

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

Direct line +44 (0) 191 383 6300

Email cameron.waddell@mazars.co.uk

26 July 2019

Dear Members of the Audit and Governance Committee

Update to our 2018/19 Audit Completion Report

I am writing to update Members on the matters arising since we presented the Audit Completion Report to the Audit and Governance Committee on 26 July 2019.

The following table describes how the outstanding matters included in our Audit Completion Report have been addressed.

Audit area	Description of outstanding matters
Pensions	<p>We have now completed our work, including consideration of the revised pension liabilities arising as a result of the McCloud judgement.</p> <p>We have also received and considered the assurance from the Pension Fund auditor.</p> <p>There are no further matters arising which we are required to report to you and we have gained the assurance sought in respect of this key audit matter.</p>
Property, Plant and Equipment and Investment Properties	<p>Our work has now been completed, including consideration of the Council’s rolling programme and the Valuer’s overall report.</p> <p>During the audit the Council identified there were two properties (previously leased to Academies) valued at £2.7m which should have been brought back onto the balance sheet in 2018/19 (see updated summary of misstatements – unadjusted, per Appendix A).</p> <p>There are no further matters arising which we are required to report to you and we have gained the assurance sought in respect of this key audit matter.</p>
Other areas	<p>Our work is now completed, including consideration of the revised valuation of the Airport shares and also the accounting treatment of the purchase of Siglion.</p> <p>The accounting treatment of the purchase of Siglion has been amended in the revised Group statements (see updated summary of misstatements per Appendix A).</p>

Mazars LLP – Salvus House - Aykley Heads - Durham - DH1 5TS
 Tel: +44 (0) 191 383 6300 – Fax: +44 (0) 191 383 6350 – www.mazars.co.uk

Audit area	Description of outstanding matters
	There are no other matters arising we are required to report to you.
Group accounts	Our work is now completed, including final assurance from the significant component auditor. The revised financial statements have been amended to adjust for the accounting treatment of the purchase of Siglion as set out above.
Closing procedures	<p>We have now completed our review and closure processes, including consideration of post balance sheet events and checking the revised financial statements.</p> <p>An additional disclosure for the impairment of local taxation debtors past due or impaired has been added to the revised financial statements, as well as amendment to material items of income and expenditure reported in Note 5.</p> <p>One unadjusted disclosure point is included in the updated summary of misstatements.</p> <p>There are no additional matters that we are required to report to you.</p>

Internal control recommendations

There are no changes to the internal control recommendations reported in our Audit Completion Report.

Materiality

We reported our materiality in our Audit Completion Report and our final assessment is this remains unchanged.

Summary of misstatements

For completeness, I attach a final summary of misstatements at **Appendix A** to this letter. All changes between the Audit Completion Report and the final position are highlighted in *blue italics*.

Yours sincerely



Cameron Waddell
Partner

Appendix A – Summary of misstatements

Changes since our Audit Completion Report are highlighted in blue italics.

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £400k (Group trivial threshold of £416k). 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.

Unadjusted misstatements 2018/19

	CIES		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Property, Plant and Equipment Cr: Revaluation Reserve			2,181	2,181
Being the carried forward extrapolated error as a result of Property, Plant and Equipment testing in 2017/18. Whilst the Council has corrected the specific errors identified from our testing for the assets in question, the extrapolated error still has a carried forward impact in 2018/19.				
2 <i>Dr: Property, Plant and Equipment</i> <i>Cr: Revaluation Reserve</i> <i>Being two properties previously leased to Academies, now brought back onto the Balance Sheet.</i>			2,666	2,666
3 <i>Dr: Group CIES – Health & Social Care</i> 243 <i>Dr: Council and Group CIES, Cabinet Secretary</i> 98 <i>Dr: Group tax expenses</i> 156 <i>Cr: Council and Group Creditors</i> 98 <i>Cr: Group Balance Sheet, TfC and SCAS reserves</i> 399 <i>Being SCAS guaranteed minimum pension liabilities (£0.243m), additional SCAS and TfC tax liabilities (estimated at £0.156m) and income (£0.098m) shown in 2018/19 relating to 2017/18.</i>				
Total unadjusted misstatements	497	0	4,847	5,344

Unadjusted misstatements 2017/18

	CIES		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Group Property, Plant and Equipment Cr: Group Revaluation Reserve – joint ventures			5,761	5,761
Being an asset omitted from the Group consolidation adjustment for the leisure joint venture. This has been included in the 2018/19 revised financial statements, as shown overleaf.				
Total unadjusted misstatements	0	0	5,761	5,761

Adjusted misstatements 2018/19

		CIES		Balance Sheet	
		Dr	Cr	Dr	Cr
		(£'000)	(£'000)	(£'000)	(£'000)
1	Dr: IAS 19 pensions (McCloud)	17,210			
	Dr: Cabinet Secretary	30			
	Dr: Other comprehensive I & E	10,320			
	Cr: Pensions reserve				27,560
<p>Being the omission of employer pension contributions following the McCloud judgement. Being £17.21m (should this be £17.24) in respect of McCloud, plus updated asset return values resulting in an decrease of £10.32m. No net impact on the Council's General Fund, with pension costs under IAS 19 being reversed out in the Movement in Reserves Statement and replaced by actual employer pension contributions.</p>					
2	Dr: Group CIES: Children (TfC)	2,847			
	Dr: Group CIES: Health & Social Care (SCAS)	2,580			
	Dr: Group CIES: Other comprehensive I & E	1,195			
	Cr: Group Balance Sheet: Pensions liability				6,622
<p>Being amendment to the Group statements for McCloud.</p>					
3	Dr: Other comprehensive I & E	2,328			
	Dr: Financial Instruments Revaluation Reserve			2,759	
	Cr: Long-term investments				5,087
<p>Being the valuation of the Council's long-term investment in Siglion at cost instead of fair value, as permitted by the Code. Impacting on the Movement in Reserves Statement for both the single entity and Group, as well as a number of disclosures.</p>					
4	Dr: Group NCOS – Health & Social Care	38,980			
	Cr: Group NCOS – Community & Culture		28,796		
	Cr: Group NCOS – Environment & Transport		10,184		
<p>Being transposition of Group gross income and expenditure for the three lines shown above. No impact on Group total net cost of services.</p>					
5	Dr: Cash and Cash Equivalents (overdrawn)			9,272	
	Cr: Cash and Cash Equivalents (in hand & bank)				9,272
<p>Being amendment to the presentation of cash and cash equivalents, due to right of 'set-off' existing.</p>					
6	Dr: Group Balance Sheet – Property, Plant and Equipment			5,800	
	Cr: Group Balance Sheet – Revaluation Reserve: joint ventures				5,800
<p>Being omitted asset from the Group consolidation adjustment for the leisure joint venture.</p>					

		CIES		Balance Sheet	
		Dr	Cr	Dr	Cr
		(£'000)	(£'000)	(£'000)	(£'000)
7	Dr: Long-term investments Cr: Financial Instruments Revaluation Reserve			7,892	7,892
	Being amendment to the valuation of the Airport shares.				
8	<i>Dr: Group MIRS</i> <i>Cr: Group CIES, Housing & Regen</i> <i>Cr: Group Balance Sheet, long-term investments</i>		409	2,759	2,350
	<i>Being amendment to accounting for the purchase of Siglion.</i>				

Disclosure amendments

The Council has amended the disclosures for various minor points and presentational issues. The most significant disclosure amendments are summarised below.

- **Note 3 critical judgements:** amendment to include the judgement in respect of pensions liabilities (McCloud judgement).
- **Note 4 assumptions:** various amendments to clarify assumptions.
- *Note 5 material items of income and expenditure: update to disclosures.*
- **Note 8 Expenditure and Funding analysis** (consisting of three tables): amendment to the first table to ensure it reconciles with the second table.
- **Note 15 financial instruments:** various amendments, including narrative to clarify the changes as a result of implementing IFRS 9. Amendment to the valuation basis of the Council's investment in Siglion from fair value to cost.
Amendment to the income, expense, gains and losses table to reflect new Code requirements.
Amendment to the fair value disclosures for PWLB debt due to a transposition error (no impact on the balance sheet).
Amendment to disclose the categories of local taxation debtors past due or impaired.
- **Note 33 related party transactions:** various amendments to update disclosures.
- **Note 40 pensions:** various amendments, including for the impact of the additional liabilities accrued in respect of the McCloud judgement, as shown on preceding page.
Amendment to correct a transposition error in respect of the past service cost lines (no net impact).
Amendment to presentation of employer deficiency payments (no net impact).
- **Note 43 nature and extent of risks of financial instruments:** minor amendments. *Updated disclosure to include a summary of the impairment of debtors allowance by category.*

Group disclosure amendments

- **Group reconciliation:** amendments to line descriptors to clarify they represent 'total comprehensive income and expenditure' and not 'profit and loss'.
- **Group disclosures:** amendments to clarify disclosures and deletion of non-material notes.

Unadjusted disclosure amendments

- *Note 43 nature and extent of risks of financial instruments: the Council has not included an analysis of local taxation debtors that are impaired or past due, split into an aged debt profile, as required by the Code.*