the Council proposes to deal with the difficult economic climate and the further funding cuts that are required. In the three year period 2014/15, 2015/16 and 2016/17, the Council expects to have to deliver a total of £113m in savings.

The earmarked reserves set aside for specific plans and projects will help the Council to deliver its priorities in the coming years. These reserves provide some flexibility if the Council needs to invest to save, for example, but there is a recognition that reserves can not be used to sustain services and the underlying budget reductions identified will need to be delivered.

Securing economy, efficiency and effectiveness

In recent years, the Council has made significant transformational changes to deliver challenging savings targets, but it has also sought to maintain and improve service delivery.

The Council continues to deliver an ambitious programme which has included:

- securing a City Deal to help deliver the new Wear Crossing and pursue the plans to develop a new advanced manufacturing site near Nissan;
- progressing the physical and economic regeneration of the City, for example, with infrastructure work on the old Vaux site and in the City Centre, and by entering into a local asset backed vehicle (LABV) with private sector partners to accelerate economic regeneration more widely;
- implementing alternative models of service delivery, including establishing two new local authority trading companies, Sunderland Live Ltd and Sunderland Care and Support Ltd;
- exploring and delivering transformation in a range of services including leisure and libraries; and
- working with its partners to establish a Combined Authority so that economic growth, skills and transformation improvement can be delivered on a regional basis.

The challenge for the future is ensuring that the well established track record of delivering results can be continued.

In the Audit Strategy Memorandum we identified a significant risk relevant to the value for money conclusion. We detail below how we have addressed this risk and our conclusions.

We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

Significant Value for Money risks

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 will review budget monitoring and reporting, focusing on areas where action plans are in place to make savings and seek to minimise any adverse impact on services. We will review project plans for a sample of savings proposals and consider the arrangements in place for delivery.

Conclusion

The Council continues to closely monitor the delivery of its action plans and its budgets. The outturn for 2013/14 showed that the Council has achieved an underspend of £5m against its revenue budget, delivering the significant savings required so far, and it also has financial reserves to help it manage the future cuts that are likely to be required.

The Council is still driving improvement despite the spending cuts, with a range of innovative and transformational measures having been implemented. The Council is preparing for difficult decisions in future years as further cuts in funding are required.

Good progress has been made in delivering the actions needed. There are still risks with the programmes and projects that are being implemented and it is important that the Council continues to closely monitor progress to ensure that its track record of delivery is maintained.

Appendix A – Draft management representation letter

Sunderland City Council

26 September 2014

Dear Mr Kirkham

Sunderland City Council - audit for year ended 31 March 2014

This representation letter is provided in connection with your audit of the statement of accounts for Sunderland City Council for the year ended 31 March 2014 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 effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Cabinet, Council and Committee meetings, have been made available to you.

Accounting policies

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

Laws and regulations

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

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 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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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. 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 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 are immaterial, both individually and in aggregate, to the statement of accounts as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours faithfully

Sonia Tognarelli
Head of Financial Resources

Appendix to letter of representation

Schedule of unadjusted misstatements

Unadjusted misstatements 2013/14				
	CIES		BS	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
1 Dr Financing and investment income and expenditure	362			
Cr NCOS (Education £170k and Highways and Transport £192k)		362		
Being an estimated error in the presentation of additional interest payable on PFI schemes (net nil impact on the Deficit on Provision of Services). The above figure is estimated, and the maximum error possible is £700k.				
2 Dr Debtors			3,596	
Cr Other housing services income		3,596		
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CR Provision for bad debts				3,000
Being the omission of the accrual of housing benefit overpayment debtors in the statement of accounts. Income is understated by the total amount of debt, and expenditure is understated by an amount for provision for bad debts relating to that debt. As a detailed age-profile of the debt is not available at the time of preparing this report, the £3,000k is an estimate. The actual figure could be higher (to a maximum of the total debt) or lower, depending on the assessment of collectability of debt. These debts are known to the Council and are subject to the usual debt-recovery procedures in place, which seek to maximise recovery of amounts owed.				
The estimated net error of £596k therefore represents outstanding income at the year end that will be subsequently recovered by the Council.				
Total unadjusted misstatements	3,362	3,958	3,596	3,000

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 2014 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 2013/14.

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.

Respective responsibilities of the Head of Financial Resources and auditor

As explained more fully in the Statement of the Head of Financial Resources' Responsibilities, the Head of Financial Resources 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 Head of Financial Resources; 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 2014 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 2014 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 2013/14.

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 2014.

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.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, 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 2014.

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

The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

30 September 2014

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.