

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 3 February 2023**

**Present:**

Mr G N Cook in the Chair

Councillors P Gibson, Nicholson and P Wood.

**In Attendance:**

Paul Wilson (Director of Finance) Paul Davies (Assistant Director of Assurance and Property Services), Paul Dixon (Chief Accountant), Tracy Davis (Senior Manager - Assurance), Cameron Waddell (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 Stewart, Councillor Trueman and Mr Knowles.

**Minutes**

14. RESOLVED that the minutes of the meeting of the Committee held on 4 November 2022 be confirmed as a correct record.

**Risk and Assurance Map 2022/2023**

The Assistant Director of Assurance and Property Services submitted a report which asked the Committee to consider: -

- the updated Risk and Assurance Map and supporting Strategic and Corporate Risk Profiles based on assurances gathered from a range of sources;
- work undertaken by the audit, risk and assurance service during the year to date; and
- the performance of Internal Audit.

The Assistant Director of Assurance and Property Services directed Members to the Risk and Assurance Map and in doing so reminded the Committee that the Map and the Strategic and Corporate Risk Profiles had been agreed in April 2022 and the Map had been updated to reflected changes in both profiles. The Strategic Risk Areas summarised the risks to the priorities in the Council's City Plan and the Corporate Risk Areas were those which were due to the Council existing as an organisation. The changes to these were shown in red in appendices 2 and 3. Overall assurance was also provided in relation Council owned companies and the Cumulative Assurance Position was Green or Amber for all Strategic and Corporate Risk Areas.

There were some updates in relation the Strategic Risk Profile; the risk description for R011 had been updated to be broader than Covid-19 and now read 'Unable to control variants of the Covid virus, and other communicable diseases, which could increase the spread of the infection across Sunderland.'

Internal Audit had carried out a number of pieces of work which had led to changes to the level of assurance provided. Assurance in relation to 'Access to equitable opportunities and life chances' was new and was rated Amber but had not changed the overall assurance level of Green. Assurance on 'Partnership working' was also new and had been judged as Amber. The assurance level for 'People enjoying independent lives' had moved from Green to Amber due to an audit of Assistive Technologies and this had changed the overall assurance level to Amber.

There had been some changes to the Corporate Risk Areas as follows: -

- Additional current controls had been added to the risks relating to Health and Safety due to new activity being undertaken by the Health and Safety Team. The changes were shown in red text in Risks R036 to R039.
- In relation to R41 'ICT Infrastructure is not resilient to disasters', an additional cause had been added 'Lack of 24/7 ICT support in the event of an incident'. This was identified during a recent exercise and work was ongoing to address the situation.
- Due to a number of pieces of internal audit work, the level of assurance provided by Internal Audit had changed as follows: -
  - Strategic Planning – assurance level changed from Green to Amber due to an audit of Partnership Arrangements. This had not changed the overall assurance rating of Green.
  - Service Delivery Arrangements – assurance level changed from Amber to Green due to audit work in relation to Planning and Development Control and Highways Work Programme.
  - Partnership/Integrated Working – new assurance level from Internal Audit which was Amber. This had moved the overall assurance level from Green to Amber.

- Health and Safety – assurance rating had changed from Amber to Green due to follow up work which had confirmed all agreed actions from a previous audit had been implemented. This had not changed the overall assurance rating of Amber due to the opinion of the Health and Safety Team on the overall arrangements in the Council.

The Assistant Director of Assurance and Property Services advised that the original plan for the Council for the year included 67 audits. The Internal Audit team was currently carrying a vacancy and finding it difficult to recruit and an external public sector auditing company had been engaged to provide additional resources. However, not all of the planned audits would be able to be completed and some were no longer applicable including one for a maintained school which had converted into an academy, three grant certifications which were no longer required and two audits which were deferred into 2023/2024. It was expected that 91% of the original plan would be completed by the year end and one unplanned audit and 19 unplanned grant certifications had been undertaken.

Members were reminded that there had been eight significant risk recommendations made over three audits in the 2021/2022 audit plan. These were in relation to Corporate Business Continuity Arrangements, Cyber Security – Vulnerability Management and IT Disaster Recovery. The Committee had been updated with regard to the implementation of the recommendations at their last meeting and Internal Audit were currently undertaking follow-up work to verify that the recommendations had been implemented. Assurances had been given that management were taking action in relation to the recommendations and the Assistant Director of Assurance and Property Services had no significant concerns.

Performance in relation to targets set for Internal Audit was shown at Appendix 5 with all Key Performance Indicators being on target.

Having considered the report, it was: -

15. RESOLVED that the report be noted.

### **Risk and Assurance Map – Consultation for 2023/2024**

The Assistant Director of Assurance and Property Services submitted a report consulting the Committee on the development of the plans of work for Internal Audit and Risk and Assurance for the forthcoming year to give Members the opportunity to raise any issues which they feel should be considered in the plans.

The allocation of resources would continue to be flexible throughout the year, but there had been a number of priority areas identified for 2023/2024 as follows: -

- On-going audit work in relation to Council owned companies, such as Sunderland Care and Support, Together for Children and Siglion.
- Activity to deliver the City Plan, including the management of risks and projects to deliver key priorities
- Overall programme of City Development Regeneration projects
- Council's Smart Cities programme

- Council's approach to Cyber Security
- Compliance with the Asset Management Policy and Strategy
- Compliance with the Council's pay and grading model
- Compliance with the Civil Contingencies Act
- Management of Council operational proper leases
- Corporate Service Planning arrangements
- Preparation for potential devolution
- Management of vulnerable groups funding
- National Fraud Initiative and counter fraud work
- Key corporate functions/systems, particularly where significant changes/budget reductions are planned or have occurred.

Councillor Wood highlighted the reference to Cyber Security and queried to what extent the Council had a problem in this area. The Assistant Director of Assurance and Property Services advised that cyber attacks took place on a daily basis but the Council had many things in place to deflect these and good mitigation arrangements. However, as the Authority improved its defences, perpetrators also developed more sophisticated techniques and the ICT service commissioned external experts to conduct penetration testing and then report back on vulnerabilities.

The Chair suggested that it might be useful to have some further detail on this from the officer responsible.

Having considered the proposed priority work areas, it was: -

16. RESOLVED that the proposed plans of work for the Internal Audit and Risk and Assurance teams for 2023/2024 be noted.

### **Treasury Management Third Quarterly Review 2022/2023**

The Director of Finance submitted a report presenting the Treasury Management performance to date for the third quarter of 2022/2023 and setting out the Lending List Criteria and Approved Lending List.

The Chief Accountant highlighted that since Members last received an update in November 2022, volatility had continued in the economy with CPI inflation being over 10%. The Bank of England interest rates had risen to 3.5% in December and then 4.0% in February 2023. This was the tenth consecutive rise in interest rates and these were now at the highest level since 2008.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates had gradually risen since the start of the financial year but continued to be extremely volatile, however in line with discussions with the Council's treasury advisors, the Council had taken out £50 million of new borrowing during 2022/2023 to support the financing of the Capital Programme. The interest rate of 2.79% for a 48-year term was considered opportune at the time and would benefit the revenue budget over the longer term when compared with the current equivalent long-term rate of 4.19%. No further borrowing had been taken out in quarter 3.

The Council's interest rate on borrowing was low, currently 2.54%, and the authority had benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 2.07% compared with a benchmark of 1.74%.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within the limits set for all of these. Further detail on the indicators was set out in Appendix A to the report. 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.

Appendix A also set out some of the forecasts for the economy and it was currently forecast that the Bank of England Base Rate would peak at 4.50% in May 2023 which was lower than the peak of 5.25% expected by the financial markets. It was projected that the Base Rate would peak and then gradually fall back to 2.50% by the end of the forecast timeframe in September 2025. It was expected that PWLB rates would remain gradually fall through to December 2025.

The Chief Accountant directed the Committee to the Investment Summary at paragraph 3.2, Appendix A which showed the fluctuation in the rates for fixed term deposits which had been up to 5.18% in September and were at 4.15% in December 2022.

The Council's authorised lending list continued to be updated regularly to take into account financial institution mergers and changes in institutions' credit ratings. The updated Approved Lending List was attached as Appendix C to the report for information. There had been no changes to the Lending List Criteria which were set out at Appendix B.

Councillor Wood referred to paragraph 1.5 which suggested that inflation looked to have peaked at 11.1%, and he noted that it had been reported that food price inflation was running at 16%. He asked if there was an inflation rate which applied to council services.

The Director of Finance explained that this depended on the nature of the service; adult social care inflation was driven by labour costs and Together for Children were experiencing pressures on home to school transport due to fuel costs. The Port was impacted by fuel and energy costs and construction and capital projects were also affected. There was not a single inflation rate applicable to local authorities and plans to mitigate the effects were made on an individual basis.

Consideration having been given to the report, it was: -

17. RESOLVED that: -

- (i) the Treasury Management performance during Quarter 3 of 2022/2023 (Appendix A) be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

## **Treasury Management Policy and Strategy 2023/2024 including Prudential Indicators for 2023/2024 to 2026/2027**

The Director of Finance submitted a report informing the Committee of the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2023/2024. The Committee were asked to note the Prudential 'Treasury Management' Indicators for 2023/2024 to 2026/2027 and to provide comments to Council on the proposed policy and indicators where appropriate.

The Committee were made aware of the statutory requirement for the Council to set Prudential Indicators, including specific Treasury Management Indicators, for a minimum period of three years to ensure that the Council's capital investment plans were affordable, prudent, and sustainable. The Prudential Indicators reflected the commitments in the Authority's current plans and ensured compliance so that proposed spending remained affordable.

The Council was also required to adopt a Treasury Management Policy Statement and to set out its Treasury Management Strategy comprising the Council's strategy for borrowing and the Council's policies for managing its investments and giving priority to the security and liquidity of those investments. The Ministry of Housing, Communities and Local Government (MHCLG) 'Statutory Guidance on Local Government Investments' had been updated in February 2018 and CIPFA had updated its Treasury Management in the Public Services Code of Practice in December 2021. The Council was required to have regard to this advice when setting its Treasury Management Policy Statement and Treasury Management Strategy.

The Prudential and Treasury Indicators for 2022/2023 to 2026/2027 were set out in Appendix 1 and the Chief Accountant advised that the authorised limit and external boundary would increase over the next few years in line with the planned capital programme.

The Treasury Management Policy Statement was shown at Appendix 2 and the Treasury Management Strategy at Appendix 3 to the report; these were both unchanged from the previous year. Members of the Committee were directed to section 2.1.4 which outlined the Council's potential Borrowing Strategy and it was noted that the basis of the proposed strategy for 2023/2024 was to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Council's future borrowing requirement when market conditions are considered favourable; and
- current (January 2023) long-term PWLB rate (50 years) 4.17%, Forecast rates over the financial year 2023/2024 are 4.30% Q1, 4.20% Q2, 4.10% Q3 and 3.90% Q4. Should interest rates fall below these rates borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.

Annex A of the report set out interest rate forecasts based on a range of intelligence sources and it was highlighted that this was still a volatile position. The Lending List Criteria and Approved Lending List were shown at Annex B and C of the report.

Having noted the prudent approach and positive performance of the Treasury Management function, the Committee: -

18. RESOLVED that: -

- (i) the proposed Annual Treasury Management Policy and Strategy for 2023/2024 (including specifically the Annual Borrowing and Investment Strategies) and the Prudential 'Treasury Management' Indicators to 2023/2024 to 2026/2027 be noted; and
- (ii) the Council be advised that the Committee were satisfied that the arrangements for Treasury Management were in an excellent position for the next and future years.

### **External Auditor's Progress Report**

Mazars, the Council's external auditors, had submitted a report which outlined the progress in delivering its responsibilities as the external auditors and included, at Section 2, a summary of recent reports and publications.

Cameron Waddell was in attendance to talk to the report and advised that the Whole of Government Accounts auditor's return for 2020/2021 had been submitted but detail was yet to be received from the National Audit Office on the sample components and any further work required. The audit would be formally closed when this work was fully complete.

In respect of the 2021/2022 audit, Cameron stated that the Pension Fund auditor assurance was still required and it was unclear when this would be received. The Director of Finance noted that this was not just a Sunderland, or even Tyne and Wear, issue.

The other outstanding national issue for the audit was infrastructure and progress had been made with updated guidance being issued recently and a statutory override being approved by Government in December 2022. The external auditors were working with the finance team to get assurance on this and to make the required amendments to the 2021/2022 Statement of Accounts so they could be signed off. The Value for Money Assessment would be updated following this.

Mazars had also been engaged to complete assurance work on the Teachers Pensions Return and the Housing Benefit Subsidy Assurance. There were no matters arising from either of these pieces of work.

Turning to the strategic planning for the 2022/2023 audit, Cameron advised that the approach to materiality would remain the same and the risks would also be very much the same as the previous year. The revised auditing standard was set out and it was noted that the Authority should be in a good place in relation to this.

The report highlighted a large number of recent publications from the Financial Reporting Council, CIPFA, the Public Audit Forum, National Audit Office, Public

Sector Audit Appointments Ltd and the Department for Levelling Up, Housing and Communities for the information of the Committee.  
Following consideration of the report, it was: -

19. RESOLVED that progress report be noted.

(Signed) G N COOK  
Chair