

## AUDIT AND GOVERNANCE COMMITTEE

### AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on  
Friday 25 March 2011 at 1.30pm

| ITEM |   | PAGE |
|------|---|------|
| 1.   | <b>Receipt of Declarations of Interest (if any)</b>   |      |
| 2.   | <b>Apologies</b>  |      |
| 3.   | <b>Minutes of the Meeting of the Committee held on<br/>11 February 2011</b><br><br>(Copy attached).   | 1    |
| 4.   | <b>Internal Audit and Counter Fraud Plan 2011/2012</b><br><br>Report of the Head of Audit, Risk and Procurement<br>(copy attached).           | 7    |
| 5.   | <b>Risk Management Plan 2011/2012</b><br><br>Report of the Executive Director of Commercial and<br>Corporate Services (copy attached).        | 23   |
| 6.   | <b>Audit Commission Audit Plan 2010/2011</b><br><br>Report of the Executive Director of Commercial and<br>Corporate Services (copy attached). | 35   |

7. **Forward Plan of Reports for 2011/2012**

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Report of the Executive Director, Commercial and  
Corporate Services (copy attached).

ELAINE WAUGH  
Head of Law and Governance

Civic Centre  
SUNDERLAND

17 March 2011

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on FRIDAY 11 FEBRUARY 2011 at 1.30pm**

**Present:-**

Mr G N Cook in the Chair

Councillors M Forbes, Rolph, Tate and Mr J P Paterson.

**Declarations of Interest**

The following Councillor declared a personal interest in the report listed below for the reasons indicated:-

|   |                 |               |
|---|-----------------|---------------|
| Item 7 – Audited Statement<br>of Accounts 2009/2010 | Councillor Tate | Member of GMB |
|---|-----------------|---------------|

**Apologies for Absence**

Apologies for absence were received from Councillors Allan and T Wright.

**Minutes**

26. RESOLVED that the minutes of the meeting of the Committee held on 26 November 2010 be confirmed and signed as a correct record.

**Treasury Management – Third Quarterly Review 2010/2011**

The Executive Director of Commercial and Corporate Services submitted a report detailing the third quarterly review of the Treasury Management Borrowing and Investment Strategy for 2010/2011.

The Committee was advised specifically of the progress made in implementing the borrowing and investment strategy for 2010/2011 and received an update on the authorised institutions which the Council would invest with.

The Prudential Indicators for 2010/2011 had been approved by the Council on 3 March 2010 and were regularly reviewed to ensure that:-

- the Council remains within its Authorised Limit for external debt;
- treasury management decisions are taken in accordance with the Treasury Management Code of Practice and existing Council Treasury Management Policy and Strategy Statement;
- the capital expenditure control framework operated locally is consistent with, and support of, local strategic planning, local asset management planning and proper option appraisal.

The Council is operating within its Prudential Indicators and there are no areas for concern or any issues which require a review of the indicators as originally approved.

The Borrowing Strategy was based on interest rate forecasts from a number of city institutions but it was highlighted that following the Spending Review, the Public Works Lending Board (PWLB) had been instructed to increase the interest rate on all new loans to an average of 1% above the Government's cost of borrowing. In response to this, it was recommended that the Council's benchmark for long term borrowing was increased to 5.5% for the remainder of 2010/2011.

The strategy allows provision for debt rescheduling but this has not been undertaken in 2010/2011 as rates had not been considered sufficiently favourable. The strategy for the remainder of 2010/2011 was continue to monitor interest rates and to take advantage of any debt rescheduling opportunities which may arise.

The Committee were advised that the primary aim of the Investment Strategy was the security of Council funds and to secure a reasonable rate of return on its investments. The Council had achieved a rate of return on its investments of 1.49%, significantly above the benchmark rate of 0.34%. The investment policy was monitored to ensure it had flexibility to take full advantage of changes in market conditions.

The Committee were also informed that the Executive Director of Commercial and Corporate Services, in consultation with the Cabinet Portfolio Holder for Resources, had agreed to add Cater Allen to the Approved Lending List. The revised Approved Lending List was set out in the appendix to the report.

Councillor Tate asked if the Council had to take out loans with PWLB as he believed there would be preferential rates elsewhere. The Assistant Chief Accountant, Technical and External Services, advised that PWLB did usually offer the least expensive loans but all the rates available were considered before selecting a loan provider. The Council was not restricted when entering into loans and would try to enter the market at the lowest point.

Councillor Rolph referred to the provision for debt rescheduling and queried whether it was likely that an opportunity for this would arise. The Assistant Chief Accountant, Technical and External Services advised that it was about monitoring market opportunities and going into it at the right time. There had been a lot of opportunities for debt rescheduling over the last few years but this had now been reduced. The market would still be monitored as there could still be potential for debt rescheduling to be undertaken in the future.

Having given consideration to the report, it was:-

27. RESOLVED that:-

- (i) the progress made in implementing the borrowing and investment strategy for 2010/2011 be noted; and
- (ii) the amended Lending List be noted.

### **Treasury Management Policy and Strategy 2011/2012, including Prudential Indicators for 2011/2012 to 2013/2014**

The Executive Director of Commercial and Corporate services submitted a report informing the Committee of the proposed Treasury Management Policy and Strategy for 2011/2012 and the Prudential 'Treasury Management' Indicators for 2011/2012 to 2013/2014. The Committee was requested to provide any appropriate comments to the Cabinet and Council on the Strategy.

The Treasury Management Strategy comprises a Borrowing and Investment Strategy which sets out the Council's priorities for managing its borrowing and investments and for giving priority to the security and liquidity of investments.

There were no major changes being proposed to the strategy in 2011/2012 and it would maintain the prudent approach taken by the Council over recent years. The limits reflect the amount of potential borrowing included in the Council's capital programme, the availability of borrowing and the position in relation to interest rate forecasts and the security of investments.

The Executive Director reported that as the Council's Section 151 Officer, he was specifically delegated responsibility within the Council's Constitution to manage the borrowing, financing and investment requirements of the Council in accordance with the Treasury Management Policy agreed by the Council.

Councillor Rolph requested more information regarding 'external fund managers' and if it was known which councils used these. The Assistant Chief Accountant, Technical and External Services reported that external fund managers had been used by Sunderland in the past but it was found that a better rate could be achieved 'in-house'. There were only a small amount of authorities who still used the fund managers and a greater performance level had to be demonstrated in order to appoint external fund managers.

The Chairman endorsed the Treasury Management Strategy as an example of good practice and noted that the careful and prudent approach adopted by the Council had been maintained for the 2011/2012 strategy.

Accordingly the Committee:-

28. RESOLVED that the Council be advised that having considered the report on the Treasury Management Strategy and Policy for 2011/2012, the Audit and Governance Committee had concluded that the arrangements for Treasury Management were in an excellent position for the next and future years.

### **Annual Grants Report 2009/2010**

Gavin Barker, representing the Audit Commission, submitted the Commission's Annual Report on the Certification of Grants and Claims.

The Council receives more than £573m in grant funding and must meet the particular conditions attached to each of these grants. The Council must manage certification work properly so it can demonstrate to auditors that the relevant conditions had been met.

Claims with a total value of £255m were audited and were able to be fully certified. Two claims were amended for minor errors but the loss of grant funding as a result of this was less than £5,000. The Audit Commission was able to give a great deal of assurance to grant paying organisations on the Council's behalf and had made no recommendations which required action from the Council.

Therefore, the Committee:-

29. RESOLVED that the Annual Report on the Certification of Claims and Returns be received and noted.

### **Audited Statement of Accounts 2009/2010**

The Executive Director of Commercial and Corporate Services submitted a report presenting the Letter of Representation for 2009/2010 the Annual Governance Report from the Audit Commission and the amended Statement of Accounts 2009/2010.

The Executive Director introduced the report and made reference to the circumstances surrounding the halting of the public inspection process and highlighted an issue which had arisen since the publication of the agenda. A recent employment appeal tribunal judgement on equal pay had led to the Council consulting and agreeing with the Audit Commission to include an additional paragraph in the Letter of Representation and as an additional note as a Post Balance Sheet Event. However, it was emphasised that there would be no change in the provisions within the financial statements as a result of this judgement.

**(a) Letter of Representation**

The Council's Letter of Representation to the External Auditor was submitted, advising that the representations given in connection with the audit of financial statements for the year ended 31 March 2010 were accurate.

The Executive Director of Commercial and Corporate Services had already informed Members of the need to amend the letter and circulated the wording to be added.

30. RESOLVED that the Authority's Letter of Representation, with the addition of wording regarding post balance sheet events, be received and noted.

**(b) Annual Governance Report**

Steve Nicklin, the District Auditor, introduced the Council's External Annual Governance Report and advised that this report would also have to be amended to reflect the post balance sheet event.

He went on to explain the current position regarding the certification of the accounts. The certificate issued by the Audit Commission was a legal requirement to officially close the process and this would be the third year that they had been unable to issue a certificate.

The Audit Commission's preliminary view had been shared with the Council and the objector, however the objector had now informed the Audit Commission that he has leave to appeal an earlier decision in court which would enable him to come back and make further objections to the Accounts. The Audit Commission would now have to wait for the case to be heard before a certificate could be issued.

The Chairman asked if there was a point where the Audit Commission would regard this objection as being 'immaterial' to the accounts and Steve Nicklin stated that if he considered the objection to be material then he would not issue an audit opinion. The Audit Commission and the Council had considered if this matter would have a material impact if the appeal was successful and they had decided it would not.

Councillor Forbes enquired if the objector would be able to claim costs if his appeal was successful but Steve Nicklin was not in a position to answer this at this stage.

The Committee had previously considered the report at its meeting on 30 September 2010 and had noted the key points outlined within it. The District Auditor indicated that he would come back to the Committee and explain the outcome, once the courts had considered the appeal. He also clarified that had the certificate already been issued and then leave to appeal granted to the objector, the Accounts could not have been reopened.

Councillor Forbes asked what the cost of the additional audit work would be and Steve Nicklin advised that this was mounting up and he was seeking legal advice on the position.

Regarding the situation with the Audit Commission, Councillor Rolph queried what would happen if the Commission ceased to exist before objections to the accounts were resolved. The District Auditor responded that the normal situation would be that the law at the time of the objection would apply and he or his successor would have to make a decision in due course. There was no further news on the future of the Audit Commission but it was understood that the Department and the Minister continued to consider options.

31. RESOLVED that the Authority's Annual Governance Report be received and noted.

**(c) Audited Statement of Accounts 2009/2010**

The Executive Director of Commercial and Corporate Services submitted the amended Statement of Accounts for consideration by the Committee.

It was noted that an amendment would be made to the Notes to the Core Financial Statements to reflect the employment appeal tribunal judgement handed down on 28 January 2011.

Having considered the report, it was:-

32. RESOLVED that the amended Audited Statement of Accounts for the financial year ended 31 March 2010 be approved.

(Signed) G N COOK  
Chairman



**AUDIT AND GOVERNANCE COMMITTEE**

**25 March 2011**

**INTERNAL AUDIT AND COUNTER FRAUD PLAN 2011/2012**

**Report of the Head of Audit, Risk and Procurement**

**1. Purpose of Report**

- 1.1 To enable the Audit and Governance Committee to consider and comment on the proposed Internal Audit and Counter Fraud Operational Plan for 2011/2012.

**2. Background**

- 2.1 The Terms of Reference for the Audit and Governance Committee (agreed 12<sup>th</sup> April 2006) set out the key roles of the Committee including the requirement to *“receive and consider (but not direct) internal audit’s strategy, plan, and monitor performance”*.
- 2.2 For completeness, the Plan covers Internal Audit’s key performance measures and outlines the proposed internal audit work for the Council and associated bodies for which the Council has a lead responsibility. The content relating to the associated bodies is a matter for the bodies concerned.

**3. Recommendation**

- 3.1 The Audit and Governance Committee is invited to consider and, if appropriate, make comment on the proposed Plan (attached) and key performance measures for 2011/2012.

**4. Background Papers**

- 4.1 Internal Audit Strategy – Audit and Governance Committee, 26<sup>th</sup> March 2010.



## **Internal Audit and Counter Fraud Operational Plan 2011/2012**

### **1. Introduction**

1.1 This document covers the following organisations:

- Sunderland City Council
- Tyne and Wear Fire and Rescue Authority (TWFRRA)
- Beamish Museum
- Tyne and Wear Development Company (TWDCO)
- Tyne and Wear Economic Development Joint Committee (TWEDJC)

### **2. Resources Available**

2.1 During 2010/2011 a review of how the service is structured and operates was undertaken which resulted in the Internal Audit service and the Benefits Investigation Unit merging to form a new Internal Audit and Counter Fraud Unit. Through streamlining the management structure, closer alignment of work with the Corporate Risk Management team, and further improving working practices it has been possible to reduce the overall resource available, and cost of the service, whilst continuing to fulfil the role.

### **3 Development of the Plan**

3.1 The coverage of internal audit work is designed to cover the key risk areas of the organisation(s) over a period of years. To underpin the audit risk assessment and planning methodology, key financial and key non-financial systems are identified and are programmed over a 5 year period, as appropriate. This ensures that coverage of these systems is appropriate and timely.

3.2 As the service undertakes proactive Counter Fraud work and investigates fraud or irregularity resources are set aside in the plan for each organisation based upon previous experience.

3.3 Where individual audits cannot be undertaken as originally planned (e.g. the service is no longer provided) attempts will be made to replace the audit with a suitable replacement in consultation with the Executive Director of Commercial and Corporate Services and the relevant Chief Officer. Where these changes are agreed this shall be considered a variation to this Plan for the purposes of performance reporting.

3.4 As all areas requiring attention cannot be fully planned provision is included within the Plan for this, so as not to adversely affect the delivery of the planned work.

- 3.5 The Table below summarises the planned allocation of resources. This takes account of the level of change planned for 2011/2012.

### **Allocation of Resources**

| <b>Activity</b>  | <b>Days</b>  |
|--|--|
| <u>Audits</u> <ul style="list-style-type: none"> <li>• Service / Systems Audits (49)</li> <li>• Establishment Audits (39)</li> <li>• Specialist IT Audit Work (5)</li> <li>• Value for Money work (3)</li> <li>• Follow Up Work</li> <li>• Grant Work (3)</li> <li>• Annual Governance Review</li> </ul> | <br>768.0<br>66.0<br>66.5<br>63.0<br>146.0<br>30.0<br>20.0<br><b>1,159.5</b> |
| <u>Counter Fraud</u> <ul style="list-style-type: none"> <li>• Proactive Counter Fraud work (non Benefits)</li> <li>• Housing Benefit Investigation work</li> <li>• Non Housing Benefit Investigation work</li> </ul>   | <br>214.0<br>1,858.5<br>344.0<br><b>2,416.5</b>                              |
| <u>Systems Development / Advice and Guidance</u> <ul style="list-style-type: none"> <li>• Systems Development</li> <li>• General Advice / Guidance / Liaison</li> </ul>  | <br>316.5<br>143.0<br><b>459.5</b>   |
| <u>Provision for unforeseen risks / work</u>   | <b>412.0</b>   |
| <b>Grand Total</b>   | <b>4,447.5</b>   |

- 3.6 Given the increased level of change that will be occurring within the Council within the next year it will be necessary to keep the planned work under review in order to respond to those changes. Any changes considered necessary will be brought to the Committee's attention within the regular update reports.

## 4 Key Points

- 4.1 The audit plan for 2011/2012 includes 100 planned audits. Each audit is linked to the appropriate key risk area(s) to identify the audit work that will inform the opinion in relation to each key risk area. Appendix 1 to this report shows all of the key risk areas and those audits that will contribute towards the opinion on each area (audits shown are only those in relation to the Council). It should be noted that some audits contribute towards the opinion of more than one key risk area and some key risk areas rely on a number of audits. The results of the audit work will be considered in reporting an opinion on the overall internal control environment within the Internal Audit Annual Report.
- 4.2 Appendix 2 to this report shows the audit work planned for the associated bodies.
- 4.3 In relation to the Council, the following key areas of work are planned to be undertaken.

### 4.3.1 Key Systems

The effectiveness of internal control within the Council's key financial systems and key non-financial systems will continue to be undertaken.

### 4.3.2 Significant Projects

Significant input will be provided regarding the risks and internal controls to significant projects being delivered through the Business Transformation Programme. The Council is implementing a number of improvement projects across the organisation in order to secure better outcomes, improve the quality of service delivery and achieve significant efficiency savings. This is resulting in significant changes to the way services are delivered and the processes and controls in place to support them. Internal audit work to support managers will continue to take place and will concentrate on proposed changes to systems, procedures and controls to ensure that an appropriate level of internal control is maintained.

Specific pieces of work will be undertaken in relation to the management and redeployment of those employees who are not appointed to posts within new structures, the rationalisation of the Council's property through the Smarter Working project, the implementation of the new shared Administration / Business Support function which is undergoing significant change and will effect all parts of the Council, and access to ICT systems throughout this period of significant change.

### 4.3.3 System Development

The service will continue to provide input regarding risks and internal controls to significant ICT developments including the Customer Relationship Management system and the Corporate Computing Model.

Support will also be provided for the development of processes and procedures, including in relation to the development of support services for adults in need, early intervention and locality based working in Children's services and the Council's service review methodology.

#### 4.3.4 Grant Work

The Council has a good track record of securing a range of external funding. Greater reliance is now being placed by the providers of the funding on the assurance provided by the head of internal audit as to the validity of grant claims made by the Council. Time has been included to undertake this grant audit work.

#### 4.3.5 Social Care Provision

The Council is engaged in a significant change programme in relation to the provision of adult social care. A number of pieces of Internal Audit work are planned that will support this programme.

#### 4.3.6 Business Continuity/Major Incident Planning

During this period of significant change it is essential that services continue to be delivered on a day to day basis as planned. A review will be undertaken within Children's Services to ensure that appropriate arrangements are in place to continue service provision in key areas. A review of the Council's arrangements for responding to major incidents is also planned.

#### 4.3.7 Counter Fraud

There continues to be a need to raise the profile of the risk of fraud within the Council and to carry out an appropriate level of counter fraud work to ensure that the Council has appropriate arrangements in place. Based upon an assessment of risk, an amount of time has been allowed within the Plan to undertake work specifically aimed at detecting any error, fraud, corruption or other financial wrongdoing that may be occurring. Areas to be covered include:

- Foster Care payments to ensure the consistency of award decisions and that they are genuine and correct.
- Income processing, including cash at the Aquatic Centre, to ensure complete and accurate processing and banking.
- Overtime / honoraria payments to ensure they are legitimate, accurate and appropriately authorised.
- Grant awards to ensure grant monies awarded are used appropriately.
- Gifts and hospitality – review expenditure classified as hospitality. Also review of Code of Conduct forms for declarations of received gifts and hospitality.
- Contract management arrangements – contracts extensions are valid, invoices are accurate and in line with the contract.

- For cash and bank balances, ensure that balances are accounted for and held responsibly.
- Review of security and use of fuel/ vehicles.

Work will also be undertaken to identify the extent, if any, of duplicate payments made through the Council's payment system. This analysis will be done prior to the change in processes which will take place as part of the Business Transformation Programme, and after the processes are changed to identify whether there is any increase in duplicate payments.

Time has been set aside to review the matches returned by the Audit Commission from their National Fraud Initiative exercise. Further investigation will be carried out where appropriate once the matches have been reviewed.

Work will continue to raise awareness of the Council's Anti Fraud and Corruption and Whistle blowing policies, and develop the Council's arrangements to respond to the Bribery Act 2010 which is due to come into force during the year.

### Transparency Agenda

- 4.3.8 As part of the government's "transparency" agenda local authorities are required to publish details of their spending where the individual spend is greater than £500. Over recent months the Council has received intelligence from the National Anti Fraud Network and the Audit Commission that local authorities have reported an increase in attempted and actual fraud using details from the published data. The fraud cases identified by authorities have usually involved the submission of false invoices or a request to change supplier bank account details so that payments might be made to bank accounts set up by the fraudsters.

In view of this information a review has been undertaken of the controls in place to prevent the Council being the victim to these types of attempted fraud. It was found that appropriate controls were in place and audit work is ongoing and planned to ensure these controls continue to be effective in practice. In addition, relevant Council employees involved in the payment of invoices have been and will continue to be made aware of these heightened risks to ensure they remain vigilant.

## **5. Reporting Protocols**

- 5.1 At the conclusion of each individual audit a Draft Report and proposed Action Plan will be forwarded to the appropriate manager within the client Directorate. Once agreement has been reached a Final Report and Action Plan will be forwarded to the relevant Chief Officer. Where audits highlight issues which need to be brought to the attention of the Executive Director of Commercial and Corporate Services they will be raised as and when necessary.

- 5.2 A quarterly progress report will be presented to each Executive Director in relation to the audit activity within their Directorate. This will indicate the level of achievement against agreed targets and any major findings arising from the audit work undertaken.
- 5.3 The Audit and Governance Committee will be updated on progress against the audit plan at each committee meeting.
- 5.4 An Internal Audit Annual Report will be prepared for Cabinet and the Audit and Governance Committee in order to provide assurance, or otherwise.

## **6. Performance Management**

- 6.1 All work undertaken will be in accordance with internal audit's policies and procedures, which are based upon the professional standards required by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA-UK).
- 6.2 The Key Performance Indicators which will be used to measure the performance of the service throughout the year, are shown in Appendix 3.

## **7 Variations to the Plan**

- 7.1 Where there is a request or need to undertake additional work, and this cannot be accommodated without affecting other planned work, an assessment will be carried out to determine whether this additional work should be undertaken, based on the impact upon the delivery of the plan and the risks associated with the work requested. Variations will be reported to the Committee within the regular update reports.



Detailed Audit Coverage

| Key Risk Area               | Internal Audit Risk Assessment (Residual Risk) | Implication for the Audit Plan  | Overall Opinion from Previous 3 years work | Audits Planned 2011/12   |
|-----------------------------|--|---|--|--|
| Corporate Governance        | 14%  | Low frequency. Rely on Annual Governance Review and external inspections  | Good                                       | Annual Corporate Governance Review   |
| Service / Business Planning | 29%  | Low frequency – Corporate Arrangements Review of service planning during audits of service areas                              | Satisfactory                               | Responsive Local Services<br>Facilities Management<br>Reablement at Home - Adults<br>Business Support  |
| Partnerships                | 43%  | Sample of key individual partnerships to be reviewed in co-ordination with Risk Management                                    | Satisfactory                               | Non Planned  |
| Financial Management        | 45%  | Focus on budgetary control and management of reductions. Periodic review of corporate systems as agreed with the s151 officer | Satisfactory                               | Corporate Budget Setting and Management<br>Adoption Allowances<br>Social Care Resource Agency<br>Personal Budgets - Adults<br>Port Governance Arrangements<br>Treasury Management<br>1 Leisure Centre<br>Accounts Payable<br>Accounts Receivable - Collection<br>Periodic Income - Recovery and Enforcement<br>Cash Receipting - Central System<br>Council Tax - Setting<br>Council Tax - Billing<br>Council Tax - Valuation<br>Council Tax - Recovery<br>Business Rates – Recovery & Enforcement<br>BACS Arrangements<br>Management of employees in SWITCH<br>Charging for Services - HHA<br>Stroke Care Grant<br>Future Jobs Fund Grant<br>Deprived Areas Fund Grant |

| Key Risk Area                       | Internal Audit Risk Assessment (Residual Risk) | Implication for the Audit Plan   | Overall Opinion from Previous 3 years work | Audits Planned 2011/12   |
|-------------------------------------|--|--|--|--|
| Risk Management                     | 20%  | Corporate arrangements review completed 2010/2011. Closer working with Risk Management will mean a co-ordinated approach to reviewing risk management practices  | Satisfactory                               | Port Governance Arrangements<br>1 Leisure Centre<br>Insurance Policies   |
| Programme and Project Management    | 53%  | Corporate and workstream audits undertaken for Business Transformation Programme (BTP) and Internal Audit involved in ongoing support for the BTP. Work proposed in relation to the rollout of Project Server to assist with resource management | Good                                       | Project Management Information Governance (Project Server)   |
| Local Taxation                      | 14%  | Review standard procedures on a periodic basis as agreed with the s151 officer   | Good                                       | Council Tax - Setting<br>Council Tax - Billing<br>Council Tax Valuation<br>Council Tax - Recovery<br>Business Rates - Recovery and Enforcement |
| Procurement and Contract Management | 50%  | Procurement strategy already reviewed. Review of purchase card arrangements to be undertaken. Support time to be available for new corporate contract management framework   | Satisfactory                               | Procurement of ICT Equipment<br>Purchasing Card Arrangements<br>Capital Procurement<br>Revenue Procurement                                     |
| Human Resource Management           | 57%  | Review of centralised provision of training and development and redeployment and management of employees not appointed to posts in new structures (SWITCH)   | Satisfactory                               | Corporate Training and Development Arrangements<br>Personnel Administration Arrangements<br>Management of Employees in SWITCH                  |
| Asset Management                    | 52%  | Implementation of property rationalisation through the Smarter Working Project to be considered. Review of property asset database and management information to be undertaken   | Satisfactory                               | Asset Management (including property asset database)<br>Asset Register/Capital Accounting  |

| Key Risk Area                              | Internal Audit Risk Assessment (Residual Risk) | Implication for the Audit Plan  | Overall Opinion from Previous 3 years work | Audits Planned 2011/12  |
|--|--|---|--|---|
| ICT Strategy and Delivery                  | 50%  | Arrangements to deliver ICT corporately being reviewed. Internal Audit involved in key IT projects.   | Satisfactory                               | Implementation of the ICT Strategy<br>ICT Remote Access Threats<br>Information Technology Infrastructure Library  |
| Fraud and Corruption                       | 30%  | Development work required to enhance current arrangements. Counter fraud testing to be completed based on fraud risk assessment   | Satisfactory                               | Counter Fraud Testing (including in schools)<br>Access to IT systems - with movement of employees<br>Social Care Resource Agency<br>1 Leisure Centre<br>Asset Management - ICT Equipment                          |
| Information Governance                     | 43%  | Audits completed in the last 2 years, further work planned for 2011/12 to ensure arrangements continue to be developed  | Satisfactory                               | Corporate Information Governance (including procedures for remote working)<br>Email Security<br>Smarter Working - Employees Working Remotely within Children's Services<br>Document Management                    |
| Business Continuity and Emergency Planning | 32%  | Corporate arrangements reviewed. Service continuity arrangements to be audited for a sample of critical systems through the changes that are ongoing. Major Incident Planning arrangements to be reviewed | Satisfactory                               | Major Incident Planning<br>Business Continuity Planning - Children's Services   |
| Performance Management                     | 35%  | Corporate arrangements to be included within the audit plan for 2011/12. Sample of service areas to be reviewed   | Satisfactory                               | Responsive Local Services<br>Corporate Performance Management<br>Facilities Management<br>Port Governance Arrangements<br>Customer Services Network<br>Reablement at Home - Adults<br>Social Care Resource Agency |
| Payroll                                    | 23%  | Periodic frequency of central systems and annual substantive testing of transactions / counter fraud work   | Satisfactory                               | Payroll Processing and Payment  |

| Key Risk Area    | Internal Audit Risk Assessment (Residual Risk) | Implication for the Audit Plan   | Overall Opinion from Previous 3 years work | Audits Planned 2011/12                            |
|------------------|--|--|--|---|
| Housing Benefits | 25%  | Periodic reviews of systems as agreed with the s151 officer  | Satisfactory                               | Housing Benefit Administration                    |
| Schools          | 17%  | High level audit work to be carried out to gain assurance over the monies spend in schools. Themed work in addition to cover specific areas each year. | Good                                       | 38 school audits plus specific counter fraud work |

## Associated Bodies

|  |              |
|--|--------------|
| <b>Tyne and Wear Fire and Rescue Authority</b>   | <b>Days</b>  |
| PFI Contract Monitoring                          | 12.0         |
| Payroll  | 12.0         |
| Project Management Arrangements                  | 15.0         |
| Implementation of the Data Handling Guidelines   | 12.0         |
| Counter Fraud Checks                             | 15.0         |
| Action Plan Implementation                       | 10.0         |
| Advice and Guidance                              | 15.0         |
| Investigation Contingency                        | 9.0          |
| Project Work / Other Contingency                 | 20.0         |
| <b>Total</b>                                     | <b>120.0</b> |
|  |              |
| <b>Beamish Museum</b>                            | <b>Days</b>  |
| Information Governance                           | 12.0         |
| Catering Income                                  | 8.0          |
| On-line Admissions Income                        | 8.0          |
| Action Plan Implementation                       | 2.0          |
| Advice and Guidance                              | 5.0          |
| Investigations Contingency                       | 10.0         |
| Project Work / Other Contingency                 | 4.0          |
| <b>Total</b>                                     | <b>49.0</b>  |
|  |              |
| <b>Tyne and Wear Development Company</b>         | <b>Days</b>  |
| Information Governance                           | 12.0         |
| Arrangements to prevent Bribery and Corruption   | 4.0          |
| Action Plan Implementation                       | 2.0          |
| Advice and Guidance Contingency                  | 3.0          |
| <b>Total</b>                                     | <b>21.0</b>  |
|  |              |
| <b>Tyne and Wear Development Joint Committee</b> | <b>Days</b>  |
| Certification Work                               | 5.0          |
| <b>Total</b>                                     | <b>5.0</b>   |



| Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012 |  |  |
|--|--|--|
| Efficiency and Effectiveness   |  |  |
| Objectives   | KPI's  | Targets  |
| 1) To ensure the service provided is effective and efficient.  | 1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council | 1) All key risk areas covered over a 3 year period |
|  | 2) Percentage of draft reports issued within 15 days of the end of fieldwork                             | 2) 90%   |
|  | 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)     | 3) 80%   |
|  | 4) Number of sanctions and prosecutions for housing benefit investigations                               | 4) 155   |
|  | 5) Value of overpayments identified during housing benefit investigations                                | 5) £1m   |

**Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012**

| <b>Quality</b>   |  |   |
|--|--|---|
| <b>Objectives</b>  | <b>KPI's</b>   | <b>Targets</b>  |
| 1) To maintain an effective system of Quality Assurance<br><br>2) To ensure recommendations made by the service are agreed and implemented | 1) Opinion of External Auditor<br><br>2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented | 1) Satisfactory opinion<br><br>2) 100% for high and significant. 90% for medium risk  |
| <b>Client Satisfaction</b>   |  |   |
| <b>Objectives</b>  | <b>KPI's</b>   | <b>Targets</b>  |
| 1) To ensure that clients are satisfied with the service and consider it to be good quality  | 1) Results of Post Audit Questionnaires<br><br>2) Results of other Questionnaires<br><br>3) Number of Complaints / Compliments                       | 1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)<br><br>2) Results classed as 'Good'<br><br>3) No target – actual numbers will be reported |



**AUDIT AND GOVERNANCE COMMITTEE**

**25 MARCH 2011**

**RISK MANAGEMENT PLAN 2011/2012**

**REPORT OF THE EXECUTIVE DIRECTOR OF COMMERCIAL AND CORPORATE SERVICES**

**1. Introduction**

1.1 Effective risk management assists the Council to achieve its objectives by:

- reducing the likelihood of events that would have a negative consequence overall and reducing any negative consequences;
- increasing the likelihood of events that would have a positive consequence overall and increasing any positive consequences;
- identifying opportunities where taking risks might be beneficial;
- identifying, understanding and managing cross-organisation risks;
- executing change more effectively and efficiently and improving project management;
- protecting reputation and stakeholder confidence.

1.2 Whilst it is management's responsibility to effectively manage risks and opportunities the Council's Corporate Risk Management team plays a key role in supporting, regulating and challenging managers in this regard.

1.3 Whilst this plan sets out how the Corporate Risk Management team intends to fulfil its role within 2011/2012 it is important to recognise that it may need to be varied due to the level of change occurring at this time and in the context of the establishment of the new Commercial and Corporate Services Directorate. The committee will, of course, be consulted appropriately on any further reorientation of the plan.

**2. Risk Management Objectives**

2.1 The objectives of the Corporate Risk Management team will be:

**Objective 1**

Ensure there is an effective corporate risk profiling process in place to identify, assess, manage, review and report on strategic and corporate risks and opportunities.

## **Objective 2**

Facilitate the Council to successfully identify, assess, manage, review and report on risks and opportunities at a service / operational, programme, project and partnership level.

## **Objective 3**

Embed the effective management of risk into the culture, ethos, policies and practices of the Council.

### **3. Planned Activity - Objective 1**

*Ensure there is an effective corporate risk profiling process in place to identify, assess, manage, review and report on strategic and corporate risks and opportunities.*

- 3.1 The Council's Corporate Risk Profile provides an overall picture of the strategic and corporate risks facing the whole organisation. It conveys the nature and level of risks the organisation faces, the impact and likelihood of risk incidents on the Council and its stakeholders and the actions to be taken to manage those risks.
- 3.2 During the period 1995 – 2004, the Council has, on 3 occasions, partnered with external risk management advisors Marsh to produce a completely 'new' Corporate Risk Profile. The current Profile was developed with Marsh in 2009.
- 3.3 The Corporate Risk Management Group, chaired by the Head of Audit, Risk and Procurement and which consists of a range of senior managers from across the Council, will carry out quarterly reviews of the Corporate Risk Profile. The results will be reported to the Executive Management Team, Cabinet and the Audit and Governance Committee on a half yearly basis, unless issues arise that need to be reported more frequently.
- 3.4 The Corporate Risk Management team will support the risk profiling process and provide expert knowledge, challenge and independent verification.
- 3.5 The half yearly reports will provide information in relation to:
  - the identified risks and any additions, changes or closed risks;
  - an analysis of the risk score movement and commentary;
  - an analysis of progress in relation to actions identified to mitigate the risks.

#### **4. Planned Activity - Objective 2**

##### **Objective 2**

*Facilitate the Council to successfully identify, assess, manage, review and report on risks and opportunities at a service / operational, programme, project and partnership level.*

##### Service Planning and Delivery

- 4.1 Risks in relation to planning and delivering services should be identified and assessed through the Strategic Service Improvement and Financial Planning Process 2011/2012. The performance management process, including performance clinics, will review progress against identified key actions.
- 4.2 The Corporate Risk Management team will support Executive Directors and Heads of Service and provide expert knowledge, challenge and independent verification, in relation to risk management within service planning and delivery.

##### Service Reviews

- 4.3 The Council has commenced a Service Review process that will consider services based upon good commissioning principles, through being clear about the outcomes the Council is seeking to achieve and focusing on the most effective ways to achieve this. It is expected that this will also deliver significant savings.
- 4.4 The Corporate Risk Management team will support the Service Review Leads in identifying and assessing the risks within the options that are being considered.

##### Programmes and Projects

- 4.5 The council's adopted project management methodology includes requirements and guidance in relation to managing risks within the delivery of programmes and projects.
- 4.6 The Corporate Risk Management team will provide expert knowledge, challenge and independent verification to all programmes (set out below) given their importance to the delivery of the Council's objectives and to a number of key projects based upon a risk assessment.

##### Programmes

- Business Transformation
- Reputation and Influencing
- Community Leadership
- Economic Regeneration

- Directorate Modernisation Programmes

The key projects within each programme will be appropriately supported.

### Partnerships

- 4.7 The Council is involved in a range of partnerships in order to deliver its priorities. Guidance on managing risks within partnerships is included within the Council's Code of Practice on Partnerships. Thirty partnerships have been assessed as 'significant'. A prioritisation exercise has been undertaken to identify those Partnerships that could have the most significant impact upon the delivery of the Council's objectives or where the risk management arrangements may be less well developed, and the Corporate Risk Management team will work with those Partnership Leads within the year. Support will also be available for other partnerships where deemed appropriate.

### Schools

- 4.8 Each year 50% of schools within the city will be provided with direct support from the Corporate Risk Management team to develop Risk Management Action Plans, based on a good practice template of suggested risk areas. The template is updated each academic year to reflect new and emerging risks which schools face, i.e. new initiatives, working practices and dealing with change.
- 4.9 Those schools who are not scheduled to be visited by the Corporate Risk Management team will have access to support them in undertaking their annual reviews, where requested. The team will liaise with newly appointed head teachers to offer them support.
- 4.10 The Corporate Risk Management team will also provide training to Governors, Head teachers and school staff where requested and deemed appropriate.

### General advice, guidance and support

- 4.11 The Corporate Risk Management team will assess all other requests for support as to its importance and impact on the planned work, and where it is considered appropriate will provide assistance.

## 5. **Planned Activity - Objective 3**

*Embed the effective management of risk into the culture, ethos, policies and practices of the Council.*

### Corporate Risk Management Framework

5.1 The Corporate Risk Management team will continue to develop and maintain the Corporate Risk Management Framework to ensure it remains fit for purpose, given changes within and affecting the Council and developments within the profession. It includes:

- Risk Management Policy and Strategy
- Risk Management Manual including:
  - Process Guide
  - Tools and Techniques for managing risks
  - Roles and Responsibilities
  - Reporting Mechanisms
- Guidance within the Code of Practice on Partnerships
- Guidance within the Corporate Project Management methodology

5.2 The Corporate Risk Management team will provide input to the Annual Governance Review.

### Building Capability

5.3 It is important that councillors and staff have an awareness of the need to consider the risks associated with their roles and activities they are involved within. Specific training may also be required in relation to undertaking specific roles, e.g. Project Manager.

5.4 An awareness and training programme will be developed and commenced within the year.

## 6. Risk Management Plan 2011-12

A summary of the planned activity is shown below.

### Objective 1

*Ensure there is an effective corporate risk profiling process in place to identify, assess, manage, review and report on strategic and corporate risks and opportunities.*

| Activity   | Estimated Days |
|--|----------------|
| Annual Review of Corporate Risk Profile          | 50             |
| Quarterly Review of Corporate Risk Profile (x 3) | 60             |
| Total  | 110            |

### Objective 2

*Facilitate the Council to successfully identify, assess, manage, review and report on risks and opportunities at a service / operational, programme, project and partnership level.*

| Activity   | Estimated Days |
|--|----------------|
| Supporting Executive Directors and Heads of Service with Service Planning and Delivery | 70             |
| Service Reviews  | 40             |
| Specified Programmes / Projects (List at Appendix 1)                                   | 214            |
| Unspecified Projects (e.g. Implementation of Service Review recommendations)           | 120            |
| Partnerships (List at Appendix 2)  | 63             |
| Advice and support to other Partnerships   | 30             |
| Schools (x 60)   | 45             |
| Emergency Planning / Business Continuity Planning                                      | 10             |
| General Advice and Support   | 40             |
| Total  | 632            |

### Objective 3

*Embed the effective management of risk into the culture, ethos, policies and practices of the Council.*

| Activity  | Estimated Days |
|---|----------------|
| Review and develop the Corporate Risk Management Framework (including Policy and Strategy) to reflect changes in the Council and best practice. | 15             |
| Further develop and communicate detailed risk management guidance, tools and best practice, e.g. Risk Manual, guidance on projects.             | 15             |
| Develop and commence awareness and training   | 15             |

|   |    |
|---|----|
| programme.  |    |
| Provision of information and support to the Annual Governance Review. | 5  |
| Total   | 50 |

**7. Recommendation**

7.1 The Committee is asked to consider and agree the Plan.





## Appendix 1

### Projects

| Area   | Directorate   | Estimated Days |
|--|---------------|----------------|
| HHAS Delivery Programme                        | HHAS          | 12             |
| Risk, Choice & Safeguarding                    | HHAS          | 4              |
| Safeguarding Programme                         | Childrens'    | 20             |
| Reengineering the Retained Organisation        | Corporate     | 24             |
| Community Leadership Programme                 | Corporate     | 12             |
| Transport Governance                           | City Services | 10             |
| Sunderland Strategic Transport Corridor (SSTC) | City Services | 24             |
| Economic Masterplan                            | OCX           | 24             |
| Reputation and Influencing                     | OCX           | 12             |
| Business Transformation Programme              | Corporate     | 12             |
| Customer Service Project                       | City Services | 12             |
| OD & HR  | OCX           | 12             |
| SWIFT Enhancements                             | HHAS          | 12             |
| ICT  | OCX           | 12             |
| Smarter Working                                | Corporate     | 12             |
| Total  |               | 214            |



**Partnerships**

| Area   | Estimated Days |
|--|----------------|
| Housing  | 5              |
| Adult Social Care                                      | 5              |
| Attractive & Inclusive City (LSP Delivery Partnership) | 5              |
| Waste Management Partnership                           | 5              |
| Culture Partnership - LSP Cross Cutting                | 5              |
| Community Equipment Services                           | 5              |
| Mental Health - Rehabilitation & Recovery              | 5              |
| Children's Trust                                       | 5              |
| Child Poverty Board                                    | 5              |
| Sunderland Learning Partnership                        | 5              |
| Ad-hoc advice to other Partnerships                    | 13             |
| Total  | 63             |



**AUDIT AND GOVERNANCE COMMITTEE**

**25 MARCH 2011**

**AUDIT COMMISSION AUDIT PLAN 2010/11**

**Report of Executive Director of Commercial and Corporate Services**

**1.0 Purpose of the report**

1.1 This report details the Audit Commission's (AC) Audit Plan which notifies the Council of the work that the AC is proposing to undertake in respect of the audit of the financial statements and the value for money conclusion for 2010/2011.

**2.0 Audit Plan 2010/2011**

2.1 The attached document advises on the nature of this work together with the scale of fee for the 2010/2011 audit and the assumptions that inform this charge to the Council.

2.2 It is welcomed that the Audit Commission has reviewed the fees it is intending to charge the Council for its audit services, to recognise the cuts in government grant funding to local government. This has meant that the fees stated on page 4 of the document as £332,522 (which were already £11,631 under the scale fees for a similar type of authority) have been further reduced to £300,585, a net reduction of £31,937.

2.3 The Audit Plan also identifies the specific areas for the planned audit work based upon a risk assessment process. These areas of work are set out in the attached document and have been discussed with officers.

2.4 An officer, Gavin Barker, of the Audit Commission, will be in attendance at the Audit and Governance Committee meeting in order to outline the content of the Plan and to answer any questions that may arise.

**3.0 Description of Decision**

3.1 The Committee is recommended to:

- Note the contents of this report
- Note the reduced audit fees for the work to be undertaken in 2010/2011, based on the Audit Commission's risk-based approach to audit planning.

**Background Papers**

Audit Commission: Audit Plan 2010/2011



# Audit Plan

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**Sunderland City Council**

**Audit 2010/11**



**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**



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# Introduction

**This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.**

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

# Responsibilities

**The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.**

**2** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

**3** I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

## Fee for the audit

### **The fee for the audit is £332,522, as indicated in my letter of 20 April 2010.**

4 The Audit Commission scale fee for Sunderland City Council is £344,153. The fee proposed for 2010/11 was 3.4 per cent below the scale fee and was within the normal level of variation specified by the Commission.

5 In April 2010, the Commission issued a rebate to authorities in respect of audit fees relating to the first year implementation of International Financial Reporting Standards (IFRS). Sunderland City Council received a rebate of £20,922.

6 However, the Commission wrote to all audited bodies, on 9 August, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation has been delayed. As part of this consultation it was proposed that Sunderland City Council would receive an additional rebate of £12,045 on the 2010/11 audit fee.

7 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit; and
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS).

8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Executive Director of Commercial and Corporate Services and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

9 Further information on the basis for the fee is set out in appendix 1.

## **Specific actions Sunderland City Council could take to reduce its audit fees**

**10** The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**11** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

### **Materiality**

**12** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

### **Identifying opinion audit risks**

**13** I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control – including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

# Identification of specific risks

**I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.**

Table 1: **Specific risks**

Specific opinion risks identified

| Risk area   | Audit response  |
|---|---|
| <p><b>Implementation of IFRS:</b></p> <p>This is the first year for full implementation of International Financial Reporting Standards (IFRS). Key risk areas are the restatement of opening balances and general disclosures, including holiday pay accrual, ongoing PFI treatment, the treatment of property, plant and equipment, and accounting for leases.</p> | <p>We are carrying out as much early work as possible to review the Council's IFRS preparations.</p> <p>This includes reviewing restated balances, and considering the appropriateness of key judgements and assumptions used in the production of IFRS-compliant accounts.</p> <p>This will be supplemented with substantive testing of the financial statements.</p>  |
| <p><b>Property, Plant and Equipment:</b></p> <p>Revaluations, impairments, calculation of depreciation estimates of asset lives involve a high degree of estimation uncertainty.</p>  | <p>We will carry out specific tests in relation to property, plant and equipment. We will seek to rely on the work of the Council's valuer, subject to appropriate consideration of their objectivity and competence, and the outcome of their work.</p>  |
| <p><b>Pensions disclosures:</b></p> <p>The pensions asset and liability, and income and expenditure accounts transactions are significant, involve a high degree of estimation uncertainty and are reliant on third party information.</p>  | <p>We will agree the disclosures in your financial statements to the report of the actuary. We will seek to rely on the work of the actuary of Tyne and Wear Pension Fund. This includes a consideration of the objectivity, competence and capability of the actuary and a consideration of the outcomes of their work. We will also seek assurance from the Pension Fund auditor in relation to the assets of the fund.</p> |
| <p><b>Potential liabilities in respect of equal pay:</b></p> <p>The Council currently discloses a significant contingent liability in relation to equal pay. Disclosures in the 2010/11 financial statements will depend on the outcome of legal cases, which may mean that the correct accounting treatment will need to be reconsidered.</p>                      | <p>We will monitor developments in relation to equal pay on an ongoing basis, and discuss with officers the most appropriate disclosures in the financial statements, consistent with accounting standards.</p>   |

| Risk area   | Audit response  |
|---|---|
| <p><b>Valuation of Newcastle International Airport:</b></p> <p>It is important to use an appropriate valuation method. In the 2009/10 accounts, there were some issues in relation to the valuation method used and the advice of the valuer.</p> | <p>We recommended in the 2009/10 Annual Governance Report that a valuation for Newcastle International Airport should be carried out again this year, and the most appropriate valuation method should be discussed and agreed with the valuer. We also highlighted the importance of consistency among the shareholders of the airport.</p> <p>We will follow up this recommendation during the 2010/11 audit.</p> |

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# Testing strategy

**On the basis of risks identified above I have produced a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at year-end.**

**14** I will carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**15** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- IFRS restatement work.
- Bank reconciliation.
- Loans and investments external verification.
- Journals testing.
- Predictive analytical review; for example, for council tax and NNDR.
- Review of accounting policies.
- Year-end feeder system reconciliations.

Where I identify other possible early testing, I will discuss it with officers.

**16** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities.

**17** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in the following areas.

- We will seek to rely on PwC (PricewaterhouseCoopers) assurance as auditor of the Tyne and Wear Pension Fund in respect of pension assets disclosures.

**18** I also plan to rely on the work of experts in the following areas.

- The actuary to the Tyne and Wear Pension Fund (Hewitt's).
- The Council's in-house valuer.
- Sector, who provide you with fair value disclosures for financial instruments.

# Value for money conclusion

## **I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.**

**19** This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

**20** I will plan a programme of VFM audit work based on my risk assessment.

## Key milestones and deadlines

**The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.**

**21** The key stages in producing and auditing the financial statements are in Table 2.

**22** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**23** Every week, during the post statements audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

---

Table 2: **Proposed timetable**

| Activity   | Date                                   |
|--|--|
| Control and early substantive testing                                  | February to June 2011                  |
| Receipt of accounts  | 30 June 2011                           |
| Sending audit working papers to the auditor                            | 11 July 2011                           |
| Start of detailed testing  | 11 July 2011                           |
| Progress meetings  | Weekly, during period from 1 July 2011 |
| Present report to those charged with governance at the audit committee | 30 September 2011                      |
| Issue opinion and value for money conclusion                           | 30 September 2011                      |

# The audit team

**Table 3 shows the key members of the audit team for the 2010/11 audit.**

Table 3: **Audit team**

| Name                                 | Contact details   | Responsibilities  |
|--------------------------------------|---|---|
| Steve Nicklin<br>District Auditor    | <a href="mailto:s-nicklin@audit-commission.gov.uk">s-nicklin@audit-commission.gov.uk</a><br>0844 798 1621 | Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive. |
| Gavin Barker<br>Senior Audit Manager | <a href="mailto:g-barker@audit-commission.gov.uk">g-barker@audit-commission.gov.uk</a><br>0844 798 1654   | Manages and coordinates the different elements of the audit work. Key point of contact for the Executive Director of Commercial and Corporate Services.       |

## Independence and objectivity

**24** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**25** However, Members may wish to note that a member of my staff is married to a member of the Council's staff and that arrangements are in place to ensure that independence is maintained.

**26** I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in appendix 2.

## Meetings

**27** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in appendix 3.

## Quality of service

28 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

29 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

30 My team will discuss and agree reports with officers before issuing them to the Audit and Governance Committee.

---

Table 4: **Planned outputs**

| Planned output   | Indicative date |
|--|-----------------|
| Annual governance report                                       | September 2011  |
| Auditor's report giving an opinion on the financial statements | September 2011  |
| Annual audit letter  | November 2011   |

# Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

## Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- you provide:
  - good quality working papers and records to support the financial statements;
  - information asked for within agreed timescales;
  - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

## Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules.

The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.



## Appendix 3 Working together

### Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

| Council officers  | Audit Commission staff            | Timing                                      | Purpose   |
|---|-----------------------------------|---|---|
| Chief Executive   | District Auditor (DA)             | As and when required                        | General update  |
| Executive Director of Commercial and Corporate Services | DA and Senior Audit Manager (SAM) | Quarterly                                   | General update plus: <ul style="list-style-type: none"> <li>■ March – audit plan;</li> <li>■ July – accounts progress; and</li> <li>■ September – annual governance report</li> </ul> |
| Deputy Chief Executive                                  | SAM                               | 3 times a year                              | General update  |
| Head of Law and Governance                              | SAM and Team Leader (TL)          | 3 times a year                              | Update on legal issues  |
| Assistant Chief Executive et al                         | SAM                               | As and when required                        | Forum for discussing progress on VFM conclusion work  |
| Key Accountancy Staff including                         | SAM and TL                        | Monthly; weekly during post statements work | Forum for discussing progress on opinion work   |
| Head of Audit and Procurement                           | SAM and TL                        | Quarterly                                   | Liaison with Internal Audit   |
| Audit and Governance Committee                          | DA and AM, with TL as appropriate | As determined by the Committee              | Formal reporting of: <ul style="list-style-type: none"> <li>■ Audit Plan;</li> <li>■ Annual governance report; and</li> <li>■ Other issues as appropriate.</li> </ul>                 |

## Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

## Appendix 4 Glossary

### **Annual audit letter**

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

### **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

### **Auditing standards**

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Directors**

Members of the board who are collectively and individually responsible for the overall direction and control of the audited body. In NHS bodies there is a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chief executive is responsible to the board for the day-to-day management of the organisation but, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets. (See also 'Those charged with governance' and 'Audited body').

## **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## **Members**

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'Those charged with governance' and 'Audited body'.)

## **Regularity (of expenditure and income)**

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

## **Remuneration report**

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

## **Statement on internal control/Annual Governance Statement**

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

NHS bodies are required to publish a statement on internal control (SIC) with their financial statements. Specific guidance on the preparation of the SIC is issued by the Department of Health. The chief executive, as accountable officer, is required to sign the SIC on behalf of the board. The disclosures in the SIC are supported and evidenced by the body's assurance framework.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;

- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements.

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

In NHS bodies, those charged with governance, for the purpose of complying with auditing standards, are the board of directors and, in respect of certain responsibilities, the audit committee on behalf of the board. Audit committees are mandatory in NHS bodies and are non-executive committees of the board. The main objective of the audit committee is to contribute independently to the board's overall process for ensuring that an effective internal control and risk management system is maintained.

### **Whole of Government Accounts**

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



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March 2011





**AUDIT AND GOVERNANCE COMMITTEE**

**25 March 2011**

**Proposed Forward Plan of Reports for 2011/2012**

**Report of the Executive Director of Commercial and Corporate Services**

**1. Purpose of Report**

- 1.1 To enable the Committee to consider and comment on the proposed Forward Plan of reports for 2011/2012.

**2. Recommendations**

- 2.1 Members are asked to consider and agree to the attached proposed Forward Plan of reports.

**3. Background Papers**

None



**Forward Plan of Reports  
Audit and Governance Committee 2011/2012**

| <b>Month</b>   | <b>Brief Description</b>  | <b>Report of</b>  |
|----------------|---|---|
| May 2011       | Governance Arrangements (Annual Internal Audit Report, Annual Risk Management Report, Annual Governance Review) | Executive Director of Commercial and Corporate Services |
|                | Internal Audit Progress Report  | Head of Audit, Risk and Procurement                     |
|                | Annual Audit Fee 2011/2012  | Audit Commission  |
|                | Annual Audit Letter 2009/2010   | Audit Commission  |
|                | Member Training and Development   | Executive Director of Commercial and Corporate Services |
| June 2011      | Annual Report on the Work of the Committee  | Executive Director of Commercial and Corporate Services |
|                | Internal Audit Progress Report  | Head of Audit, Risk and Procurement                     |
|                | Unaudited Statement of Accounts 2010/2011   | Executive Director of Commercial and Corporate Services |
|                | Treasury Management Annual Review 2010/2011   | Executive Director of Commercial and Corporate Services |
|                | Interim Audit Report 2010/2011  | Audit Commission  |
|                | Corporate Risk Profile  | Executive Director of Commercial and Corporate Services |
| September 2011 | Internal Audit Progress Report  | Head of Audit, Risk and Procurement                     |
|                | Treasury Management – First Quarterly Review for 2011/2012  | Executive Director of Commercial and Corporate Services |
|                | Audited Statement of Accounts 2010/2011   | Executive Director of Commercial and Corporate Services |

**Forward Plan of Reports  
Audit and Governance Committee 2011/2012**

| <b>Month</b>     | <b>Brief Description</b>   | <b>Report of</b>  |
|------------------|--|---|
| November<br>2011 | Treasury Management – Second Quarterly Review for 2011/2012  | Executive Director of Commercial and Corporate Services |
|                  | Internal Audit Progress Report   | Head of Audit, Risk and Procurement                     |
|                  | Internal Audit Plan 2012/2013 - Consultation   | Head of Audit, Risk and Procurement                     |
|                  | External Audit Plan 2011/2012 – Consultation (Discussion – no report to be provided)                                 | Audit Commission  |
|                  | Corporate Risk Profile - update  | Executive Director of Commercial and Corporate Services |
| February<br>2012 | Internal Audit Progress Report   | Head of Audit, Risk and Procurement                     |
|                  | Treasury Management – Third Quarterly Review for 2011/2012 and Treasury Management Strategy and Policy for 2012/2013 | Executive Director of Commercial and Corporate Services |
|                  | Annual Audit Letter 2010/2011  | Audit Commission  |
|                  | Annual Grants Report 2010/11   | Audit Commission  |
| March<br>2012    | Internal Audit Progress Report   | Head of Audit, Risk and Procurement                     |
|                  | Internal Audit Plan 2012/2013  | Head of Audit, Risk and Procurement                     |
|                  | Risk Management Plan 2012/2013   | Executive Director of Commercial and Corporate Services |
|                  | Proposed Forward Plan of Reports 2012/2013   | Executive Director of Commercial and Corporate Services |