

AUDIT AND GOVERNANCE COMMITTEE
Friday 12 December 2014

Present:

Mr G N Cook

Councillors Farthing, Forbes, Speding, N Wright and Mr M Knowles.

In Attendance:

Alison Fellows (Executive Director of Commercial Development), Sonia Tognarelli (Director of Finance), Paul Davies (Head of Assurance, Procurement and Projects), Dennis Napier (Assistant Head of Financial Resources), Tracy Davis (Audit, Risk and Assurance Manager), Fiona Brown (Chief Operating Officer, People Services), Gavin Barker (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillor T Wright.

Minutes

21. RESOLVED that the minutes of the meeting of the Committee held on 26 September 2014 be confirmed and signed by the Chair as a correct record.

Executive Director of Commercial Development

The Chair welcomed Alison Fellows, the newly appointed Executive Director of Commercial Development to the Committee.

Alison explained that her background was as a lawyer and that she had previously worked at Newcastle City Council leading on major projects and delivering the Capital Programme. Alison had joined Sunderland City Council in October 2014 and it was intended that she would gradually take on responsibility for the capital programme and regeneration in the authority.

Alison would be working alongside the new Executive Director of Enterprise Development to promote the city as being open for business. She acknowledged the clear financial challenges which lay ahead but felt that there were a number of things being developed which would help the Council and its partners to meet these challenges.

The Chair asked what Alison felt that her biggest challenge would be moving forward and she said that this would be the capacity to deliver what had been promised on target and on budget. However, she would be working to ensure that all funding opportunities were maximised.

Councillor Farthing asked if Alison had made any observations within her first few weeks in post which had led to any thoughts on new ways of working. Alison advised that she was looking at a number of things including how matters could be joined up even more than they were now and making sure that critical thinking was carried out at an early stage. She was working with the Director of Finance and Head of Assurance, Procurement and Projects to ensure that all projects and programmes were very well planned.

The Chair thanked Alison for her attendance and wished her well in her new role. Alison left the meeting at this point.

Treasury Management – Third Quarterly Review 2014/2015

The Director of Finance presented a report outlining the Treasury Management performance for the third quarter of 2014/2015. The report also detailed the Lending List Criteria and the updated Approved Lending List.

The Council's Treasury Management function continued to look at ways of maximising financial savings and increasing investment return to the revenue budget. The Assistant Head of Financial Resources reported that, due to large fall in PWLB borrowing rates in July, August and October, the Council had taken out borrowing of £20m in Quarter 2 and a further £10m in Quarter 3 to support its Capital Programme requirements. This would also help to keep the Council's interest rate on borrowing at its low level and benefit the revenue budget over the longer term.

The interest rate on long term borrowing was 3.34% and Sunderland remained in the top quartile for the lowest rates of borrowing. There had been no debt rescheduling in 2014/2015 as rates had not been considered sufficiently favourable.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was within the limits set for all of these. The investment policy was also regularly monitored and reviewed to ensure that it had the flexibility to take full advantage of any changes in market conditions which would benefit the Council.

The Assistant Head of Financial Resources drew Members attention to the Council's maximum borrowing position in paragraph 4.3 and advised that the figure in the report was incorrect and should read £256.349m. This was still well within the limits which had been set.

Sunderland continued to outperform the benchmark of 0.35% for rate of return on investments and was achieving 0.75%. The Assistant Head of Financial Resources advised that rates were being carefully monitored with short term investments being made so that the Council could take full advantage of the expected increase in rates when they occurred.

The updated Lending List was shown at Appendix C to the report and the Assistant Head of Financial Resources advised that Svenska Handelsbanken AB had been added to the list as they fitted the Council's criteria, however no funds had been placed with them as yet. All changes to the Approved Lending List were highlighted in bold.

The Assistant Head of Financial Resources reported that it had been confirmed that Lloyds and RBS would remain in Government ownership until next December, regardless of the result of the general election and their position on the lending list would be reviewed at that point.

The Treasury Management Policy would be presented to the Committee at its next meeting and the Assistant Head of Financial Resources advised that the Bank of England had issued new guidelines on the actions which would be taken if an institution failed and how shareholders and others would support the bank rather than the Government. These 'bail in' regulations would have to be taken account of when risk was classified for each institution and the Council's lending list criteria might have to be altered in response to this.

In relation to risk, Mr Knowles asked if when new funds were drawn down, this stayed within the policy of fixed and variable rates. The Assistant Head of Financial Resources advised that cash flow and capital spend were taken into account and investments would be made if the money was not needed. He highlighted that this was part of the daily treasury management function to balance cash flows by ensuring there was sufficient funds to meet spending requirements and also knowing when to place funds for investment and for how long.

Upon consideration of the report, the Committee: -

22. RESOLVED that: -

- (i) the Treasury Management performance for the third quarter of 2014/2015 be noted; and
- (ii) the Lending List Criteria at Appendix B and the updated Approved Lending List at Appendix C be noted.

Corporate Assurance Map 2014/2015 - Update

The Head of Assurance, Procurement and Projects presented the updated Corporate Assurance Map which had been reviewed based on the work undertaken so far during the year, the Internal Audit opinion on the adequacy of the overall system of internal control and the performance of Internal Audit.

Members were directed to the map itself and were informed that there had been a change in one of the Strategic Risk Areas as the overall current rating for Economy had been changed from red to amber.

At the last meeting, the Committee had been made aware of three areas which had been marked as red under external assurance as a result of the work that the Council had commissioned in relation to children's safeguarding. These areas would remain red until such time as the work being undertaken made a difference and the Chief Operating Officer of People Services would provide a further update for Members.

The Head of Assurance, Procurement and Projects highlighted that there was a red rating in the Internal Audit column in relation to Information Governance. This was due to Internal Audit finding that some areas of compliance were not at the level which they would have expected, for example, secure email accounts not always being used, incidents of passwords being shared and little evidence of some staff understanding the requirements. It was hoped to see progress being made against the action plan for this area but it would be closely observed in case Information Governance as a whole became red.

Members were informed that from the 71 audits which had originally been planned for the year, it was considered that it was not appropriate to carry out three of these namely, the Sunderland Partnership, the Multi Agency Safeguarding Hub and Community Family and Wellbeing. The first audit was no longer necessary and the others would be deferred into 2015/2016.

The range of work being carried out by the Risk and Assurance Team was outlined at Appendix 3 to the report, with details of the Key Performance Indicators at Appendix 4. It was highlighted that the percentage of audits completed by the target date was 78% against a target of 80% and the current percentage of medium risk recommendations implemented (excluding schools) was 82% against a target of 90%.

Councillor Speding asked how the assurance position in relation to safeguarding would be disseminated to the wider Council. The Head of Assurance, Procurement and Projects advised that the Corporate Assurance Map was presented to the Executive Management Team so that chief officers were fully aware of the position but it was not presented to Members generally, apart from through the Audit and Governance Committee. The Committee was able to refer matters to both Cabinet and Council if it had specific concerns, although this would be unusual. The more usual route would be for the Committee to ensure that the right people had all the information, to make clear what had to be done and to be assured that issues were being acted upon.

The Director of Finance added that other routes were being used to make sure that elected Members were aware of the position. The Cabinet received updates for financial and service planning and there were presentations made to the Scrutiny Committee and regular updates to both bodies.

It was noted that there needed to be a process of making the Executive Management Team, Cabinet and Scrutiny Committee aware of issues but at the same time there had to be a process of independent reporting to the Audit and Governance Committee. The Head of Assurance, Procurement and Projects highlighted that one of the reasons that

a Cabinet member sat on the Audit and Governance Committee was to provide a link between the Committee and the Cabinet.

Councillor N Wright commented that, as Chair of the Scrutiny Committee, she could confirm that they had been heavily involved in the safeguarding work. She informed the Committee that the Scrutiny Committee had recommended that a working group be established to monitor the implementation plan and that they had observed the phenomenal amount of work which was taking place. She also emphasised the independence of the Scrutiny Committee from the Executive.

The Chair referred to the Strategic Risk Profile at Appendix 1 to the report, highlighting the red rating for the risk that 'the current skill levels of young people and adults are not sufficient to meet the current and future needs of the economy'. He queried if there was a benchmark or target which would challenge this risk and asked if further information could be provided on this.

Fiona Brown, Chief Operating Officer, People Services was in attendance to update the Committee on the progress being made in relation to the Children's Safeguarding Service improvement plan.

Fiona reported that all management posts within the service had now been filled and a peripatetic team, made up of six qualified social workers and a manager, was now in place to support the child protection teams. It was intended to appoint a further four social workers to this team to deal with issues coming through the Multi-Agency Safeguarding Hub (MASH). The Early Help and Prevention Team had been co-located with the safeguarding team and health visitors at the Thorney Close centre.

Social workers had reported that the existing ICT system was cumbersome and it was hoped to implement a new system in February. There was now a full time analyst working with the teams and this would be followed up with two dedicated ICT trainers working with the team for two to three weeks and creating dedicated super users for the new system.

The Committee were informed that the possibility of placing a qualified social worker in the contact centre was being explored as at the present time all matters were being processed through the MASH when this should only deal with section 47 referrals. A triage system was being established at the Customer Service Network and it was hoped to link health in with this in the future.

Case file audits were being carried out on a monthly basis against Ofsted criteria and any issues coming out of these would be fed back to the principal social worker. Consultations were taking place with the unions about the introduction of a workflow tool and they were happy to help the Council with this.

With regard to the peer review which took place in November, Fiona advised that the issues which had been highlighted were already known to the directorate. A staff event had taken place that morning where the Executive Director had re-introduced the vision for the service. The Social Work Academy and Social Work Alumni programme had been launched and it was highlighted that the Executive Director of People Services and the Chief Executive were making monthly visits to teams across the city.

Councillor Forbes asked where the MASH would be located when Gillbridge Police Station closed down and Fiona stated that the Sandhill Centre was a potential location.

Councillor Farthing referred to the instability of local social work teams and queried how long it might be before this issue was resolved. Fiona advised that agency staff made up 30% of the local teams and there were three new cohorts of social workers coming through at the current time. Officers were working very hard with Human Resources on recruitment but it was felt that it would take around nine to twelve months to turn this around.

Councillor N Wright commented that there was no room for complacency but she was pleased with what she had heard and assured Members that the Scrutiny Committee would be monitoring this.

Upon consideration of the report, it was: -

23. RESOLVED that the updated Corporate Assurance Map 2014/2015 be noted.

Corporate Assurance Map – Consultation for 2015/2016

The Head of Assurance, Procurement and Projects submitted a report consulting Members on the development of the Internal Audit and Risk and Assurance Plans for the forthcoming year.

The report listed a number of areas which were expected to be a priority for 2015/2016, including helping the Council to manage risks in developing alternative service delivery models, arrangements for managing the delivery of the Transformation Programme, Children's Safeguarding arrangements and the implementation of the pay and grading review. The Committee were asked to consider any issues which they felt should be addressed in 2015/2016.

With regard to the Children's Safeguarding arrangements, Councillor Farthing asked if this would include issues such as the stability of social work teams, the drive to have children adopted and the stability of placements.

The Head of Assurance, Procurement and Projects advised that at the moment the Risk and Assurance Team were working with the Improvement Team on Children's Safeguarding and would be reporting back to the Improvement Board. Some of these matters were related to practice improvement and it was likely that a report would be brought back to the Committee to outline the views of Internal Audit on the safeguarding improvement work in a wider perspective.

Councillor N Wright said that she would like to see young people's skills added to the list, particularly in the light of the Chair's comments about economic risks. She highlighted that young people needed to be better equipped to realise their own potential.

Mr Knowles stated that it was worrying to hear about the fiscal environment and queried if the plan would reflect the impact of the general election on this. The Head of Assurance, Procurement and Projects advised that the plans of work would be finalised

in March 2015 but things would change as policies evolved. Flexibility would be built into the plans to enable amendments to be made during the year. The Director of Finance added that a lot of issues were interlinked and stated that the plans would be updated in the context of any national political situation.

Accordingly, it was: -

24. RESOLVED that the comments of the Committee on the development of the Internal Audit and Risk and Assurance Plans for the forthcoming year be noted.

Annual Audit Letter 2013/2014

The Director of Finance submitted a report presenting the Annual Audit Letter covering the financial year 2013/2014 which had been prepared by the Council's external auditors, Mazars.

The Director of Finance stated that from her perspective, the Annual Audit Letter was very positive and underlined the quality of the staff working in finance across the Council.

The Annual Audit Letter summarised the findings of the 2013/2014 audit which comprised an audit of the Council's financial statements and an assessment of the Council's arrangements to secure value for money in its use of resources.

Gavin Barker, Senior Engagement Manager, Mazars reminded Members that they had previously been taken through the Audit Completion Report by the external auditor and that they had now issued an unqualified audit opinion on the financial statements and an unqualified value for money conclusion.

Having considered the very positive report, the Committee: -

25. RESOLVED that the Annual Audit Letter 2013/2014 be noted.

Certification of Claims and Returns – Annual Report 2013/2014

The Director of Finance submitted a report detailing the work that the external auditor had carried out for all grant claims and returns made by the Council for the financial year 2013/2014, which according to government regulations, required an external audit opinion and/or an audit certificate.

Mazars' report was very positive and the Council had received no qualification on its submitted grant claim which totalled almost £124.6m. Gavin Barker confirmed that there were no significant issues in respect of the claim.

Accordingly, it was: -

26. RESOLVED that the contents of the report be noted.

External Auditor – Audit Progress Report

The Director of Finance submitted a report presenting the external auditors' regular Audit Progress Report covering the period up to December 2014.

Gavin Barker reported that Mazars had completed their audit and grant claim work and had also finalised their work on the Teachers' Pension Return ahead of the deadline of 28 November 2014. Mazars had also agreed engagement terms with the Council for nine schemes under section 256 agreements with NHS England and Sunderland CCG.

Assurance procedures had been carried out on the Port of Sunderland accounts in accordance with the statutory requirements and it was highlighted that the fee for this work had been approved as a variation to the scale fee for the main audit.

Turning to the emerging issues, Gavin reported that the accounts production deadline would be brought forward from 30 June to 31 May from the 2017/2018 financial year. The audit deadline would be brought forward by two months from 30 September to 31 July at the same time. This would have significant implications but Mazars would have early discussions with the Council to manage this process as smoothly as possible.

The Committee were informed that the Audit Commission was proposing to reduce scale fees by a further 25 per cent from 2015/2016 based on the scale fees applicable for 2014/2015. The proposed scale fee for Sunderland for 2015/2016 would be £135,774.

Other emerging issues highlighted in the report included the role of the National Audit Office (NAO) in local audit, the National Fraud Initiative, Council's expenditure on looked after children and transitional arrangements regarding the Local Audit and Accountability Act 2014.

Having considered the report, it was: -

27. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK
Chair