

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on FRIDAY 26 MARCH 2010 at 1.30 pm**

**Present:-**

Mr G N Cook in the Chair

Councillors M Forbes, Wares, T Wright and Mr J P Paterson.

Prior to the commencement of the meeting, the Chairman paid tribute to Keith Beardmore, Director of Financial Resources, on the occasion of his final meeting of the Audit and Governance Committee prior to his retirement. The Chairman thanked Keith for the support and assistance he had provided to the Committee over the years and wished him all the best for the future.

Keith responded by thanking the Chairman and the Members of the Committee for their friendliness and assistance which had helped make his job easier. He also introduced George Blyth who would be taking over the role in the interim as the Director of Financial Resources.

**Declarations of Interest**

Item 6 – Review of Strategic Asset Management	Councillor T. Wright	Rents two business units from the Local Authority
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**Apologies for Absence**

Apologies for absence were received from Councillors Allan and Arnott.

**Minutes**

27. RESOLVED that the minutes of the Committee held on 15 February 2010 be confirmed and signed as a correct record.

**Internal Audit Strategy and Operational Plan 2010/2011**

The Director of Financial Resources submitted a report presenting the proposed Internal Audit Strategy and Operational Plan 2010/2011 to the Committee for their consideration.

The Head of Audit and Procurement informed the Committee that the current Internal Audit Strategy had been agreed in March 2008. As part of the ongoing development of the service, the strategy had been reviewed and on the whole had remained fit for purpose, but the opportunity had been taken to update the audit risk assessment process to take better account of the key risk areas of the Council and its Corporate Risk Profile.

The Internal Audit Operational Plan lists all the key risk areas to be considered, the residual risks and the implications of these for the Operational Plan.

The Head of Audit and Procurement drew attention to the resources available for 2010/2011, the number of productive and chargeable days available and the planned 3% increase in productivity for next year. The allocation of chargeable days was also highlighted and it showed that these were broken down into audits, systems development/advice/guidance and contingencies. The last element included investigation work and unplanned audits, which ensured that there was flexibility in the plan to respond to the changes which were expected in the Council throughout the next year.

Members were directed to Section 5 of the report which outlined the key points from the 2010/11 audit plan and the reporting protocols and performance management arrangements. The Committee would receive an Internal Audit Annual Report and also a half yearly progress report to give assurance that the internal control framework was robust and the service was meeting its performance targets.

Councillor Wright noted that 'Back on the Map' was in the Audit Plan and queried if IAS would carry out audits on the scheme as the funding had ended. The Head of Audit and Procurement advised that as the Council was the accountable body, it had responsibilities to the initial funder and the funding agreement would not expire until March 2011. After this point, issues would be followed up through a process of verification rather than audit.

Councillor Forbes queried if the authority had any input in audit terms about how the Waste Management Partnership moved forward. The Director of Financial Resources informed the Committee that there was a programme management structure governing the Waste Management Partnership and as lead authority, Gateshead Council had responsibility for auditing the programme. However, Sunderland City Council had access to any audit reports produced and were safeguarded in this respect. The Director of Financial Resources also highlighted that members of his own staff were heavily involved in the project.

In the longer term, the Chairman commented that the CAA would impact on work and might lead to a deviation from the current plans and subsequently focus on other aspects of work. He was confident that the Head of Audit and Procurement would flag up these issues as they arose.

Upon discussion, it was:-

28. RESOLVED that the proposed Internal Audit Strategy and Operational Plan for 2010/2011 be noted.

### **Corporate Risk Profile**

The Director of Financial Resources submitted a report informing the Committee of amendments which had been made to the Corporate Risk Profile since the new profile had been presented to the Committee in November 2009.

The Head of Audit and Procurement reported that the Corporate Risk Profile was reviewed on a six monthly basis and this was the first review undertaken by the Corporate Risk Management Group since the new profile had been agreed. The review confirmed that the Corporate Risk Profile identified and detailed the major risks facing the Council and no new individual major risks were identified.

At the time of the review, it had been expected that 109 actions would have been completed. It was found that 91 actions had been done and 18 were delayed. Some new actions were added at the review stage, some relating specifically to the CAA. Overall, good progress was being made and a further comprehensive review would be undertaken in April 2010. The Audit and Governance Committee would receive a further update report following the April 2010 review.

It was acknowledged that the format of the report did not assist Members in understanding what had changed, but in future it was intended to present the full Corporate Risk Profile to the Committee once a year and to produce a highlight report at the half yearly review. The Chairman supported this course of action and emphasised that the Committee was concerned with management by exception. He suggested that future reports could have a front sheet which highlighted significant areas of activity, supported by the detail in an Appendix.

Councillor Wright noted that it had taken some time since the completion of the review for the report to come to the Committee. The Director of Financial Resources stated that the report did go to the Cabinet and Council promptly and it was the duty of the Executive to ensure the Corporate Risk Profile was kept under review. However, it was highlighted that the planned schedule of reports for the Audit and Governance Committee for 2010/2011 would ensure that reports were brought forward in a more timely way.

Accordingly, the Committee:-

29. RESOLVED that the amendments to the Corporate Risk Profile be noted.

## **Review of Strategic Asset Management**

The Deputy Chief Executive submitted a report outlining to the Committee the progress which had been made in relation to the action plan developed following the Audit Commission's review of the Council's approach to Strategic Asset Management.

The Head of Land and Property reminded Members that at the Committee meeting on 22 May 2009, the Audit Manager and an Audit Commission Performance Specialist had presented a report which looked at the Council's approach to Strategic Asset Management.

The report had concluded that the Council was making good progress in developing asset management, but as more needed to be done, an action plan had been agreed with officers to identify areas for improvement. The high priority areas were identified as follows:-

- An overall assessment of accommodation requirements;
- A strategic review of land acquisition requirements and opportunities;
- A comprehensive and robust review of all assets.

Significant progress had been made in respect of these high priority areas and a copy of the full action plan and progress made to date was presented to Members as part of the report.

Following a clarification of the wording on one of recommendations detailed in the action plan, it was:-

30. RESOLVED that the position in respect of the action plan and the progress made to date be noted and the Head of Land and Property keep the Committee updated on progress.

## **Audit Commission Annual Audit Letter – 2009**

The Chief Executive and the Director of Financial Resources presented a report detailing the Audit Commission's Annual Audit Letter covering the year 2008/2009.

The Audit Commission prepares an annual statement which provides an overall summary assessment of the Council, drawing on audit and performance assessment work.

Gavin Barker from the Audit Commission was in attendance at the meeting on behalf of Steve Nicklin, the District Auditor and he outlined the main findings of the 2008/2009 audit.

The District Auditor had issued an unqualified opinion on the financial statements for 2008/2009 and an unqualified Value for Money conclusion. It was highlighted that a local elector had lodged formal objections to the financial statements for 2007/2008 and 2008/2009 and until these were resolved, the Audit Commission was unable to issue formal certificates to confirm completion of the audits. However, the District Auditor was satisfied that the objections did not have a material impact on the financial statements.

When assessing the Council's Use of Resources and Value for Money, the Audit Commission carried out local risk based work with a particular focus on community cohesion and health inequalities, linked to performance management and target setting.

It had been found that the Council and its partners, had an agreed definition of community cohesion which was clear, realistic and related to the local area, however action plans were required to support the delivery of the strategy and there were insufficient measures in place to gauge progress and outcomes in this area. The report also noted that significant progress was being made in tackling health inequalities in the North East through strong leadership and partnership working between the public sector and voluntary sector at a local level. There were issues regarding the quality and timeliness of data and it was considered that value for money and improved outcomes could not be demonstrated if accountability and performance management arrangements were weak.

Within the local work on health inequalities, the Audit Commission had looked specifically at the harm caused by alcohol in Sunderland. The area was the fourth worst in England for binge drinking. Funding and investment to tackle the problem was in place but there was a lack of robust data and a clear strategy. It was recognised that there was a commitment to commission from the voluntary and community sector.

The Council had scored a Level 3 overall for its Use of Resources Assessment and was found to be performing well with strong arrangements for managing finances and strong financial planning.

The Council recognises the future challenges it faces and is aware that incremental change and annual efficiencies on their own were not sufficient. The governance of the business was positive with risk management and internal control being strong areas of performance. However some issues were identified under 'managing resources' with regard to natural resources and asset management. There was good planning but a number of outcomes were still to be delivered.

The Chairman highlighted that the lack of timely data meant that outcomes for priority areas were not being achieved. Gavin Barker stated that health inequalities was one particular area where it was a struggle to get quality measures to show that investment was having an impact. The Director of Financial Resources made reference to the fact that a grant had been given to help reduce teenage pregnancies, however although a reduction had been achieved, the figure was actually greater before the grant was received. This illustrated the complexities of

this type of work and other local authorities and the PCTs were finding it difficult to make an impact in these priority areas.

Councillor Forbes enquired if any research had been done with teenage mothers themselves to identify if they had made a conscious choice to have a baby. She emphasised the need to recognise the cause before you can decide how to address the problem.

The Assistant Head of Performance Improvement advised that this was a 'red tag' risk for the City and it was being specifically targeted. Information would be sought regarding Councillor Forbes' query and feedback provided in writing to her.

Councillor Wright queried if there was any indication when the objection to the 2007/2008 accounts would be resolved and the accounts closed. Gavin Barker advised that the District Auditor was still in discussions with the objector and planning to deal with the objections to the 2007/2008 and 2008/2009 accounts together. The Chairman, on behalf of the Committee asked the District Auditor press on with trying to resolve the objections.

It was:-

31. RESOLVED that the Annual Audit Letter be noted.

### **Comprehensive Area Assessment 2009**

The Chief Executive submitted a report outlining the findings from the inaugural Comprehensive Area Assessment (CAA).

Dave Jennings from the Audit Commission gave a presentation to the Committee on the CAA and Use of Resources Assessment. He set out who had been involved in the assessments, the processes gone through and the key questions asked. Four themes which underpinned the assessment were: sustainability, inequality, vulnerable people and value for money.

Green and red flags within the assessment were awarded to signal exceptional performance/improvement or significant concerns about future outcomes. Sunderland had not received any flags at all in year one. The area assessments had been made against the Council's priorities and the positive elements were highlighted in the presentation. The District Auditor commented that Sunderland had been close to receiving a red flag with regard to levels of young people not in education, employment or training (NEET). However, he also said that he was aware of major improvements that had been made in the area and that the Year 2 commentary would be very different.

In the Organisational Assessment it was found that the Council performed well in both managing performance and use of resources.

The Chairman referred to the regional differences in the number of red and green flags awarded and queried how the North East had only received one green flag which was low in comparison to other areas. The District Auditor accepted that the numbers could be viewed as disproportionate. It was acknowledged that in Year 2, the Audit Commission had to work harder to achieve consistency in the assessments. However, if more green flags were to be awarded, then the number of red flags would also be likely to increase.

Councillor Forbes queried the commentary which had stated that historically Sunderland's workforce was unskilled and she referred to the industries which had been prevalent in the city's past and that the population then had been highly skilled and high attaining. Dave Jennings advised that performance data measured level 1 to 4 skills in a population and this had reflected that these were less widespread in Sunderland than in other areas. The focus was on people in the city already being equipped with the necessary skills to meet the needs of new industry when it located in Sunderland.

Councillor Forbes went on to ask if the reasons for the slip back, in terms of skills, was being examined and if the outcomes for the young people no longer classed as NEETs were being tracked.

The Assistant Head of Policy Improvement advised that any 'red tag' issues were part of the improvement planning which the Sunderland Partnership was taking on board. Activities and interventions were being developed in response to the seven highlighted areas. With regard to the NEET agenda, the city had now improved from being the second worst area in the country to have met the LAA target for a 34% reduction in NEETs. A report was being submitted to the Sunderland Partnership on this which would identify where the young people's opportunities had come from.

The Chairman noted that the Committee had previously asked to be made aware of the issues and was pleased to have received the presentation. He said that it would also be helpful to be able to track success and suggested that the Committee could be kept informed about achievements against enhanced targets in the future.

Mr. Paterson asked how it could be known that what had been done was tied to achieved outcomes. The Assistant Head of Policy Improvement stated that he was reasonably confident of a causal relationship between interventions and outcomes but that the evidence for this would be enhanced by better data sharing.

Councillor Wright commented that he was pleased to see the 'Attractive and Inclusive' City element being picked up in the CAA as he felt that there was not enough recognition for this in Sunderland. He also congratulated the services involved in achieving the reduction in NEETs and hoped that the introduction of academies would move this forward. He also stated his hope that this work would move Sunderland closer to achieving a green flag.

The District Auditor highlighted that a green flag would recognise 'exceptional change in delivery coupled with an innovative way of dealing with it'. There would be an ongoing conversation on these issues and the award of green flags.

Having thanked Dave Jennings for his attendance, it was:-

32. RESOLVED that the Comprehensive Area Assessment report and the Council's planned approach to improvement be noted.

### **Proposed Forward Plan of Reports to the Audit and Governance Committee 2010/2011**

The Director of Financial Resources presented the proposed Forward Plan of the reports to be considered by the Audit and Governance Committee during the municipal year 2010/2011.

It was highlighted that there were now six Committee meetings scheduled for the forthcoming year. The Chairman asked if some of the issues which had been picked up in the Annual Audit Letter, such as community cohesion and non-financial management of resources, could be flagged up in the future reports to the Committee.

It was:-

33. RESOLVED that the proposed Forward Plan of reports for 2010/2011 be approved.

### **International Financial Reporting Standards (IFRS) Progress Report**

The Director of Financial Resources submitted a report providing the Committee with an update on the Council's progress made towards compliance with the International Financial Reporting Standards (IFRS) since an initial report was presented to the Committee in September 2009.

The Assistant Chief Accountant – Technical, outlined the current position and Outline Project Plan and stated that the Council was on target to meet the relevant milestones. The Council was also in regular conversation with the Audit Commission with regard to the progress made towards compliance.

It was also noted that regular updates on progress made in respect of IFRS convergence would be made to the Committee as appropriate.

In response to a question from Councillor Forbes, the Director of Financial Resources explained how the classification of leases as 'finance' or 'operating' was to be treated differently under the IFRS, than it had been in the SORP.



Members having considered the report, it was:-

34. RESOLVED that the report and project outline, be noted.

(Signed) G N COOK  
Chairman