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10 November 2021

Dear Members

Conclusion of pending matters– Audit Completion Report Sunderland City Council 2020/21 audit

As required by International Standards on Auditing (UK), we are writing to confirm matters arising that were marked as outstanding within our Audit Completion Report presented on 24 September 2021. The outstanding matters that we described in our Audit Completion Report and the conclusions reached are detailed in the table below, supported by the following hyperlinked appendices:

- [Appendix 1](#) includes the summary of misstatements reported in our earlier Audit Completion Report, with changes highlighted in *blue italics*; and
- [Appendix 2: additional internal control recommendations](#): in respect of formally evidencing the year-end treasury management reconciliation, similarly for school bank reconciliations and also a housekeeping recommendation in respect of Salix loans as a result of a trivial issue identified during the audit.
- [Appendix 3: updated independent auditor’s report to the Members of Sunderland City Council](#): including an ‘emphasis of matter’ paragraph in respect of the material valuation uncertainty disclosed by the Council for the valuation of land and buildings.

Outstanding matter	Conclusion reached
<p>Net defined benefit liability (pensions)</p>	<p>In our Audit Completion Report, we highlighted for this significant risk, the findings to date. Upon completion of our work, we have the following to highlight to the Council:</p> <ul style="list-style-type: none"> • a decrease of £25.7million to the net pensions liability, as a result of a material difference between the estimate used by the Actuary and the actual pension fund assets – with the Council amending the financial statements for this issue after obtaining a revised pensions report from the Actuary; • a similar misstatement of the group net pensions liability, estimated at £2.1 million for Together for Children and Sunderland Care and Support – with the Council not amending the financial statements for this, on grounds of materiality; and

Outstanding matter	Conclusion reached
	<ul style="list-style-type: none"> an estimated £2.9 million overstatement of the Group's share of Pension Fund assets in respect of differences identified in the Pension Fund auditor's letter – with the Council not amending for this, on grounds of materiality.
Property, plant and equipment	<p>In our Audit Completion Report, we highlighted for this significant risk, the findings to date. Upon completion of our work, we have the following to highlight to the Council:</p> <ul style="list-style-type: none"> there has been a net decrease to property, plant and equipment of £8.7m, as a result of the Council revaluing the rest of schools not valued originally in 2020/21 on a 'modern equivalent asset' basis, including incorporating an allowance for external works – the Council has adjusted for this in the revised financial statements; a £7.7m misclassification between property, plant and equipment and debtors in the Group balance sheet, as a result of a classification error in consolidating one of the group entities (with no net impact on assets); and an estimated £2.0m understatement of property, plant and equipment, due to prior year valuations not incorporating an external works allowance.
Covid-19 grant income	Our testing did not identify any issues arising which we are required to report to you.
Group accounts	Completion of our testing did not identify any issues arising which we are required to report to you, other than the unadjusted non-material pensions error for the Group, highlighted in the pensions section above.
Other	Upon completion of our work, additional disclosure errors were identified: these are set out in Appendix 1, <i>highlighted in blue italics</i> .
Other – updated materiality	We reported materiality in our Audit Completion Report; following amendment to the financial statements, our materiality has been recalculated and as there is only a trivial impact of the amendments, we have not amended our materiality.
Review and closure processes	We discussed subsequent events with management and reviewed available post balance sheet information at the point we signed the audit opinion; there are no new matters arising which we are required to report to you.

If you wish to discuss these or any other points, please do not hesitate to contact us.

Yours faithfully



Cameron Waddell

Partner

For and on behalf of Mazars LLP

Appendix 1: summary of misstatements - *changes shown in blue italics*

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £0.435 million for the Group (£0.405 million for the Council). 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

		Assets	Liabilities	Reserves	Income Statement
		£000s	£000s	£000s	£000s
1	Dr: property, plant and equipment (PPE)	1,999			
	Cr: revaluation reserve			-1,999	
	Being the estimated impact of prior year depreciated replacement cost valuations not including an external works allowance.				
2	<i>Dr: Group PPE - assets under construction</i>	7,668			
	<i>Cr: Group debtors</i>	-7,668			
	<i>Being the misclassification between property, plant and equipment (PPE) and debtors in the Group balance sheet, as a result of a classification error in consolidating one of the group entities.</i>				
3	<i>Dr: PPE accumulated depreciation - infrastructure</i>	1,417			
	<i>Cr: PPE – infrastructure</i>	-1,417			
	<i>Being the amendment to infrastructure for assets fully depreciated not having been written out as required. No net impact on the net book value, just upon the disclosure in Note 13.</i>				
4	<i>Dr: other comprehensive income and expenditure</i>				2,862
	<i>Cr: net pensions liability</i>		-2,862		
	<i>Being the overstatement of the Group's share of pension fund assets identified from the pension fund auditor's letter (resulting in a reduction to the net pensions liability).</i>				
5	<i>Dr: net pensions liability</i>		2,100		
	<i>Cr: other comprehensive income and expenditure</i>				-2,100
	<i>Being the estimated overstatement of the Group net pensions liability, due to the pensions liabilities for Together and Children and Sunderland Care and Support not being updated for revised actuarial estimates.</i>				
6	<i>Dr: short-term borrowing</i>		265		
	<i>Cr: cash and cash equivalents</i>	-265			
	<i>Being Salix loans omitted from the Council's balance sheet (with the majority being short-term).</i>				
	Total unadjusted misstatements	1,734	-497	-1,999	762

Adjusted misstatements

		Assets	Liabilities	Reserves	Income Statement
		£000s	£000s	£000s	£000s
1	Dr: revaluation reserve			9,318	
	Cr: net cost of services				-578
	Cr: property, plant and equipment	-8,740			
	Being the amendment due to the Council revaluing the rest of schools not valued originally in 2020/21 on a 'modern equivalent asset' basis, including incorporating an allowance for external works.				
2	<i>Dr: net pensions liability</i>		20		
	<i>Cr: net cost of services</i>				-20
	<i>Dr: net pensions liability</i>		25,710		
	<i>Cr: other comprehensive income and expenditure (remeasurement)</i>				-25,710
	<i>Being the overstatement of the net pensions liability due to a material difference for the final quarter of 2020/21, between the estimate used by the Actuary and the actual.</i>				
3	<i>Dr: financing & investment expenditure</i>				1,178
	<i>Cr: financing & investment income</i>				-1,178
	<i>Being the misclassification of income and expenditure on the Financing and Investment income statement line.</i>				
Total adjusted misstatements		-8,740	25,730	9,318	-26,308

Disclosure amendments

Audit work identified a number of amendments to disclosures. The most significant are summarised below, split into adjusted and unadjusted.

Adjusted disclosure amendments

- **Note 3 critical judgements:** the Council has removed the judgement in respect of mortality assumptions relating to the pensions liability, on the basis of it not expected to have a material impact.
- **Note 4 assumptions and sources of estimation uncertainty:** amendment to remove non-material disclosures in respect of useful economic lives of assets and also provisions.
- **Note 13 property, plant and equipment main table:** amendment so that two 'hidden' lines are now visible in the disclosure.
- **Note 13 property, plant and equipment (PPE) fair value disclosure table:** amendment of £0.579 million required to this table so that it reconciled to the main PPE table. *Plus additional amendments due to misclassification between the categories.*
- **Note 16 short-term debtors:** amendments required to the classification within the disclosure, with an increase of £4.060 million to the 'other entities and individuals' line, offset by decreases to two other lines (no impact on the overall balance).
- **Note 18 cash and cash equivalents:** amendment of £5.0 million for a misclassification between two lines of the disclosure (no net impact).
- **Note 26 pooled budgets:** amendment of £0.398 million required due to use of planned rather than actual totals.
- **Note 27 agency services:** amendment to the disclosure note and narrative to remove CV19

grants the Council administered in 2020/21, as it does not meet the formal definition of agency income and expenditure required to be disclosed in this note. *Further amendment to remove the disclosure note entirely, as no services provided meeting the definition of agency services.*

- **Note 29 officers' remuneration:** amendment for disclosure of four non-teaching staff in the £105k - £110k band - amended to the £100k - £105k band.
- **Note 33 related party transactions:** amendment to the narrative setting out the basis of valuation of the Airport shares.
- **Note 35 operating leases:** amendment to operating lease liabilities due in greater than five years by £1.7 million.
- **Note 36 Private Finance Initiative:** amendment to the total shown for 'payment for services' and 'lifecycle costs'.
- **Note 44 restatement:** table amended to show the impact of the portfolio restatement on the Group Comprehensive Income and Expenditure Statement.
- **Group Note 3 property, plant and equipment (PPE):** additional table included to reconcile back to the Group PPE balance, *plus additional narrative explaining the basis of consolidation of the leisure assets.*

Other

- **Cash flow statement (CFS):** amendment of £0.579 million was required so that the CFS was consistent with the balance sheet. Similar amendment to the Group CFS.

Unadjusted disclosure amendments

- **Note 15 financial instruments:** *the gains and losses disclosure table excludes the impairment of debtors allowance of £1.742 million (similarly excluded from the prior year, being £1.388 million).*
- **Note 25 reconciliation of liabilities arising from financing activities (cash flow statement disclosure note):** *whilst opening balances are included in this disclosure, a full comparator table should be included.*
- **Note 38 termination benefits:** *'pay in lieu of notice' has been incorrectly included within the note, being £0.183 million for the Group (Note 6) and £0.170 million for the Council (Note 38).*

Appendix 2: additional internal control recommendations

Following completion of the work marked as outstanding in our Audit Completion Report, we have identified the following internal control recommendations.

Description of deficiency

School bank reconciliations – level 2 (medium priority)

Testing identified that the year-end bank reconciliation for one school was not actually done at the year-end; instead, the school did a bank reconciliation during March, which reconciled back to the February bank statement.

Compensating controls are in place, via the Council, however, the year-end bank reconciliation is a key control, therefore, should be done at the year-end for all schools.

Potential effects

Risk of fraud and / or material misstatement.

Recommendation

Ensure bank reconciliations are carried out for all schools at the year-end.

Management response

We will ensure appropriate additional controls are put in place for reconciling the 31 March balances.

Description of deficiency

Evidencing the monthly treasury management reconciliation – level 2 (medium priority)

The year-end reconciliation was carried out, however, the formal evidence of review was not retained.

This was raised as a recommendation in prior years and had been actioned, however, was overlooked in 20/21 following a change in key officers. The year-end reconciliation was carried out; however, evidence of the second person's review of it was not retained.

Potential effects

Risk of fraud and / or material misstatement.

Recommendation

Ensure evidence is retained of the second person's review of the year-end Treasury Management reconciliation.

Management response

This has already been actioned. We would highlight the existing monthly evidenced reconciliations that have been carried out.

Description of deficiency

Salix loans and issues with accuracy of confirmations – level 3 (housekeeping)

For the third year in a row, the direct confirmation we obtained from Salix differed to the Council's records. Testing identified that there were loans on the Salix confirmation that had been omitted from the Council's balance sheet, with a trivial balance of £0.265m. Controls should ensure all relevant loans are captured.

The Council should engage with Salix as part of their loan agreements with them, to underline the importance of accurate year-end direct confirmations e.g. ensuring Salix does not provide details of loans that have matured before the year-end, and also the timeliness of providing a direct confirmation to us.

Potential effects

Risk of fraud and / or material misstatement.

Recommendation

The Council should engage with Salix, as part of their loan agreements with them, to try and resolve the historic issues with Salix direct confirmations showing incorrect information and also not being timely.

The Council should also revisit controls in place for ensuring all loans are recognised on its balance sheet, where appropriate.

Management response

This will be addressed throughout 2020/21 and further checks introduced at the year-end.

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Sunderland City Council ('the Council') and its subsidiaries and joint ventures ('the Group') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement and notes to the Council and Group financial statements, including a summary of significant accounting policies. 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31st March 2021 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - material uncertainty relating to valuations of land and buildings

We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings. As disclosed in note 4 of the financial statements, the Council's Valuer included a 'material valuation uncertainty' statement within their reports as a result of the Covid-19 pandemic. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Executive Director of Corporate Services use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Executive Director of Corporate Services with respect to going concern are described in the relevant sections of this report.

Other information

The Executive Director of Corporate Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Executive Director of Corporate Services for the financial statements

As explained more fully in The Executive Director of Corporate Services' Responsibilities, the Executive Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Executive Director of Corporate Services is also responsible for such internal control as the Executive Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Executive Director of Corporate Services is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Executive Director of Corporate Services is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council and the Group, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Act 1988 (as amended) and the Local Audit and Accountability Act 2014 (and associated regulations made under section 32), and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Executive Director of Corporate Services' incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that



the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit and Governance Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council and the Group which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit and Governance Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit and Governance Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Executive Director of Corporate Services use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our view, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.



We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

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.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the Members of Sunderland City Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.



Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Cameron Waddell
Key Audit Partner
For and on behalf of Mazars LLP

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Date: