

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on Friday 26 June 2015 at 1.30pm

ITEM	PAGE
1. Receipt of Declarations of Interest (if any)	
2. Apologies	
3. Minutes of the Meeting of the Committee held on 27 March 2015	1
(Copy attached.)	
4. Annual Report on the Work of the Committee 2014/2015	9
Report of the Director of Finance (copy attached).	
5. Annual Governance Review/ Annual Governance Statement 2014/2015	13
Report of the Director of Finance (copy attached).	
6. Corporate Assurance Map 2015/2016 – Update	29
Report of the Head of Assurance, Procurement and Projects (copy attached).	
7. Statement of Accounts 2014/2015 (Subject to Audit)	67
Report of the Director of Finance (copy attached).	
<i>Please note that the Statement of Accounts (Appendix A) will be printed separately.</i>	

For further information and assistance, please contact:

Gillian Kelly, Principal Governance Services Officer Tel: 0191 561 1041
gillian.kelly@sunderland.gov.uk

8.	Treasury Management – Review of Performance 2014/2015	91
	Report of the Director of Finance (copy attached).	
9.	Treasury Management – First Quarterly Review 2015/2016	99
	Report of the Director of Finance (copy attached).	
10.	External Auditor – Audit Progress Report	113
	Report of the Director of Finance (copy attached).	

ELAINE WAUGH
Head of Law and Governance

Civic Centre, Sunderland
17 June 2015

AUDIT AND GOVERNANCE COMMITTEE
Friday 27 March 2015

Present:

Mr G N Cook

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

In Attendance:

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), Mark Kirkham (Mazars), 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 Councillors Speding and T Wright.

Minutes

32. RESOLVED that the minutes of the meeting of the Committee held on 6 February 2015 be confirmed and signed by the Chair as a correct record subject to the inclusion of Councillor Forbes in the list of apologies.

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 both the Strategic and Corporate Risk Areas had remained unchanged from the last update report. The first and second line of assurance remained the same and it was highlighted that

planned activity had been added to the map for ICT in the last quarter but there was not yet an assurance opinion so that area had remained white.

The Head of Assurance, Procurement and Projects referred to the red rating from Internal Audit for Information Governance and reminded Members that this had also been red at the time of the last update report. However, improvement continued to be seen in this area and it would continue to be monitored with further detail being brought back to the Committee if the rating remained red in the future. There were two red areas in the External Assurance column in relation to Children's Safeguarding which Members were aware of from previous meetings.

It was reported that the Council's audit plan for the year had included 71 audits but it was not now considered appropriate to carry out four of these: Sunderland Partnership; the Multi Agency Safeguarding Hub (MASH); Community Family and Wellbeing; and Corporate Service Planning arrangements. The reasons for this had been fully set out within the report and the Head of Assurance, Procurement and Projects reported that 94% of the planned audits would be completed within the year.

Members were directed to Appendix 3 of the report which showed the work of the Risk and Assurance team and the Head of Assurance, Procurement and Projects highlighted the range of major projects and service reviews in which the team were involved and added that this should give comfort to the Committee that the Risk and Assurance team was supporting all of this vital work.

With regard to the Key Performance Indicators (KPIs) for Internal Audit, the level of the implementation of medium risk recommendations was 83%, which was an improvement from 82% at the time of the last report. However, the percentage of high and significant recommendations being implemented stood at 94% against a target of 100%. This 6% related to one recommendation around the testing of emergency lighting in operational buildings which had not been implemented by the due date.

Councillor Farthing asked if a new implementation date had been set for this recommendation and the Head of Assurance, Procurement and Projects said that the end of June had been suggested. Councillor Farthing stated that she felt that this was rather late and the matter was a health and safety risk. She suggested that a message needed to be sent that this was not acceptable and the Chair agreed that this should come from the Committee as a whole.

Mr Knowles asked about the timescales for the planned activity in the ICT column and also for the assessment of Information Governance. The Head of Assurance, Procurement and Projects advised that there would be a view on ICT for the next quarterly update on the Corporate Assurance Map. The Committee were informed that if an improvement was not seen in Information Governance by the deadline for the next meeting, then the Corporate Risk Area would change from amber to red and a senior officer would be asked to attend the Committee to answer questions from Members.

The Committee had received reports throughout the year in relation to Children's Safeguarding and Fiona Brown, Chief Operating Officer, People Services was in

attendance to provide an update on the improvement activity being carried out. Fiona circulated copies of the Executive Director's fortnightly email to staff and the team brief which enabled the Executive Director, Heads of Service and senior and operational managers to have a dialogue with staff on a range of activities. An engagement schedule was now in place until the end of the year, meetings were taking place between the Executive Director and the lead social worker and there were focus groups with staff. Visits were also taking place to each team and the Chief Executive, the Executive Director and the Leader of the Council had been involved in these.

A 'Back to Basics' programme for training and completion of case file audits had been implemented and there were a number of modules including updates on the national landscape for children's services, toolkits for the voice of the child, inductions refresher training and preparation for Ofsted.

Feedback from staff had been that the Improvement Plan was helpful and 92% said that practice would definitely improve. The training programme had initially been delivered in the Coalfields and North area of the city and would be rolled out to all teams. It was intended that this would become multi agency training in the future.

In terms of recruitment, by the end of February 2015, six additional FTE social workers were in post and officers were hopeful that the long term target of recruiting three social workers a month would be achieved. An additional ten social workers would come into the organisation through the Social Work Academy, which was to begin operating in April 2015.

Fiona advised that the scrutiny review was going well and that priorities for the next few months had been identified as recruitment, data quality and frontline practice. Activity continued in relation to preparation for Ofsted and to achieve a greater level of assurance.

The Chair asked about the satisfaction rating which staff had felt about the Improvement Plan, as Fiona had quoted 60%. This was clarified in that 60% had rated its usefulness as 4 out of 5 and 40% had given it 5 out of 5.

Councillor N Wright commented that she could understand staff were feeling somewhat overwhelmed by what was happening but these changes were needed. From her perspective as Chair of the Scrutiny Committee, Councillor N Wright stated that the Committee were pleased with what they were hearing. A number of questions had been received from other elected Members and the Executive Director of People Services had been asked to send a synopsis on developments in the service area to all councillors to ensure that they were fully informed about the scrutiny overview. Councillor N Wright also advised that she had met with the new Chair of the Sunderland Safeguarding Children Board and he was also reassured about the positive changes which had been made.

Councillor Farthing suggested that customers and those making referrals should be surveyed to see if the service was meeting expectations. She also proposed that the methods of referral be checked, emphasising that senior managers needed to be aware of how this was working and should try to test the service.

Fiona advised that the MASH had been reviewed and the access point made clear so that only safeguarding issues were referred there. A number of staff had been moved into the Customer Service Network so that there was a triage system in place to direct referrals and 'mystery shopping' had been carried out to test the contacts to teams. There had also been a discussion with partners on the thresholds for referrals and Councillor Farthing's suggestions would be taken on board. Councillor N Wright stated that the Scrutiny Committee would review and re-evaluate over the next year and would keep a watching brief on developments.

Upon consideration of the report, it was: -

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

Corporate Assurance Map 2015/2016

The Head of Assurance, Procurement and Projects submitted a report inviting the Committee to consider and comment on the proposed Corporate Assurance Map and the supporting plans for the Internal Audit and Risk and Assurance teams for 2015/2016.

It was considered that the Corporate Assurance Map in its current form was still fit for purpose and had remained the same as the 2014/2015 Map. The Council was changing in terms of owning companies and moving into joint venture arrangements and consideration needed to be given to how assurance may be sought from arm's length bodies and fed into the Council's overall map. This work had not been completed as yet but proposals would be brought forward on this issue.

Members were informed that the Strategic Risk Areas would be updated once the Council's Corporate Plan was reviewed. The Internal Audit Plan was attached as Appendix 1 to the report and it was highlighted that if the residual risk for any of the Corporate Risk Areas had increased, this was reflected within the plan. By way of an illustration, the residual risk for 'Legality' had increased from 25% to 31%, as changes in the Council meant that with less people to manage this, there would be an increased risk. The driver for the increase in risk was related to the pace of change taking place within the organisation and the risk associated with 'Payroll' was also judged to have increased from 23% to 40% as a result of the significant amount of changes likely to occur as a result of the Workforce Transformation Project.

The plan of activity for the Risk and Assurance team was detailed at Appendix 2 to the report and was deliberately high level as the team would work with managers to cover all large changes and risk areas and provide support and assurance in relation to key projects where there were major changes to services and alternative models of delivery were planned.

As part of the key areas of work for next year, officers were also looking at and planning for, future financial savings and would continue to track the progress of the actions included in the strategic risk profile. Internal Audit would also specifically

carry out work during the next quarter on the 'client' arrangements for the existing alternative service delivery models.

There would be a significant amount of change for the People Directorate in relation to the implementation of the Care Act and integration of services with the health sector through the Better Care Fund. This would be supported by the Risk and Assurance Team and dedicated resource would also be committed to ensure that the Council's ICT infrastructure was robust as well as supporting the review of how the service would be delivered to meet future demands.

The performance measures shown at Appendix 3 had remained the same as those for the 2014/2015 year and it was felt that these were still fit for purpose. The normal cycle of audits of key systems and counter fraud work would continue and the Committee would receive quarterly reports and an annual report at the end of the financial year.

The Chair commented that this was a large workload but it was good to note that the standard of the audit work was being maintained.

Councillor Farthing referred to the information about being 'ready for work' which the Committee had previously requested and noted that it did not include the number of people that had been sanctioned. The Chair agreed that this was an area that needed to be captured and the Head of Assurance, Procurement and Projects had been asked to follow this up. The Director of Finance highlighted that there would be local performance management of those statistics.

Councillor Forbes asked if the different companies were assisting or delaying what was required and whether there was any difficulty in assessing the impact of decisions being brought down to this level. The Head of Assurance, Procurement and Projects advised that this would be picked up by the Strategy, Policy and Performance team or the lead commissioner for the service. He added that he would expect this to be part of the Corporate Plan and that the scrutiny function would look at performance as part of its remit.

With regard to the planned activity for the Risk and Assurance team, Councillor N Wright queried the 30 days which had been estimated for the Workforce Transformation project. The Head of Assurance, Procurement and Projects acknowledged that this was a relatively small amount of time but was only to cover the remaining work to be undertaken after April 2015. Up until now, hundreds of days had been spent on this project, given its size and importance. 30 days had been estimated as it had been envisaged that the results of the trade union ballot on Workforce Transformation would have been known by this point and that there would not have been a great deal to do aside from checking payroll systems. If the ballot returned a 'no' vote then it would be necessary to flex this plan.

The Head of Assurance, Procurement and Projects assured Members that whatever resources and support were needed for this project would be made available, given its importance.

Having considered the proposed Corporate Assurance Map and plans of work for the Internal Audit and Risk and Assurance teams, it was: -

34. RESOLVED that the Corporate Assurance Map 2015/2016 and the supporting plans for the Internal Audit and Risk and Assurance teams for 2015/2016 be noted.

Proposed Forward Plan of Reports 2015/2016

The Director of Finance submitted a report presenting the proposed Forward Plan of reports for the Committee for 2015/2016.

There would be four quarterly meetings during the year at which the Committee would consider the Corporate Assurance Map alongside other reports and there would be an additional meeting scheduled for February in order to consider the Treasury Management Policy and Strategy for the following financial year.

Members considered the report and accordingly: -

35. RESOLVED that the proposed Forward Plan of reports for 2015/2016 be agreed.

Member Training and Development

The Director of Finance submitted a report which was intended to provide members of the Committee with an opportunity to identify areas in which they required any further training, refresher or awareness sessions to be arranged.

The Director of Finance suggested the agreed Forward Plan of reports may provide Members with a reference for any areas for which they would like to receive further training or awareness sessions. It was proposed that there be an update at the next Committee meeting on the changes taking place in the Council. The Chair supported this proposal.

36. RESOLVED that: -
- (i) an update on significant changes taking place in the Council or being proposed be agreed; and
 - (ii) Members consider any further areas for training sessions which may be required.

External Auditor – Audit Strategy Memorandum 2014/2015

The Director of Finance submitted a report which presented the external auditor's Audit Plan which notified the Council of the work which they were proposing to

undertake in respect of the audit of the financial statements and the value for money conclusion for the financial year 2014/2015.

Mark Kirkham, Engagement Lead from Mazars, was in attendance to outline the Audit Strategy Memorandum and to respond to Members' questions. Mark advised that the planning duties of the external auditors were unchanged from previous years and there was stability in these, even with the demise of the Audit Commission.

The Audit Strategy memorandum summarised the audit approach, highlighted significant risks and provided details of the audit team. Mark referred to the concept of materiality detailed in Appendix B which showed that the threshold for material errors in the Accounts (which would in effect qualify the Accounts) had been set, at the planning stage, as £7.57m and the triviality threshold being set at £227,000, beyond which identified errors would not usually be reported. The threshold for materiality would be revised as the audit progressed should further information be received.

Councillor Farthing asked, with regard to triviality, if it would be reported if a significant number of trivial items were identified. Mark stated that if the auditors had a sense that something was not right, then further work may be carried out and no course of action would be ruled out.

Turning to section 3 of the Memorandum, Gavin Barker drew Members' attention to the significant risks which had been identified for the audit. In accordance with the International Standards on Auditing, the external auditors were required to consider management override of controls and revenue recognition as significant risks.

Pension estimates was another identified risk due to the figures being subject to significant volatility and the very high figures involved. The Council's investment in Siglion LLP had also been identified as a risk as this was a new and unique arrangement and Mazars wanted to review the proposed accounting treatment and assess it against the requirements of the CIPFA Code of Accounting Practice and International Accounting Standards, as well as the Capital Financing Regulations.

Mazars were also required to reach a Value for Money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness. The significant risk which would be addressed through the work was related to the financial pressures being faced by the Authority and the public sector as a whole and the need for arrangements to be made to address these. They were aware that the Council had detailed plans in place and had already achieved significant savings to date.

The Committee were advised of the audit team from Mazars who would carry out the work and it was highlighted that the team would also include an independent partner to scrutinise what was being done. In relation to independence, it was noted that Mazars also acted as external auditors for Sunderland Care and Support Limited but this did not create any unacceptable threat to Mazars' independence. The proposed audit fee for the 2014/2015 financial statements was £191,332 in total which was a slight overall reduction from the equivalent 2013/2014 fee.

Councillor Farthing referred to the pension estimates risk and queried if the Actuary's view was checked independently, particularly as the Tyne and Wear Pension Scheme was a very large fund. The Director of Finance stated that an annual discussion took place on actuarial rates and how assessments were made and this was also picked up with other finance directors in the area. The actuary also had to publish annually (and these were also subject to external audit) on the basis of their estimates and assessments used in providing the Council with its Pension Fund disclosures.

Having thanked Mazars for the presentation of the Audit Strategy Memorandum, it was: -

37. 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 March 2015.

Gavin Barker reported that the majority of the work undertaken in recent weeks had been the completion of audit planning and the preparation of the Audit Strategy Memorandum. The detailed audit work was now underway.

The programme of workshops provided for finance staff in relation to accounting and audit issues had been extended this year to include matters such as infrastructure, group accounts and closing down the accounts at an earlier stage. The Council fully participated in these workshops.

Members were informed that the Audit Commission would formally close on 31 March 2015 and its functions would be transferred to a number of different bodies including the Local Government Association, the National Audit Office and the Cabinet Office. The full detail of how the current functions would be discharged from 1 April 2015 was included within the report.

Having considered the report, it was: -

38. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK
Chair

AUDIT AND GOVERNANCE COMMITTEE

26 June 2015

ANNUAL REPORT ON THE WORK OF THE COMMITTEE 2014/2015

Report of the Director of Finance

1. Purpose of Report

- 1.1 This report provides a summary of the work undertaken by the Audit and Governance Committee during 2014/15 and the outcome of this work. The purpose of this report is to demonstrate how the Committee has fulfilled its role and will be presented to Council once agreed by this committee.

2. Role of the Committee

- 2.1 The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its role is to:
- approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be);
 - consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
 - be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
 - receive, consider and monitor reports on treasury management policy, strategy and practices.

3. Matters Considered

- 3.1 The Committee has met five times during the course of the year to consider a range of issues. Appropriate officers of the Council have been in attendance at the meetings to present reports and provide additional information in order to clarify issues and respond to questions from members of the Committee. Regular attendees at the meetings were the Director of Finance, Head of Assurance,

Procurement and Projects, Assistant Head of Financial Resources, the Audit, Risk and Assurance Manager and the Council's External Auditors.

- 3.2 To enable the Committee to fulfil its role as set out in paragraph 2.1, a range of reports were considered, as follows:
- a) The Committee endorsed the Corporate Assurance Map for 2014/15 which set out the key risk areas for the Council, the assurance that will be gathered in relation to them and where the assurance will be sought from. The report included the plans of work for the year for the Internal Audit and Risk and Assurance teams, and the performance indicators for Internal Audit. The Committee was also given the opportunity to identify any areas of work to be considered for 2014/15.
 - b) Committee Members were provided with an update on current and future issues that would impact on the Council so that they could ensure that these issues were appropriately reflected in the work of the committee and the reports presented to them. Members also received a presentation regarding the law and regulations in relation to fraud and the Council's approach to fraud prevention which prompted a number of questions and discussions.
 - c) Progress reports in relation to the Corporate Assurance map were presented on a quarterly basis. These provided details of the level of assurance for the strategic and corporate risks areas from management, specialist assurance functions, Internal Audit, Risk and Assurance, the external auditor and other external agencies. The Committee received an update on improvements made to the Council's ICT service from the Assistant Chief Executive, which had been highlighted during the previous year.
 - d) Specific key issues were highlighted within the Corporate Assurance Map update reports for members to consider further, specifically in relation to the results of external reviews of the Council's Children's Safeguarding service. A number of areas for improvement were identified and the Chief Operating Officer for People Services attended the committee on three occasions to provide an update on progress.
 - e) The Corporate Assurance Map update report in March 2015 also identified that a significant risk recommendation regarding the arrangements for the testing of emergency lighting in Council premises had not been implemented. The Committee highlighted its concern over this resulting in the testing arrangements being put in place without delay.
 - f) The Committee raised questions about the activity being undertaken to address the risk in the Strategic Risk Profile regarding the development of skills for younger people and their access to education. A presentation was provided on the Changing Role of the Local Authority in Improving

Educational Outcomes by the Head of Educational Attainment & Lifelong Learning. Information regarding performance measures was also provided.

- g) The newly appointed Executive Director of Commercial Development attended the committee to explain her role within the Council and her background.
- h) External Auditors provided progress reports to each meeting, the Annual Audit Letter, Audit Completion report and the Annual Certification of Claims and Returns report. These reports provided a very positive opinion regarding the Council's performance, financial management and value for money arrangements. The External Auditor also presented their Audit Strategy Memorandum setting out their work for the coming year.
- i) The results of the Annual Governance Review for 2013/14 were presented, which summarises the overall governance arrangements in place within the Council, and makes recommendations for further improvement. The head of internal audit's opinion on the Council's internal control environment was positive. The resultant Annual Governance Statement highlighted the good corporate governance arrangements in place and was approved by the Committee and included within the Council's Statement of Accounts.
- j) The annual Statement of Accounts 2013/14 (subject to audit) was presented for members to challenge and approve before they were made available for public inspection and to the external auditors. Once the external auditor had completed the audit, any amendments were submitted back to the Committee for approval. The External Auditor commented positively on the arrangements the Council has in place with regard to the production of the Accounts.
- k) The annual statement of Accounts 2013/14 were also presented for the Tyne and Wear Development Joint Committee and Beamish Museum Joint committee as both of these committees no longer existed to consider the accounts.
- l) The Committee received reports in relation to the Council's Treasury Management arrangements to receive assurance that they are appropriate and approved the Treasury Management Policy and Strategy. The Committee noted the good performance in this area, and asked questions in relation to the Council's approach.
- m) Included within the Corporate Assurance Map update reports the Committee was provided with information regarding the areas of counter fraud work undertaken and the results of this work. No particular concerns were highlighted.

3.3 From the reports presented the Committee has been proactively monitoring activity in a number of important areas, as follows:

- *Corporate Assurance Map* – The Committee received quarterly update reports in relation to the assurance provided through the Corporate Assurance Map. This co-ordinates assurance from different sources to provide an overall view of the governance arrangements within the Council and its arrangements to manage risks. The implementation of improvements in the Children’s Safeguarding service was specifically considered.
- *Treasury Management* – The Committee have received regular updates regarding the Council’s performance in relation to Treasury Management and continue to assure themselves about the arrangements in light of current developments in this area.

3.4 It can be seen that the work of the committee is wide ranging with members monitoring performance more closely in those areas where it was deemed appropriate.

4. Recommendation

4.1 The Committee is asked to consider the report and provide any comments for inclusion prior to the report being presented to Council.

AUDIT AND GOVERNANCE COMMITTEE

26 June 2015

**ANNUAL GOVERNANCE REVIEW / ANNUAL GOVERNANCE STATEMENT
2014/2015**

Report of the Director of Finance

1. Purpose of Report

- 1.1 This report provides details of the 2014/15 Annual Governance Review, the Corporate Assurance Map at the end of the year and the Internal Audit opinion on the adequacy of the overall system of internal control. A Draft Annual Governance Statement and an improvement plan for the year ahead are included.

2. Description of Decision

- 2.1 The Audit and Governance Committee are asked to consider the report and agree the improvement plan and draft Annual Governance Statement.

3. Background

- 3.1 In March 2014 the Committee approved the proposed Corporate Assurance Map for 2014/15 and the plans of work for Internal Audit and the Risk & Assurance team.
- 3.2 A key feature of the integrated assurance framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources. The results of this assurance work are used to review the Council's corporate governance arrangements on an annual basis.
- 3.3 The Local Code of Corporate Governance is reviewed annually to ensure that it is up to date and effective. The Council is also required to publish an Annual Governance Statement (AGS), with its Statement of Accounts which must be supported by a comprehensive assurance gathering process.

4. Annual Governance Review 2014/15

- 4.1 The review was undertaken by gathering assurance throughout the year from a number of sources via the Integrated Assurance Framework, and was reviewed by the Corporate Assurance Group (CAG), which is made up of senior staff from across all directorates, as well as relevant specialists.
- 4.2 The review has considered assurance provided from:
- Heads of Service throughout the year

- Executive and Corporate Directors
- Specialist functions who have an oversight of the Council's governance arrangements
- Risk and Assurance Team
- Internal Audit
- External Auditor
- Other external agencies such as OFSTED

Corporate Assurance Map

- 4.3 The assurances gathered are shown in the Corporate Assurance Map which has been updated and reviewed on a quarterly basis and presented to the Audit and Governance Committee throughout the year. The Audit and Governance Committee have monitored the assurances provided, received progress regarding specific issues and considered the performance of the Internal Audit team.
- 4.4 The corporate governance improvement plan for 2014/15 included five actions. The CAG reviewed progress on these actions and found that all were either complete or were being progressed.
- 4.5 From the work undertaken, the Corporate Assurance Map as at 31st March 2015 is shown overleaf.

Corporate Assurance Map

Assurance Position (as at 31 st March 2015) (Cumulative)		2014/15									
		1 st Line	2 nd Line							3 rd Line	
		Management Assurance	Other Internal Assurance Activity							Internal Audit	External Assurance
		Legal Services	Financial Resources	Programmes and Projects	Strategy, Policy and Performance	ICT	HR & OD	Business Continuity	Risk and Assurance		
Strategic Risk Areas											
Current Risk	Residual Risk										
People									X		
Place									X		
Economy									X		
Organisational			X						X		X
Corporate Risk Areas											
Customer Focus / Service		X			X				X	X	
Legality			X						X		
Service / Business Planning		X			X				X	X	
Programme and Project Management		X		X					X	X	
Partnerships		X							X	X	
Business Continuity Planning		X						X	X	X	
Procurement		X							X	X	
Relationship and Contract Management		X							X	X	
Financial Management		X	X						X	X	X
Human Resource Management		X					X		X	X	
Information Governance		X	X						X	X	
Performance Management		X			X				X	X	
Asset Management		X							X		
ICT Strategy and Delivery						X			X	X	
Fraud and Corruption		X								X	
Risk Management (Service Delivery)		X							X	X	
Schools		X	X						X	X	

Key: X=activity planned, White=no coverage, **Green**=full / substantial assurance, **Amber**=moderate assurance, **Red**=limited / no assurance

Strategic Risk Areas

- 4.6 The top section of the Map relates to the strategic risks identified in the Corporate Risk Profile. Progress against each of the planned actions to mitigate the risks has been assessed with the lead officers and assurance levels determined for all areas.

Assurance from Internal Audit

- 4.7 The Map shows the opinion of Internal Audit from work undertaken within the last two years plus work completed in 2014/15.

Assurance from Risk and Assurance Team

- 4.8 Much of the work of the team is ongoing over a period of time due to the nature of their role, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work that will be on-going into 2015/16 includes:

- Support to the development of alternative service delivery projects such as the future of ICT delivery.
- Supporting the People Services directorate with the planned improvements to Children's safeguarding services, the implementation of the Care Act and Children & Families Act and safeguarding of adults.
- Development of assurance arrangements for the Better Care Fund and integration with Health.
- Risk management support to the City Deal projects.
- The development and deployment of the Intelligence Hub and its use in intelligence led commissioning.
- Assurance on the delivery of the Workforce Transformation project (pay and grading review).
- Assurance in relation to delivery of the Capital Programme, including major schemes such as the new Wear Crossing and SSTC phase 3.

- 4.9 As has been reported to the Committee previously, a significant amount of work has been undertaken in relation to Children's Safeguarding. The OFSTED visit is underway and the results will be available in due course. The Risk and Assurance team has continued to provide quality assurance support throughout the inspection.

- 4.10 The Risk and Assurance Team have also provided support to schools and Academies to help them manage their risks. This takes into account assessments undertaken by other departments in the Council including work done by Safeguarding, property services and Internal Audit.

Assurance from others within the Council

- 4.11 Assurance provided from others within the Council is shown in the Corporate Assurance Map. Assurance from the ICT service will be provided during 2015/16.

Assurance from Management

- 4.12 Arrangements have been developed to obtain assurance from service Management in a number of areas. Members will note that the majority of risk areas are shown as having substantial assurance.

Assurance from External Sources

- 4.13 The Map includes feedback received following Peer Reviews, a number of OFSTED inspections, Council commissioned independent reviews and the external auditor. The limited opinions are as a result of reviews of the Council's Children's Safeguarding Services, as has been previously reported.

Overall

- 4.14 The overall level of assurance for all risk areas has not changed from the update report presented in March 2015.

Internal Audit Performance

- 4.15 All of the targets set for Internal Audit were achieved apart from:
- the implementation of medium risk recommendations which stands at 82% against a target of 90%.
 - audits completed by the target date which stands at 79% against a target of 80%
- 4.16 From the original 71 audits included within the Council's audit plan for the year it was considered not appropriate to carry out four of them. They are:
- Sunderland Partnership – a review is being carried out of the operation this partnership from within the service.
 - Multi Agency Safeguarding Hub (MASH) – work is on-going between the People's Directorate, Health and the Police with a view to evaluating and redesigning how the MASH works. The audit will therefore be deferred into 2015/16.
 - Community Family and Wellbeing – The Chief Operating Officer is having monthly meetings with the Head of Service, ICT, Corporate Affairs, and Strategy, Policy and Performance to monitor improvements being made and a new ICT solution is being put in place. It was

appropriate to defer this audit into 2015/16 to allow these to be finalised.

- Corporate Service Planning arrangements – The development of the new Corporate Plan is underway and this will be developed in line with future plans for the Council over the next 5 years. Audit work will therefore be undertaken in the next financial year in relation to future planning arrangements.

4.17 From the remaining audits, three were on-going at the end of March giving an achievement of 95% of the audit plan. An additional three unplanned audits were also completed during the year. Therefore, sufficient audit work has been undertaken to provide an internal audit opinion on the Council's overall system of control.

Counter Fraud / Error Work

4.18 Counter fraud / error work was undertaken in the following areas during the year:

- Procurement
- Financial transactions in schools
- Purchase of materials for highways works

4.19 No fraud was identified although the work identified a number of opportunities for improvements to the control environment.

Corporate Governance Improvement Plan

4.20 A number of improvements were identified to strengthen the arrangements and these are detailed at Appendix 1.

4.21 The Improvement Plan also includes a small number of areas that the Council is already addressing but inclusion in the plan will facilitate monitoring to ensure that the planned actions are delivered within a reasonable timeframe bearing in mind the importance / nature of the actions.

Compliance with the Public Sector Internal Audit Standards

4.22 Internal Audit continues to comply with the Public Sector Internal Audit Standards through the standards being built into audit working practices.

Local Code of Corporate Governance

4.23 The local code of corporate governance was reviewed and is considered to be still relevant, therefore no changes are proposed.

5. Draft Annual Governance Statement

- 5.1 The Annual Governance Statement has been drafted taking into account the findings of the annual governance review and is attached at Appendix 2.

6. Conclusions

- 6.1 This report sets out the assurance provided in the Corporate Assurance Map, work undertaken by the Internal Audit team and performance for Internal Audit for 2014/15.
- 6.2 Results of the work undertaken have not highlighted any issues which affect the opinion that overall throughout the Council there continues to be an adequate system of internal control.
- 6.3 The Council continues to have robust and effective corporate governance arrangements in place. The views elicited during the review from senior managers across the Council, and all Chief Officers, demonstrate that the principles of good governance continue to be embedded Council-wide.

7. Recommendations

- 7.1 The Audit and Governance Committee are asked to:
- note the report and updated Corporate Assurance Map
 - consider and agree the Improvement Plan included at Appendix 1, and
 - consider and agree the draft Annual Governance Statement at Appendix 2.

Annual Review of Corporate Governance Arrangements - Improvement Plan for 2015/16

Ref	Action	EMT Lead
1.	As part of establishing alternative service delivery models ensure that appropriate arrangements are developed to manage the Council's relationship with the new organisation and ensure service delivery outcomes are measured and monitored.	Andrea Winders
2.	Review the arrangements for recording, monitoring and managing requests and declarations made under the Employee Code of Conduct.	Sue Stanhope
3.	Monitor the implementation of the new information governance infrastructure recently approved by EMT to ensure that the arrangements become embedded and the relevant policies and procedures are updated as planned and implemented.	Sarah Reed
4.	Continue to implement the Children's Safeguarding Improvement Plan.	Neil Revely
5.	Determine what skills the Council will require to deliver its role in the future and ensure that these are deployed effectively across the Council.	Alison Fellows
6.	Ensure that the opportunities / benefits of the new Intelligence Hub are maximised within the Council's commissioning arrangements.	Sarah Reed
7.	Contract / supplier relationship management arrangements should be reviewed and updated to ensure that commissioning intentions are delivered and contract requirements are fulfilled.	Sonia Tognarelli
8.	Develop a plan to deliver the Council's strategic outcomes and the financial savings that will be required in the short to medium term.	Sarah Reed Sonia Tognarelli
9.	The Constitution, particularly the Delegation Scheme, needs to be updated to reflect recent changes.	Alison Fellows

2014/15 Draft Annual Governance Statement

1. SCOPE OF RESPONSIBILITY

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. We also have a duty to continually review and improve the way in which functions are exercised.

We have put in place a local Code of Corporate Governance and a framework intended to make sure we do the right things, in the right way, for the right people. The Code is on the Council's website [\[here\]](#) or can be obtained from the Director of Finance. This Statement explains how the Council has complied with its Code in 2014/15.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values that direct and control our activities and through which we account to, engage with, and lead the community. The framework enables us to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The governance framework has been in place at the Council for the year ended 31st March 2015 and up to the date of approval of the Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

- 3.1 There is a clear vision of our purpose and intended outcomes for citizens and service users that is clearly communicated, both within and outside the organisation. The [Sunderland Strategy 2008-2025](#) provides the framework for members of the [Sunderland Partnership](#), organisations, groups of people and individuals, to work together to improve the quality of life in Sunderland by 2025. It sets out a Vision for the city and its people and how everyone will work together to achieve that Vision:

“Creating a better future for everyone in Sunderland - Sunderland will be a welcoming, internationally recognised city where people have the opportunity to fulfil their aspirations for a healthy, safe and prosperous future.”

3.2 The Council has developed a set of guiding principles to help decision making and agree priorities. These are:

- Elected members are community leaders at the core of decision making
- Our communities, residents and businesses are at the centre of everything we do
- We encourage, respect and value innovation and enterprise
- We demand high performance, personal responsibility and personal accountability
- We value people's individual contributions to our collective goals
- We are ambitious for the city and for ourselves; we view all change as an opportunity; we celebrate and build on our past without being confined by it.

3.3 To translate these principles into action, the Council has set out its priorities under the following clear outcomes that are derived from its vision

People – raising aspirations, creating confidence and promoting opportunity

Place – leading the investment in an attractive and inclusive city and its communities

Economy – creating the conditions in which businesses can establish and thrive.

3.4 The Corporate Plan sets out our priorities and the significant actions we will take. These, in turn, shape the activity of our various services and how we will focus our resources. We are clear where we need to get to and what we need to do to get there.

3.5 Arrangements are in place to review our vision and its implications for the authority's governance arrangements. The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the authority's vision remains relevant and meets the needs of local communities. There are annual reviews of the local Code of Corporate Governance to ensure that it is up to date and effective. The reviews are overseen by the Council's Corporate Assurance Group using assurances and information gathered through the Integrated Assurance Framework (IAF) which was put in place in 2012/13. The IAF brings together assurances from all available internal and external sources.

3.3 Arrangements are in place to measure the quality of our services, to ensure they are delivered in line with our objectives and for ensuring that they provide value for money. There are performance management arrangements in place including a corporate performance review scheme for staff. Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions and person specifications.

- 3.4 The roles and responsibilities of Council members and employees are clearly documented, although the delegation arrangements need to be updated following recent senior management changes. The Council's [Constitution](#) sets out how the Council operates. It incorporates a delegation scheme, indicates responsibilities for functions and sets out how decisions are made.
- 3.5 The Constitution includes Rules of Procedure and a scheme of delegation which clearly define how decisions are taken and we have various Codes and Protocols that set out standards of behaviour for members and staff. Directorates have established delegation schemes, although these require regular updating to reflect ongoing organisational changes.
- 3.6 During the year a system of scrutiny was in place allowing the scrutiny function to:
- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
 - make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
 - consider any matter affecting the area or its inhabitants;
 - exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees; and
 - consider Local Petitions and Councillor Calls for Action for matters within their terms of reference.
- 3.7 A range of financial and HR policies and procedures are in place, as well as robust and well embedded risk management processes. Appropriate project management standards and Business Continuity Plans are in place, which are subject to ongoing review. There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts. There are clearly defined capital expenditure guidelines in place and procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.
- 3.8 The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Director of Finance is the designated Chief Finance Officer and fulfils this role through the following:
- Attendance at meetings of the Executive Management Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
 - Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
 - Alignment of medium term business and financial planning processes;

- Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively;
- Ensuring that the finance function is resourced to be fit for purpose.

3.9 The Council has an Audit and Governance Committee which, as well as approving the Authority's Statement of Accounts, undertakes an assurance and advisory role to:

- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- receive and consider (but not direct) internal audit's strategy, plan and monitor performance;
- receive and consider the external audit plan;
- review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
- receive and consider the annual report of internal audit;
- consider the reports of external audit and inspection agencies, including the Annual Audit Letter;
- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
- review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit;
- review the adequacy of and compliance with, the Council's Treasury Management Policy; and
- make recommendations to Cabinet or Council as appropriate.

3.10 We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Head of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities. All Cabinet Reports are considered for legal issues before submission to members.

3.11 The Council's internal audit service has been subject to an independent review of its effectiveness which concluded that the service operates in accordance with professional standards.

3.12 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they

can easily report their concerns. Monitoring records held by the Head of Law and Governance reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

- 3.13 We have arrangements to identify the development needs of members and senior officers in relation to their strategic roles. The Community Leadership Programme has continued to support elected Members to fulfil their community leadership role. The Council's HR strategy identifies managing the performance of all of employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation of the extent to which employees understand and support the values of the Council.
- 3.14 Clear channels of communication have been established with all sections of the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that services meet the needs of local people. Community Spirit is Sunderland's residents' panel, currently made up of over 1,000 residents from all parts of the city.
- 3.15 The Council has a Code of Practice for Partnerships which includes a template for Partnership Agreements and a range of checklists to ensure key risk areas are considered and addressed. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and employees to review existing arrangements.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is carried out over the course of the year through the Integrated Assurance Framework. The review is informed by the Corporate Assurance Map which summarises assurances gathered from all available sources and in particular:

- Assurances from Heads of Service who have carried out self-assessments relating to their areas of responsibility.
- Assurances from senior officers responsible for relevant specialist areas.
- Internal audit planning processes which include consultation with all Chief Officers, and audit activity as detailed in the Internal Audit Annual Report.
- The external auditors (Mazars) Annual Audit Letter for 2013/14 provides an unqualified opinion on the financial statements. The report confirms that the Council has proper arrangements in place to secure financial resilience, and for challenging how it secures economy, efficiency and effectiveness.

The Head of Assurance, Procurement and Projects has directed, co-ordinated and overseen the review and its findings have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.

The outcome of the review of effectiveness provided the necessary assurance and that no significant issues were identified. The findings of the review have been reported to the Audit and Governance Committee and under their Terms of Reference the Committee have satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it.

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an improvement plan has been agreed.

We propose over the coming year to take steps to implement the improvement plan to further enhance the Council's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review and we will monitor their implementation and operation as part of the next annual review.

Paul Watson
Leader of the Council

Dave Smith
Chief Executive

Sonia Tognarelli
Director of Finance

Dated

AUDIT AND GOVERNANCE COMMITTEE

26 June 2015

CORPORATE ASSURANCE MAP – UPDATE

Report of the Head of Assurance, Procurement and Projects

1. Purpose of Report

- 1.1 To enable the Audit and Governance Committee to consider the updated Corporate Assurance Map based on 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.
- 1.2 For completeness, the report covers Internal Audit's key performance measures. The report covers work undertaken for the Council and Council owned companies.

2. Description of Decision

- 2.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map (the Map).

3. Background

- 3.1 In March 2015 the Committee approved the proposed Corporate Assurance Map for 2015/16 and the plans of work for Internal Audit and Risk & Assurance.
- 3.2 A key feature of the integrated assurance framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources and consider if there are any gaps or duplication in the assurance provided.

4. Updated Corporate Assurance Map

- 4.1 The updated Corporate Assurance Map, as at 26th May 2015, is shown overleaf. It has been updated based on the work to date of the Internal Audit, and Risk and Assurance Teams and assurance from other sources within the Council and external sources.
- 4.2 The Map has been updated to show assurance received in relation to the Council's wholly owned companies, Sunderland Care and Support Ltd and Sunderland Live Ltd.

Corporate Assurance Map

Assurance Position (as at 26 th May 2015) (Cumulative)		2015/16									
		1st Line	2 nd Line							3 rd Line	
		Management Assurance	Other Internal Assurance Activity							Internal Audit	External Assurance
	Legal Services	Financial Resources	Programmes and Projects	Performance	ICT	HR & OD	Business Continuity	Risk and Assurance			
Strategic Risk Areas											
Current Risk	Residual Risk										
People								X			
Place								X			
Economy								X			
Organisational			X					X		X	
Corporate Risk Areas											
Customer Focus / Service		X			X			X	X		
Legality			X					X			
Service / Business Planning		X			X			X	X		
Programme and Project Management		X		X				X	X		
Partnerships		X						X	X		
Business Continuity Planning		X					X	X	X		
Procurement		X						X	X		
Relationship and Contract Management		X						X	X		
Financial Management		X	X					X	X	X	
Human Resource Management		X				X		X	X		
Information Governance		X	X					X	X		
Performance Management		X			X			X	X		
Asset Management		X						X			
ICT Strategy and Delivery						X		X	X		
Fraud and Corruption		X							X		
Risk Management (Service Delivery)		X						X	X		
Schools		X	X					X	X		
Wholly Owned Companies											
Sunderland Care and Support Ltd		X	X		X				X	X	
Sunderland Live Ltd		X	X		X				X		

Key: X=activity planned, White=no coverage, Green=full / substantial assurance, Amber=moderate assurance, Red=limited / no assurance

Strategic Risk Areas

- 4.3 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile. The Profile is attached at Appendix 1. Given the longer term nature of these risks the current risk rating is shown (i.e. what would be the level of risk if no actions were taken to manage the risks), and the residual risk level (i.e. the level of risk taking into account ongoing actions and planned actions). Progress against each of the mitigating actions is assessed with the lead officers and assurance levels determined.

Assurance from Internal Audit

- 4.4 The detailed results of Internal Audit work are shown at Appendix 2, with the summary outcomes shown on the Map. Appendix 2 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level.

Assurance from Risk and Assurance Team

- 4.5 Areas that the Risk and Assurance Team are currently involved in are shown at Appendix 3. Much of their work is ongoing over a period of time, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work within the last quarter has included:
- Support to the development of alternative service delivery vehicles such as Leisure Services joint venture, Sunderland Care and Support Ltd and place based services.
 - Providing assurance on the delivery of the Transformation Programme and Key Projects.
 - Children's Safeguarding.
 - Major capital schemes such as the New Wear Crossing and the development stage of the SSTC Phase 3.
 - Planning for the implementation of the City Deal.
 - Providing assurance on the delivery of the Workforce Transformation project (pay and grading review).
 - Risks in relation to the delivery of ICT business objectives.
 - Implementation of the Intelligence Hub through the rapid adopters.
 - Implementation of the Care Act and Children and Families Act.
 - Arrangements regarding the Better Care Fund.

- 4.6 As has been reported to the Committee previously, a significant amount of work has been undertaken in relation to Children's Safeguarding. The OFSTED visit is underway and the results will be available in due course. The Risk and Assurance team has continued to provide quality assurance support throughout the inspection.

Assurance from others within the Council

- 4.7 Assurance provided from others within the Council is shown in the Corporate Assurance Map.
- 4.8 An assurance framework has been developed to provide a view on the ICT arrangements across the Council. The results of this are shown within the Map.

Assurance from Management

- 4.9 Arrangements are in place to obtain assurance from service management in a number of areas. Members will note that the majority of risk areas are shown as having substantial assurance.

Assurance from External Sources

- 4.10 The Map has been updated with the results of external audit work in relation to Sunderland Care and Support Ltd which provided positive assurance.

Overall

- 4.11 All assurance levels remain the same.

5. Internal Audit Performance

- 5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 4. Members may recall that at the last meeting it was reported that the implementation of significant recommendations was behind target due to planned testing of emergency lighting not being undertaken. Following members highlighting their concern regarding this issue immediate action was undertaken to address the issue and all significant risk recommendations have now been implemented.
- 5.2 Performance is on target for all KPI's apart from:
- Percentage of audits completed by the due date – target not met for the one audit completed to date.
 - The percentage of medium risk recommendations implemented (excluding schools) which now stands at 82%, a decrease from 83% reported at the last meeting.

A summary of the performance is shown below:

Area	Implementation Rate
Council services	82%
Schools	85%

6. Conclusions

- 6.1 This report provides an update on the assurance provided in the Corporate Assurance Map, work ongoing in relation to the Internal Audit and Risk & Assurance Teams and performance targets for Internal Audit.
- 6.2 Results of the work undertaken so far during the year have not highlighted any issues which affect the overall opinion that the Council continues to have in place an adequate system of internal control.

7. Recommendations

- 7.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map.

Strategic Risk Profile

People

Desired Outcomes

A city where everyone is as healthy as they can be and enjoys a good standard of wellbeing

A city with high levels of skills, educational attainment and participation

A city which is, and feels, even safer and more secure

A city that ensures people are able to look after themselves wherever possible

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<p>PE 1 Failure to ensure appropriate health and wellbeing services to children and adults, in response to financial pressures</p>	Neil Revely, ED of People Services	2x4 = 8	2x4 = 8	<ul style="list-style-type: none"> • Implement the Health and Wellbeing Strategy to: <ul style="list-style-type: none"> ○ Target prevention and early intervention ○ Build capacity and reduce dependency to help individuals to be more independent and self-sustaining • Manage demand by empowering customers to take up viable alternatives to council services • Coordinate and implement public health campaigns and promotional activities working with relevant external public health related organisations <p>Progress</p> <ul style="list-style-type: none"> • Health and Wellbeing Board has responsibility for delivering the Health and Wellbeing Strategy • Delivery plan for the Health and Wellbeing Strategy • Continuing to integrate approach. Consideration being given to an integrated commissioning approach with Health • Joint Strategic Needs Assessment completed and signed off by the Health and Well Being Board • People Services plan on a page in place • Better Care Fund agreement in place 	2x4 = 8

Risk Description	Risk Owner	Score Dec 2014 LxI	Current Score Mar 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
PE 2 We fail to encourage more people to help themselves and communities to come up with local solutions	Sarah Reed, Assistant Chief Executive	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> As a Community Leadership Council we will strengthen self-help capacity in our communities Deliver the Voluntary Community Sector Relationship Transition project Implement the Community Resilience Plan, Health and Wellbeing Strategy and Strengthening Families Strategy to develop asset based approaches to increase independence and self-reliance Through the “PEOPLE” strand of communications deliver an integrated campaign, which encourages people to help themselves <p>Progress</p> <ul style="list-style-type: none"> Continuing to develop the approach to being a Community Leadership Council Voluntary Community Sector project complete, it developed an approach that aligns engagement with the VCS and day to day service delivery Community Resilience Plan being implemented in parts across all partners. Arrangements for monitoring of progress and effectiveness need to be developed. 	1x3 = 3
PE 3 Despite improvement, a range of health indicators across the city continue to be below national averages including levels of child and adult obesity, rates of breastfeeding and levels of teenage pregnancy	Neil Revely, ED of People Services	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> Deliver the Public Health improvement responsibilities Progress the delivery plan and performance management to address improvement in health indicators <p>Progress</p> <ul style="list-style-type: none"> Plan on a page in place Progress on overarching indicators to be reported to Health & Wellbeing Board Board to challenge other under performing indicators University to review methods of measuring progress as to how things are being done differently People Services plan on a page includes Activity Policy Education and Skills Strategy includes what ‘great schools’ look like, including healthy eating and activity 	2x3 =6

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				<ul style="list-style-type: none"> Joint Venture agreement for Leisure includes targets for increasing activity levels 	
<p>PE 4 Economic conditions will mean that our interventions to help people, particularly young people, to gain employment will not be as effective as intended</p>	<p>Neil Revely, ED of People Services</p>	<p>3x3 = 9</p>	<p>3x3 = 9</p>	<ul style="list-style-type: none"> Extend employment opportunities for people out of work and to ensure job progression and mobility for those people in work through the implementation of the Sunderland Employment Strategy Continue to deliver (and develop) early intervention and prevention practices to support young people who are a risk of becoming NEET Maximise learning opportunities afforded by the Youth Contract and by 3rd sector providers to young people requiring most support, to move them towards employment opportunities. The Education Leadership Board to continue to improve the links between schools and employers Extend the environmental apprenticeship scheme across other Streetscene services <p>Progress</p> <ul style="list-style-type: none"> NEET interventions continue via work of Locality/Connexions team members. This is being supplemented through People Board initiatives North East Leadership Board (Combined Authority) has been set up to deliver the shared ambitions of the seven councils to accelerate economic growth; focusing on skills, transport and inward investment, giving the area a stronger voice nationally and internationally “Work Discovery” which is now in its third year, was established through business leaders working directly with schools, supported by the Council, providing students with greater knowledge of job opportunities Education and Skills Strategy prepares young people for employment and successful careers 	<p>2x3 = 6</p>

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<p>PE 5 The current skill levels of young people and adults are not sufficient to meet the current and future needs of the economy</p>	<p>Neil Revely, ED of People Services</p>	<p>3x3 = 9</p>	<p>3x3 = 9</p>	<ul style="list-style-type: none"> • Implement the Sunderland Skills Strategy to consider employer demand and the skills needed to fill any expected shortages or gaps within the growth sectors • Implement the Family, Adult and Community Learning Strategy which outlines the priorities and principles necessary to meet the learning needs of adults and families • The Education Leadership Board to continue to Improve links between schools and employers • Set up the Combined Authority whose remit will include regional skills issues <p>Progress</p> <ul style="list-style-type: none"> • ELB is fully in place with key stakeholder involvement, i.e. employers, training providers, college/university, schools and nurseries, Council officer. • Combined Authority in place from April 2014 • FACL continues to have increased participation and improved level of accredited course participation. • North East Leadership Board (Combined Authority) to deliver the shared ambitions of the seven councils to accelerate economic growth; focusing on skills, transport and inward investment, giving the area a stronger voice nationally and internationally • The Economic Leadership Board has established 3 Result Groups including Sector Growth and Skills, providing a greater focus on skills on a city wide basis • The North East Local Enterprise Partnership (NELEP) has been chosen by government as one of only three LEPs across the country to pilot innovative new approaches to skills development funding to help boost local jobs and business growth. NELEP will work jointly with the Skills Funding Agency to develop the skills model • Judgment of 'Good' received from the recent FACL OFSTED inspection 	<p>2x3 = 6</p>

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<p>PE 6 Increasing poverty levels and community cohesion issues arising out of welfare reforms and economic conditions</p>	<p>Sarah Reed, Assistant Chief Executive</p>	<p>3x3 = 9</p>	<p>3x3 = 9</p>	<ul style="list-style-type: none"> • Continue to deliver the Welfare Reform “Social Fund” • Prepare for the introduction of “Universal Credit” • Implement the Community Resilience Delivery Plan • Continue to implement the Child and Family Poverty Strategy • Deliver the Strengthening Families project • Develop and implement a delivery plan for the Access to Housing Strategy <p>Progress</p> <ul style="list-style-type: none"> • Uncertainty remains over the introduction of “Universal Credit” • Strengthening Families approach being used to address poverty and cohesion issues 	<p>2x3 = 6</p>
<p>PE 7 Implementation of the Health & Wellbeing Strategy may not effectively target the most vulnerable groups resulting in widening inequalities</p>	<p>Neil Revely, ED of People Services</p>	<p>2x3 = 6</p>	<p>1x3 = 3</p>	<ul style="list-style-type: none"> • Implement the Health and Wellbeing Strategy, delivery plan and performance management arrangements • Continue to liaise with the Clinical Commissioning Group and GPs to gain a better understanding of vulnerable groups • Develop an asset based approach to delivery, making better use of assets that already exist in families and communities <p>Progress</p> <ul style="list-style-type: none"> • Health and Wellbeing Board monitor the actions to reduce inequalities. The Design Principles that underpin the approach to health and wellbeing includes Equity – providing access to excellent services dependent on need and preferences that are also based on evaluated models. • People Services plan on a page in place • Benefits co-ordination with Gentoo regarding people with complex needs • 2 GP federations established to co-ordinate communications with GPs in the City 	<p>1x3 = 3</p>

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<p>PE 8 Failure to align partner services to ensure we have a city that is safe and secure</p>	<p>Sarah Reed, Assistant Chief Executive</p>	<p>2x2 = 4</p>	<p>2x2 = 4</p>	<ul style="list-style-type: none"> • Continue to deliver the Safer Sunderland Partnership's delivery plan: tackling alcohol, drugs, domestic violence, violent crime, anti-social behaviour, safety and feelings of safety and re-offending • Apply the Strengthening Families approach to support people out of offending <p>Progress</p> <ul style="list-style-type: none"> • The multi agency Strengthening Families Programme is starting to record success in reducing offending • Multi Agency Safeguarding Hub in place • Integrated locality based teams being established 	<p>1x2 = 2</p>

PLACE

Desired Outcomes

An attractive, modern city where people choose to invest, live, work and spend their leisure time.
 A responsible, well looked-after city that is adaptable to change.
 A well connected city.
 A city where cultural identity and vibrancy act as a significant attraction

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
PL 1 The Local Development Framework is not adopted thereby restricting development opportunities for the City	Alison Follows, ED of Commercial Development	2x4 = 8	2x4 = 8	<ul style="list-style-type: none"> Develop the LDF (Local Plan) to ensure it meets the required Government criteria <p>Progress</p> <ul style="list-style-type: none"> Local Plan is being developed in line with government criteria. However adoption of Local Plan is expected to be late 2015/16. Development will not stop however until the Local Plan is adopted Area Action Plan to be developed in respect of the IAMP site 	1x4 = 4
PL 2 Failure to deliver our place-shaping activities in a coordinated manner (including economic housing and transport investments)	Alison Follows, ED of Commercial Development	2x3 = 6	2x3 = 6	<ul style="list-style-type: none"> Adopt an ambitious, developer/investor friendly Core Strategy (Land Use Plan) that will guide high quality future physical development that is synonymous with a modern, vibrant, aspirational city Develop and implement the Sunderland Housing Strategy Set up the Combined Authority that will have responsibility for the creation of an area wide integrated transport authority and preparation of a local transport plan Utilise all available funding opportunities to improve infrastructure e.g. Regional Growth Fund <p>Progress</p> <ul style="list-style-type: none"> Combined Authority set up to <ul style="list-style-type: none"> Provide leadership and a united voice on key strategic transport issues. 	1x3 = 3

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				<ul style="list-style-type: none"> ○ Link strategic transport planning with economic priorities. ○ Provide strong representation on transport issues of national significance including rail, strategic road network and our ports. ○ Provide more effective co-ordination enable improvement to the area's public transport network. ○ Offer the best framework to maximise and manage devolution of transport funding ● Funding secured for new wear crossing and scoping of the IAMP development 	
<p>PL 3 Delivery of capital investment priorities is too slow to realise opportunities available</p>	<p>Alison Follows, ED of Commercial Development</p>	<p>Score 2x3 = 6</p>	<p>Score 2x3 = 6</p>	<ul style="list-style-type: none"> ● Development of a Local Asset Backed Vehicle (LABV) to deliver accelerated regeneration and economic development activity ● Continue to support the development of priority areas including <ul style="list-style-type: none"> ○ Vaux site ○ Sunnyside ○ Seaburn <p>Progress</p> <ul style="list-style-type: none"> ● Strategic Partner procured for the LABV and the new company has been established ● Realignment of St Mary's Way and development of city centre square progressing which will support development of the Vaux Site and City Centre. ● Washington Leisure Centre due to open in Spring 2015. ● Creation of the LABV should expedite the delivery of investment priorities, including the Vaux site. ● CEO appointed to the LABV 	<p>1x3 = 3</p>

Risk Description	Risk Owner	Score Dec 2014 LxI	Current Score Mar 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
<p>PL 4 Inability to stimulate sufficient inward investment for development projects, particularly in relation to the City Centre</p>	<p>Andrea Winders, ED of Enterprise Development</p>	<p>2x3 = 6</p>	<p>2x3 = 6</p>	<ul style="list-style-type: none"> • Promote the City nationally and internationally as a place to invest, through the Make it Sunderland campaign • Private sector partners to develop a Business Improvement District proposal providing resources that will contribute to physical improvement in the city centre <p>Progress</p> <ul style="list-style-type: none"> • Sunderland BID Limited has been established in the form of an independent, not-for-profit company controlled by the private sector. The Board membership currently stands at 17 who are elected from businesses and city stakeholders. The Board is responsible for ensuring projects are delivered on time and within budget. A small operational team is now in place to support Ken Dunbar, the first Chief Executive of the new BID Company. The company has have developed a business plan to invest at least £3.4 m in the city centre over the next 5 years • Make it Sunderland campaign continues to promote investment in the City • Inward investment secured in respect of The Bridges, Sunniside Leisure and a new hotel complex. 	<p>1x3 = 3</p>
<p>PL 5 The City's infrastructure does not provide appropriate access and movement for all, including those with restricted mobility</p>	<p>Neil Revely, ED of People Services</p>	<p>2x2 = 4</p>	<p>2x2 = 4</p>	<ul style="list-style-type: none"> • Continue to engage with Nexus to develop Community Transport, taking into consideration the market and the commercial viability of transport routes • Engage with the Voluntary and Community sector to provide access for people with restricted mobility (e.g. volunteer drivers) <p>Progress</p> <ul style="list-style-type: none"> • On going engagement with NEXUS in relation to community transport. Government funding in respect of community transport may be reduced 	<p>2x2 = 4</p>

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				<ul style="list-style-type: none"> • Active Travel Plan • Refreshing All Age Friendly City Policy 	
<p>PL 6 Fail to agree and implement a Cultural Strategy and associated action plan</p>	<p>Neil Revely, ED of People Services</p>	<p>2x2 = 4</p>	<p>2x2 = 4</p>	<ul style="list-style-type: none"> • Develop Cultural Strategy and implementation plan <p>Progress</p> <ul style="list-style-type: none"> • Cultural Partnership formed to bring a wider base to the development of the strategy • Cultural Strategy being launched • Heritage lottery schemes being progressed • Fulwell Mill – the Activity Centre has been transferred to Sunderland North Community Business Centre (SNCBC) under a 3 year lease and they will develop a Business Plan for the Centre, which will also include future funding options for the Mill. • Monkwearmouth Station – discussions with Sunderland AFC are on-going as to the potential for them taking on the building. An options paper has been produced on which comments are awaited from SAFC • Museum and Heritage Service Vision – a vision document has been produced for submission to Arts Council England to enable accreditation to be secured for the Museum and Winter Gardens and options for the future delivery of the Museum are being considered 	<p>1x2 = 2</p>

ECONOMY

Desired Outcomes

A national hub of the low carbon economy

A prosperous and well connected waterfront city centre

An inclusive city economy for all ages

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<p>EC 1 The increased costs of university fees and restricted access to appropriate learning opportunities will dissuade some young people from attending HE and skills levels will not increase as quickly as anticipated</p>	Alison Follows, ED of Commercial Development	2x3 = 6	2x3 = 6	<ul style="list-style-type: none"> Education Leadership Board to promote the benefits of higher education North East Local Enterprise Partnership (NELEP) to support the promotion of higher education <p>Progress</p> <ul style="list-style-type: none"> NELEP and the Education Leadership Board continue to promote the benefits of higher education Council, schools, colleges and the NE Chamber of Commerce are engaged to strengthen ties between education and business in the city 	2x3 = 6
<p>EC 2 The City doesn't attract inward investors because of a lack of sites / finance</p>	Alison Follows, ED of Commercial Development	2x3 = 6	2x3 = 6	<ul style="list-style-type: none"> Development of a Local Asset Backed Vehicle (LABV) to leverage private sector funding and investment in the City Allocation of appropriate employment sites through the LDF process <p>Progress</p> <ul style="list-style-type: none"> Funds secured in respect of the Enterprise Zone City Deal has been signed, providing funding to begin development of the 100-hectare International Advanced Manufacturing Park (IAMP) Local Growth Fund and ERDF funding secured in respect of transport infrastructure and the Low Carbon Zone transport scheme LABV expected to deliver investment for priority areas 	2x3 = 6

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
EC 3 The more highly qualified/skilled people in the City will leave to find suitable work outside of the region, reducing the proportion of highly qualified/skilled people living in the City	Alison Follows, ED of Commercial Development	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> Continue to deliver the Make It Sunderland campaign that sets the direction for our efforts to attract employment opportunities to the city, across a wide range of sectors Implement a Housing Investment Plan that ensures we have the right range and types of housing, in the right locations, to retain existing residents and attract new people into the City <p>Progress</p> <ul style="list-style-type: none"> Housing Investment Plan to be updated and included in the Housing Strategy Make it Sunderland campaign continuing to attract jobs and investment into the City 	2x3 = 6
EC 4 Inability to deliver on the New Wear Crossing in line with the planned timescales	Alison Follows, ED of Commercial Development	2x3 = 6	2x3 = 6	<ul style="list-style-type: none"> Complete the procurement phase and deliver the construction phase of the New Wear Crossing <p>Progress</p> <ul style="list-style-type: none"> Contract awarded for the construction of the new bridge, work is to start imminently Contract management strategy and governance arrangements being developed 	2x3 = 6
EC 5 Fail to ensure plans are in place to support carers, people with disabilities and mental health issues into or to maintain employment	Neil Revely, ED of People Services	2x4 = 8	2x4 = 8	<ul style="list-style-type: none"> Continue to engage with Remploy, who provide sustainable employment opportunities for disabled people and those who experience complex barriers to work Continue to support the Carers Strategy Group <p>Progress</p> <ul style="list-style-type: none"> On going engagement with Remploy and the Carers Strategy Group Sunderland Carers Centre successful in bid to run the Independent Supporters Programme in Sunderland Implementation of the Care Act improves the assessments of carers for adults and young carers 	1x4 = 4

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<p>EC 6 Pace and scale of regeneration in the City Centre does not satisfy economic prosperity ambitions</p>	<p>Alison Follows, ED of Commercial Development</p>	<p>2x4 = 8</p>	<p>2x4 = 8</p>	<ul style="list-style-type: none"> • Progress development opportunities, e.g. Vaux site, City Square, Sunniside • Support the Business Improvement District proposal <p>Progress</p> <ul style="list-style-type: none"> • Sunderland BID Limited has been established in the form of an independent, not-for-profit company controlled by the private sector. The company has have developed a business plan to invest at least £3.4 m in the city centre over the next 5 years. • LABV set up; with the development of the Vaux Site as one of its priority objectives • City Centre has undergone ambitious programme of place shaping to open up a range of investment sites. Development of Keel Square and realignment of St Mary's Way to support the regeneration of the former Vaux site and the wider city centre nearing completion • Construction started on the new Sunderland College campus on the Holmside site 	<p>1x4 = 4</p>
<p>EC 7 Partners do not have a coordinated approach to supporting, developing and attracting business to the City</p>	<p>Andrea Winders, ED of Enterprise Development</p>	<p>2x2 = 4</p>	<p>2x2 = 4</p>	<ul style="list-style-type: none"> • Continue to support the Business and Innovation Centre which provides a joint approach for business support • Implement the Enterprise and Innovation Strategy • Continue to develop the North East Local Enterprise Partnership (NELEP) Enterprise Zones <p>Progress</p> <ul style="list-style-type: none"> • University has secured funding to develop a Business Support centre • Software Centre and Washington centre providing incubation and business space with business support activity • Sector growth and Results group of the Economic Leadership Board tasked with simplifying business support in the city 	<p>1x2 = 2</p>

ORGANISATION

Desired Outcomes

Achieving Community Leadership.

Delivering High Quality Services That Are Led By Our Customers' Needs

Ensuring Value for Money and Productive Use Of Resources

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
OR 1 The Council and the community may not have the required skills and capacity to deliver the City's priorities	Sue Stanhope, Director of HR & OD Sarah Reed, Assistant Chief Executive	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> Focus upon strengthening local self-help capacity, In order to meet our aspirations as a Community Leadership Council Utilise workforce planning to develop and transfer skills across the council Deliver the Voluntary and Community Sector Relationship Transition project <p>Progress</p> <ul style="list-style-type: none"> VCS project completed having developed an approach that aligns engagement with the VCS and day to day service delivery Both workforce planning and transformation projects are progressing which have/will allowed the Council become more flexible in the use of the Council's human resources Future priorities require individuals and communities to become more self-supporting 	2x3 = 6
OR 2 Lack of pace, leadership, innovation and commitment resulting in inability to achieve the required outcomes	Sarah Reed, Assistant Chief Executive	2x4 = 8	2x4 = 8	<ul style="list-style-type: none"> Develop the role of a Community Leadership Council to be more intelligent in setting relevant and focused priorities Deliver the Business Transformation Programme Deliver Alternative Service Delivery Models <p>Progress</p> <ul style="list-style-type: none"> Role of Community Leadership Council undergoing review Sunderland Care & Support Ltd set up in December 	1x4 = 4

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				2013. Leisure JV to commence 1 st June 2015 <ul style="list-style-type: none"> • Further iteration of the Transformation programme is being developed along with the development of the Council's plan for 2020 	
OR 3 Council does not secure the required savings	Sonia Tognarelli, Director of Finance	2x4 = 8	2x4 = 8	<ul style="list-style-type: none"> • Agree MTFS (in context of Community Leadership Council) • Agree Service Area efficiency targets and monitor progress • Deliver the Business Transformation Programme • Deliver Alternative Service Delivery Models • Deliver the Workforce Planning project <p>Progress</p> <ul style="list-style-type: none"> • MTFS in place • Workforce Planning efficiency targets for 2014/15 agreed • Care and Support ASDM went live December 2013 • Plans for 2015/16 savings in place • Actions being progressed to develop detailed plans to deliver 2015/16 savings • Five year budget planning approach being developed involving a fundamental review of all services which will provide the necessary intelligence aligned to strategic aims to allow Members to prioritise savings proposals as funding becomes clearer for future financial years 	1x4 = 4
OR 4 Failure to collect, analyse and use intelligence to enable customer insight to inform decision making	Sue Stanhope, Director of HR & OD Sarah Reed, Assistant Chief Executive	2x3 = 6	2x3 = 6	<ul style="list-style-type: none"> • Development and delivery of the Intelligence Hub • Strategic planning and service redesign to reflect the needs and preferences of our customers and communities <p>Progress</p> <ul style="list-style-type: none"> • Intelligence Hub is now in the mobilisation phase with a Multi-disciplinary project team in place to support the development and introduction of the 	1x3 = 3

Risk Description	Risk Owner	Score Dec 2014 Lxl	Current Score Mar 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<p>OR 5 Employee engagement falls as a result of ongoing significant changes</p>	<p>Sue Stanhope, Director of HR & OD</p>	<p>2x3 = 6</p>	<p>2x3 = 6</p>	<p>intelligence hub</p> <ul style="list-style-type: none"> Continue to monitor and intervene in areas where employee engagement is showing signs of diminishing <p>Progress</p> <ul style="list-style-type: none"> Position continues to be monitored via information obtained from employee surveys, consultations and feedback from unions. Recent results suggest employees continue to remain engaged There is a degree of uncertainty in the Workforce pending the Union Ballot on the Workforce Transformation proposals 	<p>1x3 = 3</p>

Detailed Internal Audit Coverage

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
Customer Focus	Community and Family Wellbeing - Governance Arrangements	L	Customer Services Network		Community and Family Wellbeing		Review of planning and performance management arrangements.	Moderate
	Out of Area Placements	L			Adoption Service		To review the stability of placements prior to adoption.	
	Web Content Development	M			Multi Agency Safeguarding Hub		Review of Information Sharing arrangements, and response to safeguarding incidents / serious case reviews.	
	Crisis Loans / Social Fund	S			Safeguarding and Quality Assurance Unit		To review progress against any agreed action plans resulting from Safeguarding Inspection.	
					Commissioning		Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	
					Accounting / General Ledger		To review the interfaces between SAP, Capita and the Council's website	
					Personal Budgets		To review the operation of the new assessment and resource allocation tool	
Legality					Constitution		To assess the level of compliance with constitutional requirements following recent changes.	Substantial
Service / Business Planning	Corporate Service/ Business Planning	M			Community and Family Wellbeing		Review of planning and performance management arrangements.	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion
	Community and Family Wellbeing - Governance Arrangements	L			Adoption Service	To review the stability of placements prior to adoption.	
	Derwent Hill	M			Multi Agency Safeguarding Hub	Review of Information Sharing arrangements, and response to safeguarding incidents / serious case reviews.	
	Out of Area Placements	L	Port Governance Arrangements	M	Commissioning	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	
	Operational Asset Management	L	LEP Accountable Body Arrangements	S	Corporate Service Planning Arrangements	To review the development of the five year plan in relation to the Council's savings targets and strategic priorities.	
Programme and Project Management	Implementation of the Economic Master Plan	M	Programme and Project Management	S	Corporate Service Planning Arrangements	To review the development of the five year plan in relation to the Council's savings targets and strategic priorities.	Moderate
			Realisation of Benefits & Savings	M	Capital Programme Funding and Monitoring	To review the arrangements for monitoring performance against the capital programme.	
Partnerships			Corporate Partnership Arrangements	L	Follow Up of 2014/15 audit	To review progress against actions agreed following previous audit work.	Limited
Business Continuity and Emergency Planning	HHAS Business Continuity Planning	M	Corporate Business Continuity Planning	M	Emergency Planning	To review the arrangements to maintain an up to date fit for purpose Major Incident Plan.	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion
Procurement	Derwent Hill	M	Commissioning	L	Commissioning	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	Moderate
	Out of Area Placements	L	Contract Management	M	Revenue Procurement	Review of compliance with Procurement Procedure Rules	
	Revenue Procurement	S	Capital Procurement	S			
Relationship and Contract Management	Streetlighting PFI Contract Management	M	Commissioning	L	Commissioning	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	Moderate
	Events Company Contract Management	M			Leisure Contract Management	To review the client arrangements for the Leisure Joint Venture.	
					LABV	To review the LABV client role arrangements.	
					Capital Programme Funding and Monitoring	To review the arrangements for monitoring performance against the capital programme.	
Financial Management	EFA / SFA Funding	S	EFA / SFA Funding	S	EFA / SFA Funding	Grant Certification work	Substantial
	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants	Grant Certification work	
	Troubled Families Performance Reward Grant	L	Troubled Families Performance Reward Grant	M	Troubled Families Performance Reward Grant	Grant Certification work	
	DECC Fuel Poverty Grant	M	Contaminated Land Grant	S	Personal Budgets - Resource Allocation System	To review the operation of the new assessment and resource allocation tool	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion
	Growing Places Funds 2, 3 and 7	S	Benefit Cap Advisors Grant	S	Direct Payments	To review the arrangements to ensure that Direct Payments are used in line with the agreed support plan.	
	Clusters of Empty Homes Grant	S	Adoption Reform Grant	S	Port Income	To review the arrangements for billing and collection of income to the Port.	
	Out of Area Placements	L	Commissioning	L	Commissioning	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	
	Foster Care Allowances	M	Port Governance Arrangements	M	Corporate Service Planning Arrangements	To review the development of the five year plan in relation to the Council's savings targets and strategic priorities.	
	Charging for Non Residential Adults Care Services	S	LEP Accountable Body Arrangements	S	Personnel Administration Arrangements	To assess the robustness of the personnel administration arrangements, and to ensure adequate separation of duties is in place with the transfer of the payroll function to HR & OD.	
			Personal Budgets / Direct Payments	L	LABV	To review the LABV client role arrangements.	
	Direct Payments	L	Accounting / General Ledger	S	Accounting / General Ledger	To review the interfaces between SAP, Capita and the Council's website	
	34 Schools	S	32 Schools	S	18 schools	Transaction testing in relation to income and expenditure	
	SAP Organisation Structures	S	SAP Organisation Structures		Capital Programme Funding and Monitoring	To review the arrangements for monitoring performance against the capital programme.	
	SAP HCM Monitoring of Multiple Employee Positions	L	Mobile Phones Contract	L	BACS Processing	Transaction testing	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion
	BACS Processing	S	BACS Processing	S	Cash Receipting	Transaction testing	
	Cash Receipting	S	Cash Receipting	S	Accounts Payable	Transaction testing	
	Payroll	M	Payroll	M	Accounts Receivable	Transaction testing	
	Council Tax	S	Council Tax - Valuation	S	Periodic Income	Transaction testing	
	Business Rates	S	Business Rates - Valuation	S	Benefits Administration	To review the arrangements for administration of Housing Benefit and Council Tax Support, including the completeness and accuracy of the subsidy claim.	
	Accounts Payable	S	Accounts Payable	M	Business Rates - Liability	Transaction testing	
	Accounts Receivable	S	Accounts Receivable	S	Business Rates - Revised Billing	Transaction testing	
	Aquatic Centre	S	Periodic Income	S	Enforcement Section	A review of the arrangements for enforcement of debts owed to the Council. To include the bailiff function.	
	Benefits	S	Benefits Administration	S	Payroll	To assess the robustness of the payroll arrangements, and to ensure adequate separation of duties is in place with the transfer of the payroll function to HR & OD. Also to carry out transaction testing following implementation of the new Pay and Grading arrangements.	
	Council Tax Support Scheme	S	Recovery of Benefit Overpayments	M	Revenue Procurement	Review of compliance with Procurement Procedure Rules	
	Operational Asset Management	L	Elections Hardware Grant	S			

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion
	Asset Register / Capital Accounting	S	Cash in Transit / Parking Services Income	L			
	Building Maintenance	N					
	Capital Programme Funding and Monitoring	S					
	Treasury Management	S					
	External Funding	S					
	External Funding - Support to Partners / VCS	M					
	Insurance Claims Handling	S					
	Council Tax Support Scheme	S					
	Local Business Rates Scheme	S					
	Crisis Loans / Social Fund	S					
	Derwent Hill	M					
	Events Company Contract Management	M					
Human Resource Management	SAP Organisation Structures	S	SAP Organisation Structures		SAP Organisation Structures	To review the arrangements for grading new posts / staffing structures in the future.	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion
	Monitoring of Multiple Employee Positions	L	Corporate Training and Development Arrangements	L	Induction Procedures	To review the level of compliance with induction procedures following movement of staff into new roles.	
	Corporate HR Management	M			Code of Conduct / Whistleblowing	To review the level of awareness of and compliance with the Employee Code of Conduct and the Council's whistle blowing arrangements.	
					Personnel Administration Arrangements	To assess the robustness of the personnel administration arrangements and to ensure adequate separation of duties is in place with the transfer of the payroll function to HR & OD.	
Information Governance	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	To review progress on the development and implementation of an information governance improvement plan. Review to include physical security checks.	Limited
					Multi Agency Safeguarding Hub	Review of Information Sharing arrangements, and response to safeguarding incidents / serious case reviews.	
Performance Management	Operational Asset Management	L	Corporate Performance Management Arrangements	M	Multi Agency Safeguarding Hub	Review of Information Sharing arrangements, and response to safeguarding incidents / serious case reviews.	Moderate
	Community and Family Wellbeing - Governance Arrangements	L			Community and Family Wellbeing	Review of planning and performance management arrangements.	
					Capital Programme Funding and Monitoring	To review the arrangements for monitoring performance against the capital programme.	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion
					Safeguarding and Quality Assurance Unit	To review progress against any agreed action plans resulting from Safeguarding Inspection.	
Asset Management	Derwent Hill	M			LABV	To review the LABV client role arrangements.	Moderate
	Technology Forge	L			Corporate Asset Management	To review the Council's property asset management arrangements against recommended practice.	
	Operational Asset Management	L					
	ICT Asset Management	M					
	Asset Register / Capital Accounting	S					
ICT Strategy and Delivery	ICT Asset Management	M	Physical and Environmental Controls	S	ICT – Cyber Security	Review of the arrangements required for the future of the Council.	Moderate
			Mobile Phone Contract	L			
Fraud and Corruption	Counter Fraud Testing		Counter Fraud Testing	M	Direct Payments	To review the arrangements to ensure that Direct Payments are used in line with the agreed support plan.	Substantial
	National Fraud Initiative Case Investigations		National Fraud Initiative Case Investigations	S	BACS Processing	Transaction testing	
	Direct Payments	L	Schools Counter Fraud Checks	S	Cash Receipting	Transaction testing	
			Personal Budgets	L	Accounts Payable	Transaction testing	
	BACS Processing	S	BACS Processing	S	Accounts Receivable	Transaction testing	
	Cash Receipting	S	Cash Receipting	S	Periodic Income	Transaction testing	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion
	Payroll	M	Payroll	M	Benefits Administration	To review the arrangements for administration of Housing Benefit and Council Tax Support, including the completeness and accuracy of the subsidy claim.	
	Council Tax	S	Council Tax - Valuation	S	Business Rates - Liability	Transaction testing	
	Business Rates	S	Capital Procurement	S	Enforcement Section	A review of the arrangements for enforcement of debts owed to the Council. To include the bailiff function.	
	Benefits	S	Benefits Administration	S	Payroll	To assess the robustness of the payroll arrangements, and to ensure adequate separation of duties is in place with the transfer of the payroll function to HR & OD. Also to carry out transaction testing following implementation of the new Pay and Grading arrangements.	
	Accounts Payable	S	Accounts Payable	M	Revenue Procurement	Review of compliance with Procurement Procedure Rules	
	Accounts Receivable	S	Accounts Receivable	S			
			Periodic Income	S			
			SAP Organisation Structures				
			Cash in Transit / Parking Services Income	L			
Risk Management			Port Governance Arrangements	M			Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion
Schools	34 schools, 5 full, 25 substantial, 3 moderate, 1 limited	S	30 schools completed to date - 24 substantial, 5 moderate, 1 limited	S	18 schools	Transaction testing in relation to income and expenditure	Substantial
Sunderland Care and Support Ltd	Direct Payments	L	Governance Arrangements	L	Governance	Review of integration of Care and Support Sunderland Ltd into the Company and overall governance arrangements to take the Company forward	Moderate
			Farmborough Court	S	Transaction / compliance testing	Compliance with new policies and procedures - to include visits to Supported Living establishments	
			Financial Procedures in Residential and Daycare Units (Establishment Visits)	L	Unit Costing	Audit of methodology / approach to identifying and assessing unit costs	
	Procurement Arrangements	S	Management and Security of Service Users Monies - Compliance with Procedures	S	Reablement	Review of integrated health and social care reablement services	
	Risk Management Arrangements	L			Grace House Partnership Working	Review how key objectives are being delivered, including partnership governance	
	Information Management Arrangements	S			Community Equipment Service	Counter Fraud Testing	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion
	Transaction Testing	S					
Sunderland Live Ltd	Governance Arrangements	M	Airshow Income - Transaction Testing	M	Procurement	Review of the procurement procedure rules, including compliance with them and the arrangements for subcontracting of event services	Moderate
	Verification of Expenditure and Income Transactions	M			Transactions testing	Review of expenditure transactions	
					HR management	Review of HR policies, including compliance with them	
					Information Governance	Review of arrangements to keep information secure and comply with appropriate legislation	

Risk and Assurance Activity

Area of activity	Work ongoing
Strategic Risk Profile	A review of the strategic risks affecting the Council was agreed with EMT. The risk areas have been categorised into People, Place, Economy and Organisational, in line with the Council's Outcomes Framework. Mitigating actions have been agreed and progress is being monitored and reported in Appendix 1.
Transformation Programme	Ongoing assurance work is being undertaken in relation to progress in delivering the projects within the Transformation Programme and the efficiency savings programme.
Supporting Executive Directors and Heads of Service to manage risks	Activity is ongoing to aid the management of risks through services, programmes and key projects and partnerships. This will be linked to mitigating actions in the Strategic Risk Profile where appropriate.
Support to Schools	Risk workshops for schools will take place again later in the year. An assurance framework for schools is being developed with key officers within the People's Directorate. A number of Academies have also bought in the risk service.
Service Reviews (including alternative service delivery models), Programmes and Projects (including ICT)	<p>Major projects / service reviews being supported include:</p> <ul style="list-style-type: none"> • Workforce Transformation Project • Sunderland Care and Support Ltd. • Intelligence Hub • ICT – various activity • Leisure project • Adult Social Care, Care Act and Children's and Families Act • Safeguarding – Childrens and Adults • Streetscene projects • City Deal and Enterprise Zones • New Wear Crossing and SSTC Phase 3 • Better Care Fund • Place based services

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2015/16

Efficiency and Effectiveness			
Objectives	KPI's	Targets	Actual Performance
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 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report) 4) Cost per £m Turnover	1) All key risk areas covered over a 3 year period 2) 90% 3) 80% 4) Lower than average within CIPFA Benchmarking Club	1) On target 2) Ahead of target — 100% (based on 1 audit) 3) behind target - 0% (based on 1 audit) 4) On target - £330 v £734 average
Quality			
Objectives	KPI's	Targets	Actual Performance
1) To maintain an effective system of Quality Assurance 2) To ensure actions agreed by the service are implemented	1) Opinion of External Auditor 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	1) Satisfactory opinion 2) 100% for high and significant 90% for medium risk	1) Achieved 2) Significant – on target – 100% Behind target - Medium 82% (excluding schools)
Client Satisfaction			
Objectives	KPI's	Targets	Actual Performance
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) On target – 1.1 to date 2) Non undertaken 3) 0 compliments 0 complaints

AUDIT AND GOVERNANCE COMMITTEE

26 June 2015

STATEMENT OF ACCOUNTS 2014/2015 (SUBJECT TO AUDIT)

Report of the Director of Finance

1. Purpose of the Report

- 1.1 To provide members with the certified copy of the Council's Statement of Accounts 2014/2015 (Subject to Audit) as at 30th June 2015 (Appendix A) – copy to follow separately. Any late adjustments to the accounts will, if necessary, be tabled at the meeting.
- 1.2 To provide members with the draft Letters of Assurance required by the external auditor as part of the final accounts process.

2. Description of Decision

- 2.1 The Committee is requested to note the Statement of Accounts 2014/2015 (Subject to Audit) – (Appendix A).
- 2.2 Members are requested to approve the contents of the Letter of Assurance from those charged with governance (Appendix B) and, to note the Letter of Assurance from those charged with discharging management processes and responsibilities (Appendix C).

3. Introduction

- 3.1 The Council complies with the financial reporting requirements set out in the Accounts and Audit Regulations 2011 whereby the Accounts subject to audit need only be certified by the Relevant Finance Officer by 30th June of each year. The Accounts once audited however, still need to be approved by members of this Committee at its planned meeting in September, as the audited Accounts of the Council must be formally approved before 30th September of each year in accordance with statutory requirements.

4. Statement of Accounts 2014/2015 (Subject to Audit)

- 4.1 The financial statements for 2014/2015 subject to audit are attached in Appendix A for information and have been certified as at 26th June by the Director of Finance in accordance with the regulations.
- 4.2 Members should note that the Foreword by the Director of Finance to the Accounts will provide a helpful summary of the main financial issues for 2014/2015 for the Council and is there to help put the Accounts, which are necessarily very complex in nature, into context.

- 4.3 Members should they wish, are also able to ask questions on the Accounts at this stage, before the audit has been completed, although they will have a further opportunity in September when the audited Accounts are to be formally considered for approval.
- 4.4 Quality checks continue on the accounts right up until the time they are approved by this Committee in order to ensure the Accounts presented subject to audit reflect the most accurate and best set of accounts possible. Each year a set of presentational adjustments are provided for approval along with the accounts. Appendix D sets out the proposed changes, if any, where appropriate.

5. Reasons for Decision

- 5.1 To note the Statement of Accounts 2014/2015 (subject to audit).
- 5.2 To approve the contents of the Letter of Assurance from those charged with Governance and, to note the Letter of Assurance from those charged with discharging management processes and responsibilities as required.

6. Alternative Options

- 6.1 No alternatives are submitted for Members consideration.

Mr G Barker
Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Appendix B

Date: 26th June 2015
Our ref:
Your ref:

Dear Gavin,

Audit of Sunderland City Council - Financial Statements for the year end 31 March 2015 - Understanding how those charged with governance gain assurance from management.

I am writing with reference to your letter to the Audit Committee on 27 March 2015, in relation to "Assurances from the Audit and Governance Committee as the body charged with Governance", which seeks relevant assurances from those charged with governance required by external auditors under the International Auditing Standards. These assurances are provided below, representing Sunderland City Council's formal response from those charged with governance, which, for the purposes of the financial statements, is the Audit and Governance Committee.

As in previous years, the Audit and Governance Committee have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the Council which might have an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where officers and auditors have discussed key risks) and, to the extent that it is necessary, in the production of the financial statements. The process for the production of the Annual Governance Statement should also mean that all key risks which would relate to the financial statements have been considered. In response to your letter dated 27 March 2015 please therefore find responses to your questions below and the completed Appendix 1, as requested.

Specific assurances:

1) I exercise oversight of management's processes through receiving reports as the Chair of the Audit and Governance Committee and discussions with key officers. I am aware of the following arrangements:

- ***undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error;***

This responsibility is exercised through the effective functioning of the Audit and Governance Committee, the constitution and operation of which follows CIPFA guidelines.

The Director of Finance (DF) and Head of Assurance, Procurement and Projects (HAPP) attend all meetings of the Audit and Governance Committee to discuss and review findings of Internal and External Audit reviews and the level of adequacy of management's response. The Audit and Governance Committee also consider the Annual Governance Statement and the actions taken and proposed in relation to improving governance and internal controls as necessary.

The Committee also reviews the Internal Audit Strategy and Annual Internal Audit Plan and is able to comment on areas proposed for review. The Council's Corporate

Risks are regularly reported and reviewed by the Committee and the Council's Internal Audit Plan ensures that fraud risk or related concerns are escalated through to the appropriate level or to this committee if appropriate. Ad-hoc meetings between the Chair and the HAPP and/or DF also take place where necessary. Roles and responsibilities of members and officers are clearly set out in Codes of Conduct, the Scheme of Delegation, Anti Fraud and Corruption Policy (including the Fraud Response Plan) and in the Risk Management Policy and Strategy which also describe the relevant registers, declarations and escalation processes to be complied with.

The Audit and Governance Committee is aware of one banking fraud and a number of ongoing suspected fraudulent public liability claims in 2014/2015, however, the scale of these issues would not materially affect the Council in relation to the 2014/15 financial statements.

- ***identifying and responding to risks of fraud in the Council;***

The Council has an Anti Fraud and Corruption Policy which is regularly updated and approved by the committee. The committee reviews the Internal Audit Strategy and Annual Internal Audit Plan, which includes the Counter Fraud Work Programme for the year. The Counter Fraud Work Programme is based on a Fraud Risk Assessment for the effective deployment of resources and includes both reactive and proactive work. The Committee receives regular updates on progress against the Counter Fraud Work Programme with any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud. Updates are also presented on the implementation of the control improvements.

The system of internal control is a significant part of the Governance framework within the Council and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Internal management control arrangements are in

place which should identify and prevent fraud risks from occurring and detect them if they do occur. The Council engages in numerous fraud prevention and identification activity including corporate processes such as participating in the National Fraud Initiative as well as specific service based fraud identification activity. Should a fraud risk occur then the Council's Fraud Response Plan is followed to ensure concerns are raised at the appropriate level and investigated thoroughly.

- ***communicating to employees its view on business practice and ethical behaviour and communicating to you the processes for identifying and responding to fraud and error;***

Written procedures are in place covering financial and administrative matters which are communicated to staff through the induction process, through management and are available on the Council's intranet site. These documents are regularly updated and set out the standards of conduct that are expected, the policies and procedures which should be followed and what to do if staff have concerns that these arrangements are not being complied with. Internal Audit carries out a programme of work which includes assessing the level of compliance against the Council's key policies and procedures. Key procedures include:

- Codes of conduct;
- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy (including the Fraud Response Plan);
- Corporate Health and Safety Policy;
- Corporate Complaints Policy;
- Corporate Procurement Strategy;
- Code of Practice for Partnerships;
- Treasury Management Strategy;
- Directorate / department budget management schemes.

The Counter Fraud Strategy which supports the delivery of the aims of the Council's Anti Fraud and Corruption Policy was presented to the Audit and Governance Committee in December 2012. This set out in detail a new approach which has been adopted by the Council in tackling fraud across the broad spectrum of the Council and Council funded services.

The key elements of the Strategy include:

In order to effectively tackle fraud it is important that a holistic approach is adopted, focused on preventing fraud occurring in the first place, seeking it out and correcting it where it does exist, and delivering swift and effective punishments to those who attack the Council, whilst deterring others from considering the same course of action.

Under the Integrated Assurance Framework established within the Council, managers are clearly responsible for establishing appropriate controls and for ensuring they are working in practice. The Framework also aims to co-ordinate all assurance activity, including that in relation to fraud and to ensure arrangements are working effectively across the Council. This includes the co-ordination of fraud prevention, detection and investigation arrangements.

The Audit, Risk and Assurance service has the expertise in relation to the design of control systems that aim to manage the risk of fraud. The Risk and Assurance team provides advice and guidance in relation to governance and control matters, including fraud, at the earliest stage to ensure appropriate controls are designed into arrangements as they are being established.

The Internal Audit Team maintains the fraud risk assessment for the Council and undertakes compliance work aimed at detecting fraud and providing assurance on the effectiveness of the controls in place. Internal Audit will also review the effectiveness of management in establishing fraud prevention controls and monitoring compliance with them. This team also undertakes investigations of suspected fraud and corruption.

The service aims to embed a collaborative approach to tackling fraud with an agreed approach to be adopted across the whole Council and its activities and includes counter fraud work undertaken in any service of the Council, schools, partnerships within which the Council is involved, third parties providing services to or on behalf of the Council and other organisations receiving or holding Council funds.

The Audit and Governance Committee met five times during 2014/15 with a quarterly Corporate Assurance Map Update report being submitted to four of the meetings as part of the Integrated Assurance Framework. The Update reports set out the work done to identify fraud and the results of this work and the updated position regarding each risk area identified in the Corporate Assurance Map.

Private meetings are held between the head of internal audit, the External Auditor and members of the Audit and Governance Committee to discuss the detail of any significant investigations into suspected cases of fraud and corruption.

2) I am made aware of management processes for identifying and responding to the risk of fraud and possible breaches of internal control through receiving reports as the Chair of the Audit and Governance Committee and discussions with key officers.

I am aware that arrangements are set out in the Council's Fraud Response Plan, part of the Council's Anti Fraud and Corruption Policy. This sets out how concerns should be reported and who to, what people who suspect fraud should and should not do and what the person who receives the concerns should and should not do. The Fraud Investigation Plan sets out how investigations of concerns should be carried out.

During 2014/15, I was made aware of one breach of control, in relation to a banking fraud that was successfully perpetrated against the Council but this is not considered material for the accounts. Some funds have been recovered and this process is ongoing, although full recovery of the monies is considered unlikely.

3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2014-15? If so, please provide details

I am not aware of any actual, suspected or alleged frauds other than the banking fraud and possible fraudulent public liability claims that I have already indicated above. For re-assurance the Committee receives regular reports and updates on the Counter Fraud Work Programme carried out by the Council. The Committee is aware that all Council matters are reviewed for their legality to ensure Council expenditure, services and actions are within the law. As such this Committee has reassurance that legal advice is sought where appropriate and that all reports to Council and members must be reviewed by the legal services section and that legal representation is made at all Council meetings.

Cabinet reports are vetted by or on behalf of the monitoring officer to ensure compliance with legal requirements and there is legal representation at Cabinet meetings. In addition, the monitoring officer and senior members of Legal Services also have access to reports which are considered by the Executive Management Team. As part of their job description, solicitors are required to keep up to date with new and emerging legislation which affects local government. To assist in this role, the team subscribe to an electronic legal update service and various legal publications and regularly attend relevant training courses. As a member of the Association of Council Secretaries and Solicitors and Northern Secretaries Group, information is shared with other local authorities both regarding new legislation and case law and the approach and application of existing legal requirements.

In respect of new legislation or developments in case law, briefing notes or reports are prepared as appropriate and policies and procedures developed in conjunction with officers from the relevant Council departments.

Regular team meetings are held within Legal Services both at "service area" level and senior management team level, at which any concerns regarding the Council's compliance with legal requirements could be raised and addressed.

The Council's Internal Audit Team carries out audits of the Council's corporate legality arrangements, with the objective of providing assurance that the Council has arrangements in place to ensure that it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. The last review carried out in 2012 reported that there were no issues or concerns raised and the audit gave full assurance regarding the Council's arrangements to ensure legality. The audit concluded that the controls evaluated were well designed, appropriate in scope and applied consistently and effectively.

In addition I am further reassured by the fact that the Council's Head of Law and Governance and Monitoring Officer carries out a self assessment of the legal service which covers the Council's corporate legality arrangements that informs the

Annual Governance Statement and has confirmed that there were no issues to raise and this provides me with the assurance that the Council has arrangements in place to ensure that it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. Furthermore the Executive Director of Commercial Development has also confirmed in her Controls and Assurance Statement that there were no issues or concerns to raise in this area and as such has given full assurance regarding the Council's arrangements to ensure legality.

4) Are you aware of any actual or potential litigation or claims that would affect the financial statements? If so, please provide details.

On behalf of the Audit and Governance Committee I declare that it has no knowledge of and is not on notice of any non-compliance with laws and regulations that could impact on the 2014/15 financial statements

5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern? If so, please provide details.

The Council by its very nature is a going concern and the Committee has no reason to believe that any events would impact on this position. The fact the Council shows a net worth of almost £390m and assets worth over £1,094m, with cash backed reserves of over £190m would support our view. The Council is also extremely well managed and prudent in its approach to all financial matters which is reflected in the strong Balance Sheet presented to this Committee as part of the Statement of Accounts for 2014/15.

Yours sincerely,

Geoff Cook
Chairman of the Audit and Governance Committee

Appendix 1

No.	Questions for management	Those charged with governance response
1	<p>Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2014 – 31 March 2015?</p>	<p>There was one breach of control in respect of a banking fraud perpetrated against the Council. This is not material to the accounts and actions are ongoing to recover the monies involved, although full recovery is unlikely. There are also a number of suspected fraudulent public liability claims which are also not considered material in nature.</p>
2	<p>Do you suspect fraud may be occurring within the Council?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks within the Council? ➤ Do you have any concerns that there are areas within your Council that are at risk of fraud? ➤ Are there particular locations within the Council where fraud is more likely to occur? 	<p>A fraud risk assessment is in place and is regularly updated which covers all appropriate parts of the Council. This covers areas of fraud risks, sets out the individual risks, a score for the risks and tests that are carried out to identify potential fraud taking place. A programme of proactive counter fraud work is undertaken every year by Internal Audit which did not identify any areas of concern.</p> <p>The Council also takes part in the Audit Commission's NFI programme which also has not identified any areas of concern.</p>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> ➤ If not where are the risk areas? ➤ What other controls are in place to help prevent, deter or detect fraud? 	<p>Internal controls regarding segregation of duties are in place and the results of Internal Audit work have not highlighted any material concerns. An adequate opinion on the system of internal control has been reported to the Audit and Governance Committee for the year. The Council has an Anti Fraud and Corruption policy and supporting documents in place which is available to all staff on the Council intranet and is included in the induction process. Other controls in place include a robust budget management framework which includes detailed support for Financial Resources, verification checks in key systems such as payroll, BACS payments, Accounts Payable which are aimed at identifying fraud or errors, the majority of Council payments are through the Supplier Relationship Management system which ensures authorisation of payments by an approved authorised officer. There has been a significant</p>

		amount of work undertaken across the Council to raise awareness of Information Governance issues and encourage staff to keep information secure.
4	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> ➤ What concerns about fraud are staff expected to report? 	<p>This is undertaken by officers of the Council. A Whistle Blowing policy is in place and is on the Council's intranet which gives details of how staff can raise concerns. Publicity campaigns have also taken place where posters have been placed around Council buildings encouraging staff to act on any concerns they may have. Staff are encouraged to raise concerns about any areas where controls are not being complied with, where there is significant non-compliance with policies and procedures or where there are concerns regarding corruption or potential financial loss.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your Council?</p> <ul style="list-style-type: none"> ➤ How are the risks relating to these posts identified, assessed and managed? 	<p>The Internal Audit Fraud Risk Assessments identifies potential fraud risks in specific areas which would cover any specific risks in relation to individual posts. Counter fraud checks would be designed to test these risks to identify any potential fraudulent activity.</p>
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> ➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>No</p> <p>The Council has robust procedures in place to ensure all related party transactions are identified and then where appropriate are fully disclosed in the Statement of Accounts. The Council has an established Code of Practice for Partnerships and maintains and updates its Partnership Register regularly. Internal practices and processes carried out as part of the closing of accounts timetable also has specific tasks and detailed analysis of all member and chief officer interests and related party transactions which are reviewed and collated to form notes in the statement of accounts. All member interests are also documented and held by democratic services for scrutiny and also help to inform the process. The procedures for the identification and assessment of group accounts process also helps to inform this area in addition to the other processes and policies in place. Reviews by senior management also help inform</p>

No.	Questions for management	Those charged with governance response
7	<p>Are you aware of any entries made in the accounting records of the Council that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> ➤ Are there particular balances where fraud is more likely to occur? ➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Council? ➤ Could a false accounting entry escape detection? If so, how? ➤ Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud? 	<p>No</p> <p>Internal controls and internal check mitigate the risk as does appropriately qualified and experienced staff involved in compiling the accounts.</p> <p>All areas are subject to a risk review and reports from internal and external audit help identify and report their findings in areas where risk is high. The SAP system makes false accounting unlikely because of the way it is designed and is fed by the bank reconciliation and feeder systems that have separate controls and reconciliation processes in place to maintain the integrity of the financial system. Monthly bank reconciliations are carried out and reviewed by senior management along with balance sheet and suspense account reviews. Strong and robust budgetary control and financial practices are in place across the Council</p> <p>Areas that are identified as high risk are reviewed more regularly by internal audit as part of their risk based approach to auditing.</p> <p>Legal and financial review is carried out across the whole Council spectrum of activity.</p>
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> ➤ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>No – The Medium Term Financial Plan, the budget planning process and the Annual budget along with agreed cash limits approach is reviewed and monitored during the year to review achievement and adherence to agreed budget levels agreed by members and executive directors within the Council. Actual performance and any actions necessary are reviewed by management and reported to members who receive formal Cabinet quarterly reports during the year.</p> <p>As a consequence there are no inappropriate pressures or incentives being applied.</p>

Mr G Barker
Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Appendix C

Date: 26th June 2015
Our ref:
Your ref:

Dear Gavin,

Audit of Sunderland City Council - Financial Statements for the year end 31 March 2015 - Understanding your management processes and arrangements

I refer to your letter dated 27th March 2015 in respect of the above management arrangements and processes in place within the Council in order to provide you with the necessary assurances from management which you require under International Auditing Standards. The assurances are provided below, representing Sunderland City Council's formal response from management in this respect.

As in previous years, I as section 151 officer of the Council, on behalf of management, have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the Council which might have had an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where myself and other senior officers with yourselves have identified and discussed key risks faced by the Council) and, to the extent that it is necessary, in the production of the financial statements. The processes and arrangements in place and adhered to by senior management in the production of the Annual Governance Statement also shows that all key risks which would relate to the financial statements have been fully and appropriately considered. In response to your letter dated 27th March 2015 please therefore find responses to your specific questions and I have also attached the completed Appendix 1, as requested.

Specific assurances:

1) I can confirm the areas set out below show that appropriate management processes are in place:

- ***undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error;***

A risk management assessment is carried out and updated regularly (but at least annually) and this helps to ensure that all risks are identified and then addressed appropriately. The review of risks is also reported formally to the Audit and Governance Committee throughout the year.

I along with the senior executive management team ensure that arrangements are in place within the Council that achieve the effective and efficient use of resources, have policies and procedures in place so that the Council is effectively managed and that internal control mechanisms are put in place and operating effectively within the Council to help mitigate against all identified risks and therefore that the financial statements are not materially misstated each year.

I, as the Director of Finance and Section 151 Officer and the Head of Assurance, Procurement and Projects (HAPP) attend all meetings of the Audit and Governance Committee to discuss and review findings of all Internal and External Audit reviews and ensure members are kept informed through the regular reporting mechanisms in place. The Committee receives and approves the accounts on behalf of the Council and as such is kept informed of all issues and risks that could impact upon the financial statements and operates within the guidelines recommended by CIPFA. Management also considers and informs the Annual Governance Statement and the actions set out in order to further improve governance arrangements, the achievement of value for money in its use of resources and to improve the internal control environment as required.

Management also receives the independent Internal Audit Strategy and Annual Internal Audit Plan and is able to comment on areas proposed for review. The Council's Corporate Risks are regularly reported and reviewed by the Management within the Council and the Council's Internal Audit Plan ensures that fraud risk or related concerns are escalated through to the appropriate level as appropriate. Ad-hoc meetings between the Chair and the HAPP and/or myself also take place where necessary to discuss matters as they arise. Roles and responsibilities of members and officers are clearly set out in Codes of Conduct, the Scheme of Delegation, Anti Fraud and Corruption Policy (including the Fraud Response Plan) and in the Risk Management Policy and Strategy which also describe the relevant registers, declarations and escalation processes to be complied with.

I would declare on behalf of management that I have knowledge of one banking fraud and a number of ongoing suspected fraudulent public liability claims in 2014/2015, however, the scale of these issues would not materially affect the Council in relation to the 2014/15 financial statements.

- ***identifying and responding to risks of fraud in the Council;***

The Council has an Anti Fraud and Corruption Policy which is regularly updated and is also approved by the Audit and Governance (A&G) Committee. Regular reviews and achievement of the annually reviewed audit plan is reported separately to the A&G Committee. It is important that the Internal Audit Strategy and Annual Internal Audit Plan, which includes the Counter Fraud Work Programme for the year is established independently by the HAPP in accordance with best practice.

The Counter Fraud Work Programme is based on a Fraud Risk Assessment for the effective deployment of resources and includes both reactive and proactive work. I receive regular updates on progress against the Counter Fraud Work Programme with any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud, through the Corporate Assurance Map Update Reports. Updates are also presented on the implementation of the control improvements and all findings are reported to members as appropriate.

The system of internal control is a significant part of the Governance framework within the Council and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Internal management control arrangements are in place which should identify and prevent fraud risks from occurring and detect them if they do occur. The Council engages in numerous fraud prevention and identification activity including corporate processes such as participating in the National Fraud Initiative as well as specific service based fraud identification activity. Should a fraud risk occur then the Council's Fraud Response Plan is followed to ensure concerns are raised at the appropriate level and investigated thoroughly.

- ***communicating to employees its view on business practice and ethical behaviour and communicating to those charged with governance the processes for identifying and responding to fraud and error;***

Written procedures are in place covering financial and administrative matters which are communicated to staff through the induction process, through management and are available on the Council's intranet site. These documents are regularly updated and set out the standards of conduct that are expected, the policies and procedures which should be followed and what to do if staff have concerns that these arrangements are not being complied with. Internal Audit carries out a programme of work which includes assessing the level of compliance against the Council's key policies and procedures. Key procedures include:

- Codes of conduct;
- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy (including the Fraud Response Plan);
- Corporate Health and Safety Policy;
- Corporate Complaints Policy;
- Corporate Procurement Strategy;
- Code of Practice for Partnerships;
- Treasury Management Strategy;
- Directorate / department budget management schemes.

The Counter Fraud Strategy which supports the delivery of the aims of the Council's Anti Fraud and Corruption Policy was presented to the Audit and Governance Committee in December 2012. This set out in detail the approach that has been adopted by the Council in tackling fraud across the broad spectrum of the Council and Council funded services.

The key elements of this Strategy include:

In order to effectively tackle fraud it is important that a holistic approach is adopted, focused on preventing fraud occurring in the first place, seeking it out and correcting it where it does exist, and delivering swift and effective punishments to those who attack the Council, whilst deterring others from considering the same course of action.

Under the Integrated Assurance Framework established within the Council, managers are clearly responsible for establishing appropriate controls and for ensuring they are working in practice. The Framework also aims to co-ordinate all assurance activity, including that in relation to fraud and to ensure arrangements are working effectively across the Council. This includes the co-ordination of fraud prevention, detection and investigation arrangements.

The Audit, Risk and Assurance service has the expertise in relation to the design of control systems that aim to manage the risk of fraud. The Risk and Assurance team provides advice and guidance in relation to governance and control matters, including fraud, at the earliest stage to ensure appropriate controls are designed into arrangements as they are being established.

The Internal Audit Team maintains the fraud risk assessment for the Council and undertakes compliance work aimed at detecting fraud and providing assurance on the effectiveness of the controls in place. Internal Audit will also review the effectiveness of management in establishing fraud prevention controls and monitoring compliance with them. This team also undertakes investigations of suspected fraud and corruption.

The service aims to embed a collaborative approach to tackling fraud with an agreed approach to be adopted across the whole Council and its activities and includes counter fraud work undertaken in any service of the Council, schools, partnerships within which the Council is involved, third parties providing services to or on behalf of the Council and other organisations receiving or holding Council funds.

The Audit and Governance Committee met five times during 2014/15 with a quarterly Corporate Assurance Map Update report being submitted to four of the meetings as part of the Integrated Assurance Framework. The Update reports set out the work done to identify fraud and the results of this work and the updated position regarding each risk area identified in the Corporate Assurance Map. The Committee can and has requested attendance of senior officers to attend Committee in order to provide them with updates on progress made in respect of any areas of concern highlighted by these reports.

Private meetings are held between the head of internal audit, the External Auditor and members of the Audit and Governance Committee to discuss the detail of any significant investigations into suspected cases of fraud and corruption.

During 2014/15, I was made aware of one breach of control, in relation to a banking fraud that was successfully perpetrated against the Council but this is not considered material for the accounts. Some funds have been recovered and this process is ongoing, although full recovery of the monies is considered unlikely.

2) How does management gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2014-15?

I am not aware of any actual, suspected or alleged frauds other than the banking fraud and possible fraudulent public liability claims that I have already indicated above. For reassurance senior management, Cabinet and Committee members receive regular reports and updates on the Counter Fraud Work Programme carried out by the Council. I am aware that all Council matters are reviewed for their legality to ensure Council expenditure, services and actions are within the law. As such we have as senior management appropriate legal arrangements in place headed by the Monitoring Officer which gives reassurance that legal advice is sought where appropriate and that all reports to Council and members must be reviewed by the legal services section and that legal representation is made at all Council meetings.

Further that Cabinet reports are vetted by or on behalf of the Monitoring Officer to ensure compliance with legal requirements and there is legal representation at Cabinet meetings. In addition, the monitoring officer and senior members of Legal Services also have access to reports which are considered by the Executive Management Team. As part of their job description, solicitors are required to keep up to date with new and emerging legislation which affects local government. To assist in this role, the team subscribe to an electronic legal update service and various legal publications and regularly attend relevant training courses. As a member of the Association of Council Secretaries and Solicitors and Northern Secretaries Group, information is shared with other local authorities both regarding new legislation and case law and the approach and application of existing legal requirements.

In respect of new legislation or developments in case law, briefing notes or reports are prepared as appropriate and policies and procedures developed in conjunction with officers from the relevant Council departments.

Regular team meetings are held within Legal Services both at "service area" level and senior management team level, at which any concerns regarding the Council's compliance with legal requirements could be raised and addressed.

I am further reassured by the fact that the Council's Head of Law and Governance and Monitoring Officer has carried out a self assessment of the

service which covers the Council's corporate legality arrangements that informs the Annual Governance Statement and has confirmed that there were no issues to raise and this provides me with the assurance that the Council has arrangements in place to ensure that it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. Furthermore the Executive Director of Commercial Development has also confirmed in her Controls and Assurance Statement that there were no issues or concerns to raise in this area and this provides full assurance regarding the Council's arrangements to ensure legality.

3) Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details.

On behalf of Management I declare that I have no knowledge of and the Council is not on notice of any non-compliance with laws and regulations that could impact on the 2014/15 financial statements. All contingent liabilities are discussed and identified and or updated and reviewed annually in order to reflect the known position as at the balance sheet date.

4) What controls do you have in place to: identify; authorise; approve; account for; and disclose, related party transactions and relationships? For any new related parties (i.e. any not already disclosed in your year end 31 March 2013 audited financial statements) please provide a list of them, explain the nature of these, and whether you have entered into any transactions with these related parties during the year to 31 March 2015.

On behalf of Management, I declare that I have no knowledge of any such related party transactions that require further disclosure from those previously declared.

The Council has robust procedures in place to identify and record any related party transactions in respect of its members and chief officers included within the statement of accounts which has taken place during the year and is informed by the robust formal year end process of signed declarations outlining all detailed related party transactions and relationships which apply to all individual Councillors and Chief Officers. Various sources of information held and recorded by the Council also help to inform the robust procedures in place including a detailed Partnership Register; Register of Councillor declared interests; its formal Committee protocols (whereby members must declare at meetings they attend any interests of a personal nature (where they can not vote on that item) or of a prejudicial nature where they will have to leave the meeting for that item); the Council's Constitution; and the detailed policies and procedure rules and financial regulations of the Council that are required to be observed which are also in place to ensure any related party transactions are identified, fully disclosed and recorded, properly considered and accounted for as necessary.

Yours sincerely,

Sonia Tognarelli

Director of Finance

Appendix 1

No.	Questions for management	Those charged with governance response
1	<p>Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2014 – 31 March 2015?</p>	<p>There was one breach of control in respect of a banking fraud perpetrated against the Council. This is not material to the accounts and actions are ongoing to recover the monies involved, although full recovery is unlikely. There are also a number of suspected fraudulent public liability claims which are also not considered material in nature.</p>
2	<p>Do you suspect fraud may be occurring within the Council?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks within the Council? ➤ Do you have any concerns that there are areas within your Council that are at risk of fraud? ➤ Are there particular locations within the Council where fraud is more likely to occur? 	<p>A fraud risk assessment is in place and is regularly updated which covers all appropriate parts of the Council. This covers areas of fraud risks, sets out the individual risks, a score for the risks and tests that are carried out to identify potential fraud taking place. A programme of proactive counter fraud work is undertaken every year by Internal Audit which did not identify any areas of concern.</p> <p>The Council also takes part in the Audit Commission's NFI programme which also has not identified any areas of concern.</p>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> ➤ If not where are the risk areas? ➤ What other controls are in place to help prevent, deter or detect fraud? 	<p>Internal controls regarding segregation of duties are in place and the results of Internal Audit work have not highlighted any material concerns. An adequate opinion on the system of internal control has been reported to the Audit and Governance Committee for the year. The Council has an Anti Fraud and Corruption policy and supporting documents in place which is available to all staff on the Council intranet and is included in the induction process. Other controls in place include a robust budget management framework which includes detailed support for Financial Resources, verification checks in key systems such as payroll, BACS payments, Accounts Payable which are aimed at identifying fraud or errors, the majority of Council payments are through the Supplier Relationship Management system which ensures authorisation of payments by an approved authorised officer. There has been a significant</p>

		amount of work undertaken across the Council to raise awareness of Information Governance issues and encourage staff to keep information secure.
4	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> ➤ What concerns about fraud are staff expected to report? 	<p>This is undertaken by officers of the Council. A Whistle Blowing policy is in place and is on the Council's intranet which gives details of how staff can raise concerns. Publicity campaigns have also taken place where posters have been placed around Council buildings encouraging staff to act on any concerns they may have. Staff are encouraged to raise concerns about any areas where controls are not being complied with, where there is significant non-compliance with policies and procedures or where there are concerns regarding corruption or potential financial loss.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your Council?</p> <ul style="list-style-type: none"> ➤ How are the risks relating to these posts identified, assessed and managed? 	<p>The Internal Audit Fraud Risk Assessments identifies potential fraud risks in specific areas which would cover any specific risks in relation to individual posts. Counter fraud checks would be designed to test these risks to identify any potential fraudulent activity.</p>
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> ➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>No</p> <p>The Council has robust procedures in place to ensure all related party transactions are identified and then where appropriate are fully disclosed in the Statement of Accounts. The Council has an established Code of Practice for Partnerships and maintains and updates its Partnership Register regularly. Internal practices and processes carried out as part of the closing of accounts timetable also has specific tasks and detailed analysis of all member and chief officer interests and related party transactions which are reviewed and collated to form notes in the statement of accounts. All member interests are also documented and held by democratic services for scrutiny and also help to inform the process. The procedures for the identification and assessment of group accounts process also helps to inform this area in addition to the other processes and policies in place. Reviews</p>

		by senior management also help inform the control process.
--	--	--

No.	Questions for management	Those charged with governance response
7	<p>Are you aware of any entries made in the accounting records of the Council that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> ➤ Are there particular balances where fraud is more likely to occur? ➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Council? ➤ Could a false accounting entry escape detection? If so, how? ➤ Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud? 	<p>No</p> <p>Internal controls and internal check mitigate the risk as does appropriately qualified and experienced staff involved in compiling the accounts.</p> <p>All areas are subject to a risk review and reports from internal and external audit help identify and report their findings in areas where risk is high. The SAP system makes false accounting unlikely because of the way it is designed and is fed by the bank reconciliation and feeder systems and that have separate controls and reconciliation processes in place to maintain the integrity of the financial system. Monthly bank reconciliations are carried out and reviewed by senior management along with balance sheet and suspense account reviews. Strong and robust budgetary control and financial practices are in place across the Council</p> <p>Areas that are identified as high risk are reviewed more regularly by internal audit as part of their risk based approach to auditing.</p> <p>Legal and financial review is carried out across the whole Council spectrum of activity.</p>
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> ➤ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>No – The Medium Term Financial Plan, the budget planning process and the Annual budget along with agreed cash limits approach is reviewed and monitored during the year to review achievement and adherence to agreed budget levels agreed by members and executive directors within the Council. Actual performance and any actions necessary are reviewed by management and reported to members who receive formal Cabinet quarterly reports during the year. As a consequence there are no inappropriate pressures or incentives being applied.</p>

AUDIT AND GOVERNANCE COMMITTEE

26 June 2015

TREASURY MANAGEMENT – REVIEW OF PERFORMANCE 2014/2015

Report of the Director of Finance

1 Purpose of the Report

- 1.1 To report on the Treasury Management borrowing and investment performance for 2014/2015.

2 Description of Decision

- 2.1 The Committee is requested to note the positive Treasury Management performance for 2014/2015.

3 Introduction

- 3.1 This report sets out the annual borrowing and investment performance for the financial year 2014/2015 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by Council on 5th March 2014. The Treasury Management Strategy comprises the approved Council strategy for borrowing and its policies for managing its investments (which give priority to the security and liquidity of those investments).
- 3.2 The TM Policy Statement and Strategy complies with best practice, including the Department of Communities and Local Government Investment Guidance which came into effect from 1st April 2010 and also incorporates the recommendations included in the latest version of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (last updated November 2011).

4 Review of Performance 2014/2015

4.1 Summary

The performance of the Council's Treasury Management function continues to contribute significant financial savings that are used to provide funding to support the Council's revenue budget. The average interest rate of the Council's borrowing at 3.11% is low and is in the top quartile of performers when benchmarked against other authorities as is the rate of return achieved on investments of 0.76%.

Borrowing Strategy and Performance – 2014/2015

- 4.2 The basis of the agreed Borrowing Strategy was to:
- continuously monitor prevailing interest rates and forecasts;
 - secure long-term funds to meet the Council's future borrowing requirement when market conditions were favourable;
 - use a benchmark financing rate of 5.00% for long-term borrowing (i.e. all borrowing for a period of one year or more);
 - take advantage of debt rescheduling opportunities as appropriate.
- 4.3 The Borrowing Strategy has been reviewed by this Committee in June, September and December 2014 and was updated where necessary to reflect changing circumstances. The Borrowing Strategy for 2014/2015 was based upon the views of the Director of Finance, supplemented with market data, market information and leading economic forecasts provided by the Council's treasury management adviser, Capita Asset Services.

The view in February 2014, at the time the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until March 2016 before steadily rising to 1.25% by March 2017 and that PWLB borrowing rates would increase during 2014/2015 across all periods. Financial analysts continue to speculate over the precise timing of any change in rates with most not expecting any movement until the second quarter of 2016.

The Council successfully applied to access PWLB loans at a discount of 0.20%. This certainty rate is available for those authorities that provide "improved information and transparency on their locally determined long-term borrowing and associated capital spending plans". The discount came into effect on 1st November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until 31st October 2015.

- 4.4 The table below shows the average PWLB borrowing rates in 2014/2015.

2014/2015	Qtr 1 (Apr - June) %	Qtr 2 (July – Sept) %	Qtr 3 (Oct – Dec) %	Qtr 4 (Jan – Mar) %
7 days notice	0.35	0.35	0.35	0.41
1 year	1.29*	1.40*	1.24*	1.14*
5 year	2.66*	2.66*	2.23*	1.92*
10 year	3.56*	3.39*	2.91*	2.49*
25 year	4.22*	3.98*	3.60*	3.16*
50 year	4.18*	3.96*	3.60*	3.14*

* Rates take account of the 0.2% discount to PWLB rates available to eligible authorities from 1st November 2012.

The strategy for 2014/2015 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 5.00% for long-term borrowing was set for

2014/2015 in light of the views prevalent at the time the Treasury Management policy was set in March 2014.

The Greek Debt crisis and expectations of low inflation and economic growth have forced the Eurozone via the European Central Bank (ECB) into implementing a significant package of financial support measures to bolster the EU economy. Added to this, is the continuing conflict in the Ukraine and other geopolitical concerns which have weighed heavily on global markets in 2014/15 with the result that there has been considerable movement of funds into UK gilts as investors have sought safer investment options. This has had the effect of pushing down both gilt yields and PWLB rates to historic lows. In line with discussions with the Council's economic advisors, the Council took advantage of the low borrowing rate troughs that have occurred at each stage during the year, which will benefit the council's revenue budget over the longer term. As a result the Council took out £50 million of new borrowing during the financial year as these rates were considered opportune at each point in time. The new borrowing is summarised in the following table.

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
50 years	08/08/2014	12/08/2014	12/08/2064	3.84	10.0
50 years	29/08/2014	02/09/2014	02/09/2064	3.72	10.0
50 years	16/10/2014	20/10/2014	20/10/2064	3.54	10.0
49.5 years	03/02/2015	05/02/2015	05/08/2064	2.84	10.0
14.5 years	12/02/2015	16/02/2015	16/08/2029	2.84	10.0

Since taking out this new borrowing, rates have fluctuated with a comparable 50 year rate of 3.08% at 31st March 2015 and have continued to fluctuate upwards since, (standing at 3.25% at the end of May 2015).

- 4.5 The Treasury Management Strategy for 2014/2015 included provision for debt rescheduling but also stated that because of the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long-term debt it would be difficult to refinance long-term loans at interest rates lower than those already in place.

Rates have not been sufficiently favourable for debt rescheduling in 2014/2015 but the Treasury Management Team continue to monitor market conditions and secure early redemption if appropriate opportunities arise.

- 4.6 The Council's borrowing portfolio position at 31st March 2015 is set out below.

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	177.9		
	Market	39.5		
	Other	1.5	218.9	3.45
Variable Rate Funding	Temporary / Other		27.6	0.41
Total Borrowing			246.5	3.11
Total Investments*	All managed In-House		229.7	0.76
Net Position			(16.8)	

* Total Investments includes monies invested on behalf of the North Eastern Local Enterprise Partnership for whom Sunderland City Council is the accountable body

The Council had a funding gap of £16.8 million representing the difference between gross debt and total investments. This position is expected to continue over the next few years as the Council has to manage its finances with significantly less government funding. This could impact further in the form of increased borrowing and reductions to reserves, with the result that the net borrowing position of the Council is expected to widen (increase) in future years.

Prudential Indicators – 2014/2015

- 4.7 All external borrowing and investments undertaken in 2014/2015 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other Prudential Indicators as follows:

The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was originally set by the Council for 2014/2015 in total at £440.123m which was detailed as follows:

	£m
Borrowing	410.945
Other Long Term Liabilities	<u>29.178</u>
Total	<u>440.123</u>

The Operational Boundary for External Debt for 2014/2015 was set at £331.753m as follows:

	£m
Borrowing	302.575
Other Long Term Liabilities	<u>29.178</u>
Total	<u>331.753</u>

Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Council's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).

The Council's maximum level in 2014/2015 was £338.202 million and is well within the borrowing limit set for the Authorised Borrowing Limit for External Debt.

However the Operational Boundary for External Debt was exceeded due to the fact that the accounting treatment in respect of the Council's share in the Joint Waste Disposal arrangement with Gateshead and South Tyneside councils has changed for 2014/15. The result is that this arrangement is now considered to be a PFI contract and as such must be included on the Council's Balance Sheet for 2014/15. This means that the 'Other Long Term Liabilities' value in the Debt measures has increased to recognise this late and significant accounting adjustment. There is no requirement to amend the Operational Boundary for 2014/15 but the previously agreed 2015/16 limits will need to be increased to take into account this latest accounting development.

4.8 The table below shows that all other Treasury Management Prudential Indicators have also been complied with during 2014/2015.

Prudential Indicators		2014/2015	
		Limit £'000	Actual £'000
P10	Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	250,000	90,181
P11	Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	60,000	15,655
P12	Maturity Pattern Under 12 months 12 months and within 24 months 24 months and within 5 years 5 years plus A lower limit of 0% for all periods	Upper Limit 50% 60% 80% 100%	19.57% 0.66% 5.69% 83.75%
P13	Upper limit for total principal sums invested for over 364 days	75,000	0

The Council is currently within the limits set for all of its Treasury Management Prudential Indicators.

5 Investment Strategy and Performance - 2014/2015

The Investment Strategy for 2014/2015 was approved by Council on 5th March 2014. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

- (A) The **security** of capital;
- (B) The **liquidity** of its investments and then
- (C) The Council aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

The Annual Investment Strategy has been fully complied with in 2014/2015.

- 5.1 At 31st March 2015, the Council had outstanding investments of £229.7 million. The following table shows the return made on the Council's total investments for 2014/2015 as compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	2014/2015 Return %	2014/2015 Benchmark %
In-house Managed Funds	0.76	0.35

This return far exceeded the benchmark set for 2014/2015 and represents a very good achievement especially when short-term investment rates continue to remain very low.

- 5.2 All investments placed in 2014/2015 have been made in accordance with the approved Investment Strategy and comply with the Criteria and the Approved Lending List set by Council on 5th March 2014 and also taking into account subsequent revisions reported and approved by Cabinet during the year.

The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the benefit of the Council. The rate of return on investments, as reported during the year, has remained at very low levels compared to previous years.

Investment rates available in the market have continued at very low levels and due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to limit investments to all financial institutions to shorter term periods.

- 5.3 As members will be aware, the regular updating of the Council's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. Changes made during 2014/2015 have been reported to members previously and the latest Lending List and Criteria are included in the Treasury Management First Quarterly Review 2015/2016 report appearing elsewhere on today's agenda, for information.

6 **Reason for Decision**

6.1 To note the performance for 2014/2015.

7 **Alternative Options**

7.1 No alternatives are submitted for consideration

AUDIT AND GOVERNANCE COMMITTEE

26 June 2015

TREASURY MANAGEMENT – FIRST QUARTERLY REVIEW 2015/2016

Report of the Director of Finance

1. Purpose of Report

- 1.1 To report on the Treasury Management (TM) performance to date for the first quarter of 2015/2016.

2. Description of Decision

- 2.1 The Committee is requested to:

- Note the Treasury Management performance during Quarter 1 of 2015/2016;
- Approve the revised 2015/2016 Prudential Indicators for both the Authorised Borrowing Limit for External Debt of £516.048m and the Operational Boundary for External Debt Limit of £442.196m, as set in A2 of Appendix A;
- Note the Lending List Criteria at Appendix B and the updated Approved Lending List at Appendix C.

3. Introduction

- 3.1 This report sets out the Treasury Management performance to date for the first quarter of the financial year 2015/2016, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Summary of Treasury Management Performance for 2015/2016 – Quarter 1

- 4.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment return to the revenue budget. PWLB rates have fluctuated since the start of 2015/2016 but the trend appears to be upward since the historically low levels witnessed during the last two quarters of 2014/2015. Consequently no new borrowing has been taken out to date during 2015/2016 but the position continues to be monitored closely.
- 4.2 One option to make savings is through debt rescheduling, however no rescheduling has been possible in 2015/2016 as rates have not been considered sufficiently favourable. It should be noted the Council's interest

rate on borrowing continues to be very low, currently 3.50%, and as such the Council benefits from this lower cost of borrowing and also from the ongoing savings from past debt rescheduling exercises. Performance continues to see the Council's rate of borrowing in the lowest quartile as compared to other authorities.

- 4.3 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its TM Prudential Indicators. The statutory limit under section 3(1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was originally set at £454.227m for 2015/2016. The Council's maximum external debt limit at 31st May 2015 was £336.211m and is well within this limit. More details of all of the TM Prudential Indicators are set out in section A2 of Appendix A for information. The indicators however now reflect changes required to both the Authorised Borrowing Limit for External Debt and the Operational Boundary for External Debt Limit in response to the Council's share of its Waste Disposal Joint arrangement with Gateshead and South Tyneside now being considered in the accounts for 2014/2015 as a PFI arrangement. This means that Other Long Term Liabilities which is included in both debt limit calculations have had to be increased from £27.508m to £89.659m as a result of this change in accounting treatment, which has brought the Waste Disposal arrangement onto the Council's Balance Sheet.
- 4.4 The Council's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.
- 4.5 As at 31st May 2015, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 0.91% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.36%. Performance is a little more positive and is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market.
- 4.6 The rate of return on investments, as previously reported, has remained at very low levels compared to previous years, mainly due to UK-based financial institutions having accessed funding from alternative sources (such as the Government's Funding for Lending Scheme which has been extended to January 2016) to increase their capital/cash reserves in line with revised regulatory requirements. Consequently demand for local authority funds continues to be low and whilst interest rates have improved slightly there is little prospect of a significant upturn until the Bank of England begins to increase the Base Rate. Even special tranche investment rates (which offer better than market average returns) have followed the downward trend.

Interest rates are being carefully monitored and managed so that the council can take full advantage of the expected increase in rates when it does occur.

4.7 More detailed Treasury Management information is included in Appendix A for Members' information.

4.8 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings since the last report. The updated Approved Lending List is shown in Appendix C for information.

5. Recommendation

5.1 Members are requested:

- to note the Treasury Management (TM) performance for the first quarter of 2015/2016;
- to approve the revised Authorised Borrowing Limit for External Debt of £516.408m and the Operational Boundary for External Debt Limit of £422.196m;
- to note the Lending List Criteria at Appendix B and the updated Approved Lending List at Appendix C.

Detailed Treasury Management Performance – Quarter 1 2015/2016

A1 Borrowing Strategy and Performance – 2015/16

A1.1 The Borrowing Strategy for 2015/2016 was reported to Cabinet on 11th February 2015 and approved by full Council on 4th March 2015.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2015, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until September 2016 before steadily rising to 2.00% by March 2018 and that PWLB borrowing rates would increase during 2015/2016 across all periods.

The Bank Base Rate has remained at an all-time low of 0.50% since March 2009 with monetary policy set by the Bank of England (BoE) to meet a 2% inflation target in the medium-term. Financial analysts continue to speculate on the timing of an increase in the current Bank Rate. Most do not anticipate a rise until at least the second quarter of 2016, a view shared by the Council's economic advisers Capita Asset Services, with rates then increasing gradually to 1.75% by March 2018.

Despite strong growth in employment and reductions in the rate of unemployment, the BoE has reduced its growth forecasts from 2.9% to 2.5% in 2015 and to 2.7% in 2016. Its May Inflation Report identifies a number of contributing factors to these downward revisions including a slowdown in quarterly growth and the view that for recovery to be sustainable over the longer term there must be a recovery in the growth of productivity and real wages in excess of the rate of inflation. The election of a majority Conservative Government with its continued plans for significant cuts in government expenditure to reduce the budget deficit is also expected to slow growth marginally.

Forecasts for PWLB interest rate levels have fallen across the board with benchmark rates of 2.2% for 5 years, 2.8% for 10 years and 3.5% for 25 and 50 years. Exceptional levels of volatility in PWLB rates and bond yields are expected to continue during 2015 which are highly correlated to geo-political and sovereign debt crisis developments, with suggestions of movements of up to 0.5% in a quarter not unusual. The ECB began a huge programme of quantitative easing measures in March 2015 which will last up until September 2016. The initial reaction has been that this has had a beneficial impact in improving confidence and sentiment and moving the Eurozone out of deflation.

The following table shows the average PWLB rates for Quarter 1.

2015/2016	Qtr 1* (to 31 st May 2015) %
7 days notice	0.36
1 year	1.20*
5 year	2.02*
10 year	2.65*
25 year	3.28*
50 year	3.21*

*rates take account of the 0.20% discount to PWLB rates available to eligible authorities (which came into effect on 1st November 2012).

A1.2 The strategy for 2015/2016 is to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 4.25% for long-term borrowing was set for 2015/2016 in light of the views prevalent at the time the Treasury Management policy was set in March 2015. Due to high levels of volatility in the financial markets, with borrowing rates still forecast to remain low over the short term, no new borrowing has been undertaken in the current financial year up to 31st May 2015, but this will be kept under review.

A1.3 The Borrowing Strategy for 2015/2016 made provision for debt rescheduling but due to the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

Rates have not been sufficiently favourable for rescheduling in 2015/2016 so far and the Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities should arise.

The Council successfully applied to access PWLB loans at a discount of 0.20%. This 'certainty rate' is available for those authorities that provide "improved information and transparency on their locally determined long-term borrowing and associated capital spending plans". The discount came into effect on 1st November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until at least 31st October 2015.

A1.4 The Council's treasury portfolio position at 31st May 2015 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	177.9		
	Market	39.6		
	Other	1.4	218.9	3.89
Variable Rate Funding	Temporary / Other		27.6	0.41
Total Borrowing			246.5	3.50

A2 Treasury Management Prudential Indicators – 2015/2016

A2.1 All external borrowing and investments undertaken in 2015/2016 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other TM Prudential Indicators.

A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) has been set by the Council for 2015/2016 as follows:

	Original £m	Revised £m
Borrowing	426.719	426.719
Other Long-Term Liabilities	<u>27.508</u>	<u>89.659</u>
Total	<u>454.227</u>	<u>516.408</u>

The Operational Boundary for External Debt has been set as shown below:-

	Original £m	Revised £m
Borrowing	332.537	332.537
Other Long Term Liabilities	<u>27.508</u>	<u>89.659</u>
Total	<u>360.045</u>	<u>422.196</u>

The Council's maximum external debt position in 2015/2016 (to 31st May 2015) was £336.211 million and is well within the borrowing limits originally set for both of these key indicators. However as referred to in paragraph 4.3 of this report both of these limits need to be increased to take into account the Council's share of its Waste Disposal Joint Arrangement with Gateshead and South Tyneside which is now regarded as a PFI contract. This means that the Other Long Term Liabilities figures included in both limits need to be amended to take this accounting change into account. The borrowing figures in each measure have remained unchanged but Other Long Term Liabilities have both been increased from £27.508m to £89.659m as a result.

The revised Authorised Borrowing Limit for External Debt is now £516.408m and the revised Operational Boundary for External Debt is now £422.196m for 2015/2016.

A2.3 The table below shows that all other Treasury Management Prudential Indicators have been complied with:

Prudential Indicators		2015/2016 (to 31/05/15)	
		Limit £'000	Actual £'000
P10	Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	245,000	38,883
P11	Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	60,000	9,314
P12	Maturity Pattern Under 12 months 12 months and within 24 months 24 months and within 5 years 5 years plus A lower limit of 0% for all periods	Upper Limit 50% 60% 80% 100%	11.74% 0.04% 5.74% 82.48%
P13	Upper limit for total principal sums invested for over 364 days	75,000	0

A3 Investment Strategy – 2015/2016

A3.1 The Investment Strategy for 2015/2016 was approved by Council on 4th March 2015. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

- (A) The **security** of capital;
- (B) The **liquidity** of its investments and then;
- (C) The Council aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

A3.2 As at 31st May 2015, the funds managed by the Council's in-house team amounted to £309.320 million and all investments complied with the Annual Investment Strategy. This includes monies invested on behalf of all other external organisations. The table below shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	Actual to 31/05/15 %	Benchmark to 31/05/15 %
Return on investments	0.91	0.36

A3.3 Investments placed in 2015/2016 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which is used to identify organisations on the Approved Lending List.

A3.4 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the Council's advantage.

A3.5 Investment rates available in the market have continued at very low levels.

A3.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments with all financial institutions to shorter term periods.

A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. Lloyds and RBS) which have a AA+ rating applied to them, or separately in respect of Money Market Funds which are AAA rated.

A3.8 The regular updating of the Council's authorised Lending List is required to take into account financial institution mergers, changes in institutions' credit ratings and other revisions. Members should note that following a funds merger on 15th May 2015 the Ignis Liquidity Money Market Fund (MMF) has been renamed Standard Life Investments Liquidity Fund. There has been no change in the credit ratings applied to the fund, which remain AAA with Fitch and Standard & Poor, or trading arrangements. Following a review of establishments Goldman Sachs has been added to the authorised Lending List and offers additional investments options to the Council. Fitch and Standard & Poor have recently undertaken an extensive review of the credit ratings of a number of counterparties with changes highlighted on the authorised Lending List in Appendix C.

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	364 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					350	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					20	# 20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA+ will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above, these new limits are as follows:

Country Limit

It is proposed that only countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £100 million which can be invested in other countries provided they meet the above criteria. A separate limit of £350m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	350
Non-UK	100

Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	350
Local Government	350
UK Banks	350
Money Market Funds	120
UK Building Societies	100
Foreign Banks	100

Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA+; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

	Fitch		Moody's		Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
UK	AA+	-	Aa1	-	AAA	-	350	2 years
Lloyds Banking Group (see Note 1)							Group Limit 100	
Lloyds Bank Plc	A+	F1	A1	P-1	A	A-1	100	2 years
Bank of Scotland Plc	A+	F1	A1	P-1	A	A-1	100	2 years
Royal Bank of Scotland Group (See Note 1)							Group Limit 100	
Royal Bank of Scotland Group plc	BBB+	F2	Ba1	NP	BBB-	A-3	100	2 years
The Royal Bank of Scotland Plc	BBB+	F2	A3	P-2	A-	A-2	100	2 years
National Westminster Bank Plc	BBB+	F2	A3	P-2	A-	A-2	100	2 years
Ulster Bank Ltd	BBB+	F2	Baa3	P-3	BBB+	A-2	100	2 years
Santander Group							Group Limit 65	
Santander UK plc	A	F1	A2	P-1	A	A-1	65	364 days
Barclays Bank plc	A	F1	A2	P-1	A-	A-2	50	364 days
Clydesdale Bank / Yorkshire Bank ^{*/**}	A	F1	Baa2	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	Caa2	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A	A-1	65	364 days
HSBC Bank plc	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Nationwide BS	A	F1	A2	P-1	A	A-1	65	364 days
Standard Chartered Bank	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A	F1	A3	P-2	-	-	50	364 days
Leeds BS	A-	F1	A3	P-2	-	-	50	364 days
Newcastle BS ^{**}	BB+	B	-	-	-	-	0	
Nottingham BS ^{**}	-	-	Baa2	P-2	-	-	0	
Principality BS ^{**}	BBB+	F2	Baa3	P-3	-	-	0	
Skipton BS ^{**}	BBB	F2	Baa3	P-3	-	-	0	
West Bromwich BS ^{**}	-	-	B2	NP	-	-	0	
Yorkshire BS ^{**}	A-	F1	Baa1	P-2	-	-	0	

	Fitch		Moody's		Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
Money Market Funds							120	Liquid
Prime Rate Stirling Liquidity	AAA		Aaa		AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Standard Life Investments Liquidity Fund	AAA		-		AAA		50	Liquid
Deutsche Managed Sterling Fund	-		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £100m								
Australia	AAA		Aaa		AAA		100	2 years
Australia and New Zealand Banking Group Ltd	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
National Australia Bank	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Westpac Banking Corporation	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Canada	AAA		Aaa		AAA		100	2 years
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Royal Bank of Canada	AA	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Finland	AAA		Aaa		AA+		100	2 years
Nordea Bank Finland plc	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Pohjola Bank	A+	F1	Aa3	P-1	AA-	A-1+	70	364 days
Germany	AAA		Aaa		AA+		100	2 years
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	A1	P-1	AA-	A-1+	70	364 days
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	100	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Hong Kong	AA+		Aa1		AAA		100	2 years
The Hong Kong and Shanghai Banking Corporation Ltd	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Luxembourg	AAA		Aaa		AAA		100	2 years
Banque et Caisse d'Epargne de l'Etat	-	-	Aa1	P-1	AA+	A-1+	100	2 years
Clearstream Banking	AA	F1+	-	-	AA	A-1+	80	2 years

	Fitch		Moody's		Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
Netherlands	AAA		Aaa		AA+		100	2 years
Bank Nederlandse Gemeenten	AA+	F1+	Aaa	P-1	AA+	A-1+	100	2 years
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	AA+	A-1+	100	2 years
Singapore	AAA		Aaa		AAA		100	2 years
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Sweden	AAA		Aaa		AAA		100	2 years
Nordea Bank AB	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Svenska	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
USA	AAA		Aaa		AA+		100	2 years
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
HSBC Bank USA, N.A.	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
JPMorgan Chase Bank NA	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Northern Trust Company	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
State Street Bank and Trust Company	AA	F1+	Aa2	P-1	AA-	A-1+	75	2 years
U.S. Bancorp	AA-	F1+	A1	P-1	A+	A-1	70	364 days
Wells Fargo Bank NA	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years

Notes

Note 1

Nationalised / Part Nationalised

The counterparties in this section will have the UK Government's AA+ rating applied to them thus giving them a credit limit of £100m.

* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.

AUDIT AND GOVERNANCE COMMITTEE

26 June 2015

EXTERNAL AUDITOR - AUDIT PROGRESS REPORT

Report of the Director of Finance

1. Purpose of Report

- 1.1 To enable the Committee to consider and comment upon the external auditors' (Mazars) regular Audit Progress Report covering the period up to June 2015.
- 1.2 The report will be presented by Gavin Barker, the Council's Senior Engagement Manager.
- 1.3 The reports are a regular feature on this agenda and are aimed at providing updates of the progress made by our external auditor in meeting and fulfilling their role and responsibilities to the Council.
- 1.4 Members will be pleased to note that early audit work in respect of both the 2013/14 accounts and Value For Money conclusion is progressing well and that no significant issues, that require reporting to members, has resulted from their interim work on the council's financial systems.
- 1.5 The report also sets out that:
 - a) the auditor's IT specialists are currently carrying out a review of IT general controls throughout the council – this work has not yet been completed but will be reported to members in due course;
 - b) a more detailed report is to be presented to members at the next meeting of this Committee which provides the basis of their VFM conclusion;
 - c) they propose to establish a North East Governance Forum targeted at Chairs and Vice Chairs of Audit Committees to promote good governance and to share best practice. Two places are available to Sunderland;
 - d) they are also acting as an agent of the Public Sector Audit Appointments (PSAA) to audit the council's Housing Benefit Claim for 2014/15 for the previously agreed fee of £10,300. They also point out that they can carry out other grant certification work under the (PSAA) regime but will have to agree separate fees for any additional work acquired.
- 1.6 The report also usefully highlights emerging issues and developments that may be relevant and of interest to members in their role on the Audit and Governance Committee. These are detailed in pages 10 to 12 of the report.

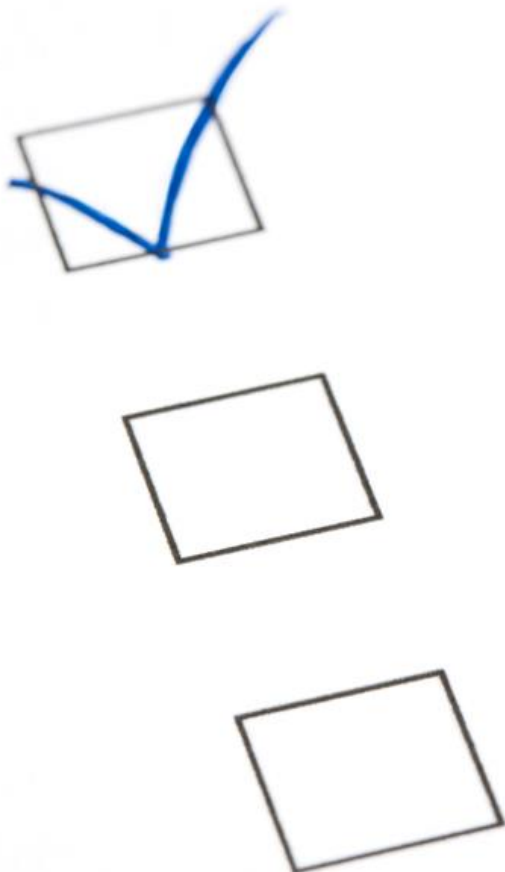
2. Recommendations

2.1 Members are asked to note the attached report.

Sunderland City Council

Audit Progress Report

June 2015



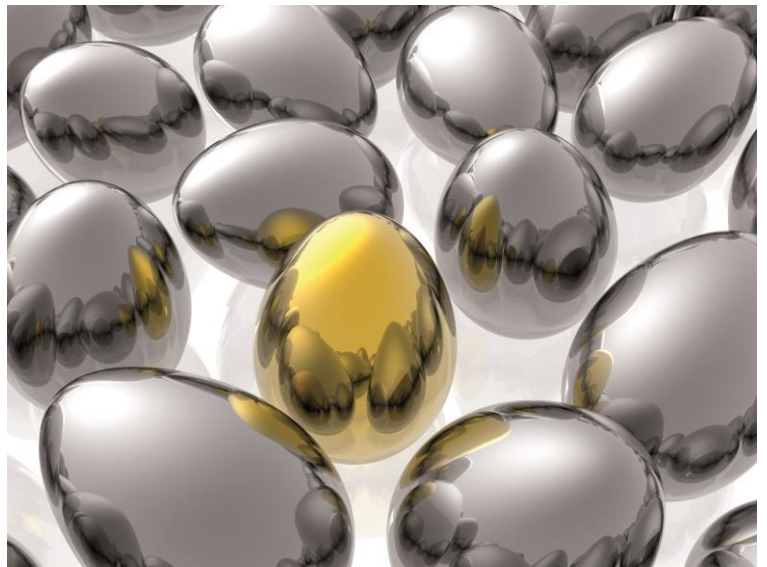
Contents

- 01 Purpose of this paper
- 02 Summary of audit progress
- 03 Emerging issues and developments
- 04 Contact details

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, the international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England with registered number OC308299.

01



Purpose of this paper

The purpose of this paper is to update the Audit and Governance Committee on progress in meeting our responsibilities as your external auditor. We also include in this paper key emerging national issues and developments which may be of interest to members of the Committee.

If you need any additional information please contact Mark Kirkham or Gavin Barker using the contact details at the end of this update.

02

Summary of audit progress



Our audit work has continued to progress well.

Opinion audit

We have completed our interim work on financial systems.

We did not identify any significant issues that require reporting to members.

We are mindful that from 2017/18, the accounts and audit timetable will be brought forward significantly. With this in mind, we have continued to carry out early testing where we can. This year we have completed income and expenditure transactions testing up to month 9 ahead of the main final accounts audit. We also expect to have completed work on the bank reconciliation before the accounts are finalised.

This is a step in the right direction, although we will need to work closely with officers in future years to ensure arrangements are made to meet the new deadlines from 2017/18. This will require gradual changes each year by both ourselves and officers.

We have maintained a dialogue with officers working on the production of the Authority's accounts. This has once again been a positive process and we envisage that this will help the audit of the accounts run more smoothly. We have discussed a range of technical issues, including accounting for the new Local Asset Backed Vehicle (LABV), Siglion, and group accounting issues.

IT general controls

As part of Mazars commitment to audit quality, our IT specialists have been carrying out a review of IT general controls. This work is ongoing at present, and the results will be reported to this committee in due course.

VFM conclusion

Before its closure on 31 March 2015, the Audit Commission issued updated guidance in respect of the Value for Money (VfM) conclusion.

We are required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of resources. Our conclusion on your arrangements is based on two specified criteria :

- **securing financial resilience** – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- **challenging how you secure economy, efficiency and effectiveness** – focusing on whether you are prioritising resources within tighter budgets and the need to improve productivity and efficiency.

In addition, we have regard to:

- your system of internal control as reported in your own Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review bodies; and
- any other locally determined risk-based VfM work considered necessary.

The guidance is similar to last year, setting out guidance for each sector under the following areas:

- approach and specified reporting criteria;
- key sector issues;
- guidance on the specified reporting criteria;
- financial resilience;
- securing economy, efficiency and effectiveness;
- risks relevant to the specified reporting criteria; and
- supporting VfM tools.

The guidance also sets out the typical characteristics for each of the two criteria; we plan to use these as a framework to inform our work, taking into account any local risks we may identify, as set out in our Audit Strategy Memorandum presented to the previous meeting of the Audit and Governance Committee.

We will produce a more detailed report this year setting out the basis for our VfM conclusion. This will be discussed with officers in the summer and shared with the Audit and Governance Committee before we issue the final VfM conclusion.

Our proposals for a North East Governance Forum

We are the largest provider of external audit services to local authorities and related bodies in the North East and North Yorkshire. We are committed to a long term presence in this market when it is opened up to wider competition. We recognise that we need to continue to provide high quality services, provide value for money and also provide added value where we can. We strive for this in all that we do, and are committed to improving our offer to you where we can.

Consequently, we are seeking to establish a North East Governance Forum, targeted at Chairs and Vice Chairs of Audit Committees, with the aim of promoting good governance and sharing ideas and best practice.

The flyer attached as Appendix 1 to our Audit Progress Report sets out our proposals, including details of the two free places that are available to Sunderland City Council.

We hope that the Council will find this a helpful initiative and will participate in it.

Certification of the housing benefits claim

As your appointed auditor, Mazars LLP acts as an agent of Public Sector Audit Appointments (PSAA) in carrying out certification work on the housing benefit subsidy claim. In previous years the Audit Commission made arrangements with the Department for Work and Pensions (DWP) for claim certification but this function has transferred to PSAA following the closure of the Audit Commission on 31 March 2015.

Prior to closure the Audit Commission made arrangements with DWP for appointed auditors to certify the housing benefit subsidy claims for 2014/15. In certifying these claims, all auditors are required to comply with a specified approach set out in a certification instruction.

We certify the claim by issuing a certificate which states whether the claim has been certified:

- without qualification;
- without qualification following an agreed amendment made by the Council; or
- with a qualification letter.

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or claw back funding which has already been provided or has not been returned.

As reported to you in our Audit Strategy Memorandum, presented at the April 2015 meeting, the proposed fee for the certification of the housing benefit subsidy claim for 2014/15 is £10,300 plus VAT (2013/14 £12,412). The proposed fee reflects the scale fee set by the Audit Commission.

In addition to certification work carried out as agents of PSAA, we may also be engaged directly by the Council to carry out other certification work. Where this is the case we will agree separate engagement terms for each claim or return.

03

Emerging issues and developments



The following pages outline for your attention some significant emerging issues and developments in respect of:

- Moving ahead with health and social care integration (CIPFA Briefing); and
- Accounting for transport infrastructure.

CIPFA briefing paper: Moving ahead with integration, *May 2015*

With health and social care finances under increasing pressure and little sign that the government can afford to pump in the additional resources which would be needed to maintain historic arrangements, the integration of health with social care has emerged as a key initiative. However, many local health and social care providers do not yet have a secure basis for medium-term planning, and without that there is a danger that the promising start represented by the Better Care Fund will be dissipated. If the best is to be made of such integration, CIPFA thinks that three conditions will need to be met as set out below.

First, it will need to recognise that combining two financially challenged systems will not in itself increase resources available. All the indications are that additional funding or changes to the regime for charging will also be needed.

Second, it is critical that the new government moves quickly to address the financial and policy framework for integration in 2016/17 and beyond.

Third, central and local health and social care leaders must take the right local actions to facilitate successful integration, concentrating on frontline practice.

The Council is well aware of the integration agenda. We have already discussed these and other issues with senior officers of the Council and the CCG and will continue to do so over the coming months.

<http://www.cipfa.org/cipfa-thinks/briefings>

Accounting for transport infrastructure – The long and winding road, Room 151 (Mazars briefing), April 2015

CIPFA published the original Code of Practice on Transport Infrastructure Assets in 2010, setting out significant changes in the measurement of transport infrastructure assets captured by the code. CIPFA has now confirmed that local authorities are required to implement the requirements for the first time in 2016/17.

The sheer size and complexity of the network of transport assets managed by local authorities is leading many in the sector to begin to worry about how prepared authorities are to meet the challenges that implementing the code brings.

One of the primary reasons for the change is the continuing qualification of the Whole of Government Accounts on the grounds of inconsistency in the measurement basis for transport infrastructure assets between central and local government. HM Treasury estimates that the impact of this inconsistency is a potential £232bn understatement of asset values, which gives a good idea of the scale of the restatements required by each local authority adopting the code.

Even a fairly small unitary authority is likely to have a few billion pounds worth of assets on their balance sheet with larger county areas potentially exceeding £10bn.

We have already started discussing this issue with officers who are aware of the task ahead.

<http://www.room151.co.uk/technical/accounting-for-transport-infrastructure-the-long-and-winding-road/>

04

Contact details



Mark Kirkham

Director and Engagement Lead

mark.kirkham@mazars.co.uk

0191 383 6300

Gavin Barker

Senior Manager

gavin.barker@mazars.co.uk

0191 383 6300

Address:

Rivergreen Centre

Aykley Heads

Durham

DH1 5TS

Appendix 1

Our Proposals for a North East Governance Forum



We are seeking to establish a North East Governance Forum, targeted at Chairs and Vice Chairs of Audit Committees, with the aim of promoting good governance and sharing ideas and best practice.

What is good governance?

Governance is about the framework of accountability to users, stakeholders and the wider community, within which organisations take decisions, and lead and control their functions, to achieve their objectives.

Good governance combines the ‘hard’ factors – robust systems and processes, such as risk management, financial management, performance management and internal controls – with the ‘softer’ characteristics of effective leadership, a culture based on openness and honesty, and high standards of behaviour. It involves a combination of both internal and external focus, understanding the needs of service users and the public and maintaining clarity of purpose.

The best organisations use governance to create the culture and tone that underpins the delivery of service excellence.

Why establish a governance forum?

Local government and the wider public sector is facing greater change and transformation than ever before, driven by austerity, significant cuts in public spending and a sharper focus on improving

services and achieving better outcomes for local people.

Significant changes will include:

- new and innovative models of service delivery;
- commissioning services rather than directly providing them;
- making services more self financing and sustainable;
- managing demand and reducing reliance on the public sector;
- working more closely with partners and the voluntary sector; and,
- building community capacity and resilience.

This change brings with it new governance and oversight challenges and those charged with governance need to be well sighted on the implications of the changes for their responsibilities.

Who should attend the governance forum?

The governance forum is for elected members and independent members and is targeted at the Chairs and Vice Chairs of Audit Committees and others interested in governance.

How will the governance forum help?

The purpose of the Governance Forum would be to:

- promote good practice in governance;



- facilitate a dialogue, debate and sharing of ideas among those providing governance oversight and their peers;
- horizon scanning to ensure that the forums are briefed on the latest developments and key topical issues; and,
- provide a safe and secure forum for discussion with a professional input drawing on Mazars' wide range of experience and expertise.

What are the benefits for those that attend?

Those attending the Governance Forum will be better equipped to deal with their governance responsibilities and will benefit from:

- up-to-date briefings;
- a deeper understanding of key issues; and,
- a wider perspective on topics of interest and concern.

Which authorities are being invited to join the forum?

The forum is focused on local government and related bodies, and invitations to join are being sent to:

- all local authorities in the North East;
- The North East Combined Authority;
- police and fire bodies; and,
- other bodies, such as local government pension funds covering the North East / and organisations like Nexus.

When will it meet?

The forum would aim to meet 3 times a year, and be broadly based around the accounts and audit timetable:

- January / February - Planning phase, identifying and addressing risks;
- May / June – Accounts production, annual reviews of governance arrangements; and,
- October – Reflections on audit completion, and horizon scanning on upcoming issues and developments.

The governance forum will meet for the first time in October 2015.

How much will it cost?

Each authority that we invite to join the governance forum will be entitled to two free spaces at each meeting.

If an authority wishes to nominate more than two delegates, each additional delegate will be charged at a nominal fee of £50 plus VAT (this charge will be per person per meeting).

Where will it meet and what will the format of the meeting be?

The first meeting will be held at our offices at the Rivergreen Centre in Durham; the date is to be confirmed.

The meeting will run from 10am to 12.30pm, with tea / coffee on arrival and including a tea / coffee break, and a buffet lunch / networking opportunity will be provided afterwards.

How do we make nominations to join the North East Governance Forum?

Please make your nominations to join the North East Governance Forum by completing the attached form and sending it by e-mail to:

durham.admin@mazars.co.uk

