

AUDIT AND GOVERNANCE COMMITTEE
Friday 25 September 2015

Present:

Mr G N Cook

Councillors Farthing, O'Neil, N Wright and Mr M Knowles.

In Attendance:

Paul Davies (Head of Assurance, Procurement and Projects), Elaine Waugh (Head of Law and Governance), Dennis Napier (Assistant Head of Financial Resources), Tracy Davis (Audit, Risk and Assurance Manager), Mark Kirkham and 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 Forbes and Speding.

Minutes

10. RESOLVED that the minutes of the meeting of the Committee held on 26 June 2015 be confirmed as a correct record.

The Chair noted that Councillor Forbes had requested information regarding the accounting change for PFI contracts and this had been provided to her outside of the meeting.

Inspection of Children's Safeguarding Service and Progress of Improvement Activity

The Head of Assurance, Procurement and Projects submitted a report providing an update in relation to the Children's Safeguarding Service and the action taken by the Council to address weaknesses identified in two independent reports and the recent Ofsted inspection report.

Members were reminded that Fiona Brown, Chief Operating Officer, People Services had attended previous meetings of the Committee to provide updates on the improvement work taking place in Children's Safeguarding. The Ofsted inspection report published on 20 July 2015 had judged services to be inadequate and had made 27 recommendations for the local authority to consider and seven for the Local Safeguarding Children Board.

Following the inspection, the Education Secretary had appointed Nick Whitfield as the Commissioner for Children's Services in Sunderland and Steve Walker had been appointed as interim Director of Children's Services. One off funds had been earmarked during the budget setting process for 2015/2016 to address the identified pressures but these pressures would continue to increase and the Council would have to consider this for future years.

The Head of Assurance, Procurement and Projects stated that the Risk and Assurance Team had been supporting the service in its improvement activities and it had highlighted that a number of planned actions in the 100 Day Plan, which had been developed in response to immediate issues raised during the Ofsted inspection, were either behind schedule or had not started. The Team would liaise with the interim Director about how they could provide support and report back to the Audit and Governance Committee.

Members were directed to the table at paragraph 6.2 of the report and advised that some of the baseline data that had been provided by the service was incorrect and as of 19 May 2015, there were 3,068 open cases, 300 unallocated cases and 607 with a check status. By 1 September 2015, these had been reduced by 503, 171 and 449 respectively.

Performance data showed significant improvements in relation to the timeliness of Initial and Core Assessments and Section 47 investigations, however there were a small number of Initial and Core Assessments showing as significantly overdue and requiring immediate attention on 1 September. The Committee was recommended to receive regular updates and to monitor the progress and impact of improvement activity in this area.

Neil Revely, Executive Director of People Services and Steve Walker, Interim Director of Children's Services were in attendance at the meeting and Neil reminded the Committee that they were aware of the seriousness in which the Council as a whole viewed the situation and that Ofsted had recognised the commitment of the Council to do what it needed to do to address the issues in Children's Safeguarding.

The Executive Director of People Services stated that Ofsted had reinforced some of the themes which had previously been identified but also highlighted greater concerns. Significant resources had already been brought to bear and this had now been increased with a significant emphasis on the Multi Agency Safeguarding Hub (MASH), to achieve better coordination of how to get a better return on investment. The future of Children's Services continued to be to ensure that good and outstanding services were achieved for the children and young people in Sunderland.

The Executive Director stated that the Improvement Plan was predicated on getting good and the best outcomes for children. Officers from People Services had worked with the Commissioner to develop a draft plan and this would be presented to the first formal Improvement Board meeting during the first week of October. There had been discussion about the need to inject strategic capacity into the service but day to day work and management was still required. The post of a dedicated Director of Children's Services had been agreed and Steve Walker had been seconded from Leeds City Council.

Steve Walker stated that he was pleased to attend the Committee meeting and sought to reassure Members that considerable action had already been taken. He made reference to Annexe H within the Ofsted report which contained cases which had been referred back to the authority due to there being serious concerns. 21 cases had been referred back in Sunderland and all had been reviewed and analysed to ensure that those children were safe. 11 of the cases related to the MASH and a great deal of work was being put into reviewing arrangements in this area and adding resource.

The report had highlighted a backlog which had now been managed through the system and additional staff recruited and placed in area teams to deal with this backlog. Caseloads had been brought down to a manageable level and there were now no unallocated Child Protection cases. A system was in place to monitor unallocated cases and a data set had been established to report to the Improvement Board and Commissioner and would be distributed as appropriate, including to the Audit and Governance and Scrutiny Committees.

Steve emphasised that he was working for Sunderland and would report back to the Commissioner as a permanent member of staff. He noted that there had been significant issues in producing accurate data for the initial Improvement Board and a system was being designed which would pull together more accurate data moving forward. He reassured the Committee that all of the basic information was there now, but a decision had been made to procure a system which would make this process easier in the future.

Steve informed Members that he was currently Deputy Director for Safeguarding, Specialist and Targeted Services at Leeds City Council and previously worked at Swansea City Council and stated that both of those authorities had been on a similar journey to the one which Sunderland was embarking upon now. He emphasised that the priority was to make sure that all children were safe and to restate the vision for children in Sunderland and to share with partners.

It was highlighted that the more cases which the authority had, the more social workers and placements which were needed and Steve said that there was a piece of work to be done around the structure and principles of practice which the authority wanted to establish. For example, the number of looked after children in Sunderland had increased by almost 100 since March this year and 44 children were in external residential placements. There were 22 children placed externally two years ago and only eight being looked after outside Sunderland four years ago. If this number was reduced back to 22, then the authority would save £3.5m and the current target was for 15 external placements which would achieve a saving of £4.7m.

The Council needed to be clear about the outcomes it was seeking, if the practice was right then outcomes would be achieved and financial savings would follow. Steve made a comparison with the situation in Leeds where there had been a reduction in the number of looked after children from 1,475 to 1,249 and residential placements had reduced from 110 to 49. This was not about shifting children but about looking at their plan and identifying where they needed to be in order to meet their needs. Allied to this would be the Practice Recovery Plan to evidence the cost of the service going forward.

Councillor Farthing commented that there had been nothing good in the Ofsted report at all and she asked if the Executive Director was surprised that leadership was still criticised a year after a peer review. The Executive Director of People Services stated that the authority was concerned about everything in the report and highlighted that when he came into post, there had been a feeling that the service was drifting and an independent review was sought through a scoping group and then a voluntary Improvement Board established. A peer review was carried out in November 2014 and an improvement plan drawn up with extra resources being put in place to move things forward. The service area was six to seven months into the plan when the Ofsted inspection took place and although the report was not a great surprise, it was disappointing that the improvement work which had taken place was not recognised, although it had always been known that this would not be a quick fix.

Councillor Wright stated that, as Chair of the Scrutiny Committee, she concurred with what had been said. Concerns had been raised, action was taking place and as far as Ofsted were concerned, some changes had been applauded but they did not think that these were taking place quickly enough. The Scrutiny Committee was, and continued to be, concerned about the situation.

Councillor Wright went on to say that when the Scrutiny Committee was first alerted to the issues, she and former members of staff, other councillors and the voluntary sector had raised concerns with the Leader and the Executive Director and it had been agreed that the Scrutiny Committee would set up a working group to monitor the implementation plan and the Sunderland Safeguarding Children Board. The working group had met with the Executive Director, the Chair of the Safeguarding Children Board and the Associate Director of Children's Services on a number of occasions and had been impressed by what had been put in place and the work already done. The Scrutiny Committee would continue to monitor the implementation plan and receive update reports. They had also asked to have the views of frontline staff and children reported.

The Committee were also informed that a review of the scrutiny arrangements in the Council had been agreed and it was hoped that a specific children's scrutiny committee would be established as part of this. Councillor Wright commented that there was no 'magic wand' solution to the problems being faced, and it was vital that changes continued to be made, but she paid tribute to the work which had been done by the Executive Director and his colleagues so far.

The Chair felt it would be useful for the Committee to be kept informed about the structure of scrutiny within the Council and also the reports which were presented to

the Improvement Board, and stated that he was determined that the Committee would be kept informed and involved.

Mr Knowles commented that the report had been extremely concerning but he felt reassured by the actions outlined by Steve Walker. He said that he would like to see the Commissioner's Plan and also hear how it would be managed. He asked how staff were on the ground at the moment and also for clarification of the position with regard to unallocated cases.

Steve Walker advised that there were no unallocated cases where the child was looked after or subject to a Child Protection Plan. There was now a process for monitoring unallocated cases and the average current caseload per social worker was 20. A number of newly qualified social workers had protected caseloads and there was an aim for caseloads to be reduced to 15 as a result of social workers providing more early help and support. A conference was being held for staff in November and the management team were trying to be as visible as possible for staff. The Improvement Plan was currently in draft format and members of the management were being allocated various elements of the plan prior to it being presented to the Improvement Board.

The Chair thanked Neil Revely and Steve Walker for their attendance and accordingly the Committee: -

11. RESOLVED that the significance of the work required to improve the Safeguarding Services in Sunderland be noted and that the Committee continue to receive regular reports to monitor the progress and impact of improvement activity in this area.

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 informed that the assurance position with respect to the Strategic Risk Areas remained the same. The Head of Assurance, Procurement and Projects advised that the Strategic Risk Profile was out of date and the process of reviewing this was to begin during the next month. The strategic risks were those which impeded the Council in achieving its priorities and the corporate risks were those which were inherent to the authority. It was expected that the review of the risk profile would result in additional risk areas being added to the map.

It was highlighted that the assurance position for Sunderland Live Limited was showing as red with regard to Internal Audit as there had been a number of areas identified with limited assurance. The Audit, Risk and Assurance Manager had attended a Board meeting of the company to go through the findings of the audit report and these had been accepted by the Directors. It had been arranged for a

member of staff from the risk and assurance team to temporarily support the company.

There was still limited assurance in relation to information governance and although improvements were being made, it was felt that these had not yet had a significant impact on the assurance position. If the situation had not improved by the next quarter, then an officer would be asked to attend the Committee meeting to update Members on the position.

The Head of Assurance, Procurement and Projects advised that all of the Key Performance Indicators (KPIs) were on target with the exception of the percentage of draft audit reports which were issued within 15 days of the completion of field work, which stood at 76.5% against a target of 90%; and the percentage of medium risk recommendations implemented which was 83% against a target of 90%. It was highlighted that the performance against the target reflected the pressures that managers and teams were under and it was likely that more of this would be seen in the future.

Referring to the detail of the Strategic Risk Profile outlined in Appendix 1 to the report, Councillor Farthing highlighted that there was no delivery plan associated with the Education and Skills Strategy and the limited assurance for commissioning which had been identified by Internal Audit and outlined at Appendix 2. Councillor Farthing also commented that she had been concerned about the red rating for Sunderland Live Limited but accepted what had been said regarding the action which had been taken.

The Audit, Risk and Assurance Manager advised that the Education and Skills Strategy had only been launched fairly recently and the Risk and Assurance team were working with officers to develop the delivery plan. A risk register was also being drawn up so that actions could be managed by the Education Leadership Board.

The Head of Assurance, Procurement and Projects stated that the red areas related to Commissioning for 2015/2016 were based on the findings of audit work with regard to the substance misuse contract. Commissioning had also been judged to have limited assurance in 2014/2015 as a result of similar issues with the contract for community in-reach services. It was noted that some comments had been made by Internal Audit to the People Services commissioning team on more than one occasion.

Noting what had been presented to the Committee in relation to safeguarding, Mr Knowles queried which other issues were contributing to the 'People' risk area being judged to have limited assurance. The Head of Assurance, Procurement and Projects advised that as part of the review of the risk profile, the level of detail under each strategic risk area would be examined along with how often the rating was updated. It was also intended to show performance information alongside risk to show if the situation was getting worse or better.

Councillor Wright noted that she had also been concerned by the rating giving to Sunderland Live Limited and commented that there had been a number of complaints received about the company through the North Area Committee. She was

pleased to hear that support had been offered to support the company and informed the Committee that she had queried the role of scrutiny in relation to this, and other arm's length organisations, as it was her understanding that the Council's Scrutiny Committee could scrutinise whatever it chose to.

Councillor Wright referred to the resources set aside for safeguarding and asked how far assumptions could be made on this and if there was reassurance that the necessary financial resources would continue to be available. She also commented on percentage of draft audit reports which were issued within the target time and noted that this reflected that officers were taking on more work and were under increased pressure.

Turning to the risk of failure to ensure appropriate health and wellbeing services were provided, Councillor Wright commented that although the Health and Wellbeing Board was delivering the Health and Wellbeing Strategy, health matters had not been brought to the Scrutiny Committee unless requested, however scrutiny would have that level of input when the new structure was brought in.

The Head of Assurance, Procurement and Projects stated that Safeguarding was a service area which had seen no budget reductions. People Services were currently undertaking an exercise to determine the minimum spend required to cover the provision of services with a view to achieving a sustainable financial position but there was a risk that bringing down the costs would take longer than the Council would like.

Upon consideration of the report it was: -

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

Review of the Remit and Effectiveness of the Audit and Governance Committee

The Chair of the Committee and the Director of Finance submitted a joint report which presented the outcome of a review of the remit and effectiveness of the Audit and Governance Committee and a suggested updated Terms of Reference for the Committee.

The first review of the remit and effectiveness of the Committee had taken place in 2009 and it was decided that it would be undertaken every three years in line with good practice. The review had included an update of the self-assessment based on CIPFA guidance, a review of the Terms of Reference for the Committee and consideration of the Annual Reports from the last three years.

The Committee were asked to consider the self-assessment attached at Appendix 1 to the report, the proposed Terms of Reference at Appendix 2 and were advised that the Terms of Reference would be presented to the Council for approval.

Having considered the report, the Committee: -

13. RESOLVED that: -

- (i) the self-assessment be agreed; and
- (ii) the proposed updated Terms of Reference be agreed.

Treasury Management – Second Quarterly Review 2015/2016

The Director of Finance presented a report outlining the Treasury Management performance for the second quarter of 2015/2016. The report also set out the revised Lending List Criteria, the Approved Lending List and the Risk Management Review of Treasury Management.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget. The Assistant Head of Financial Resources advised that PWLB rates had fluctuated since the beginning of 2015/2016 and consequently no new borrowing had been taken out.

The Committee were advised that the Council's interest rate on borrowing was very low, at 3.50% and the Council benefitted from this and the ongoing savings from past debt rescheduling exercises. Sunderland's rate of borrowing was in the lowest quartile compared to other authorities.

The Council's Treasury Management Team had achieved a rate of return on its investments of 0.90% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.36%. In response to a question from Councillor Farthing, the Assistant Head of Financial Resources confirmed that this placed the authority in the top quartile of councils for rates of return. The investment policy was regularly monitored and reviewed to ensure that it had the flexibility to take full advantage of any changes in market conditions which would benefit the Council.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within its limits for all of these. Members were reminded that the Authorized Borrowing Limit for External Debt and the Operational Boundary Limit had been increased due to the change in accounting treatment for the Waste Management PFI and the Council was well within those revised limits.

The Council continued to operate a careful and prudent Treasury Management Strategy and further detail on the Treasury Management performance was included in Appendix A to the report. The regular updating of the Council's authorised lending list was required to take into account mergers of financial institutions and changes in institutions' credit ratings since the last report and the updated Approved Lending List was shown at Appendix C to the report.

Upon consideration of the report, the Committee: -

14. RESOLVED that: -

- (i) the Treasury Management performance for the second quarter of 2015/2016 be noted; and
- (ii) the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D be noted.

Audited Statement of Accounts 2014/2015

The Director of Finance submitted a report which presented the Letter of Representation for 2014/2015, presented the Audit Completion Report received from Mazars concerning the financial statements for 2014/2015, provided Members with a slightly amended Annual Governance Statement and presented the audited Statement of Accounts for 2014/2015.

The Assistant Head of Financial Resources presented the report on behalf of the Section 151 Officer and advised that the Accounts had been certified on 26 June 2015. Members were directed to Appendix A which detailed the changes made to the Accounts as a result of the audit and were also provided with a revised copy of the Comprehensive Income and Expenditure Statement which corrected an error which had been identified in the original Statement of Accounts.

A Letter of Representation had been prepared by the Director of Finance setting out the principles used in preparing the accounts and providing the necessary assurances required by regulation. Once the Audit and Governance Committee had noted the contents of the letter, Mazars would be able to formally provide an opinion on the Statement of Accounts for the year ended 31 March 2015.

Gavin Barker was in attendance to present the findings of the external auditors in relation to the Statement of Accounts and advised that it was intended to give an unqualified opinion on the financial statements and that Mazars had now received the required assurance from the Tyne and Wear Pension Fund which had not been available when the Audit Completion Report was finalised.

Gavin also advised that the external auditors had concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for the areas which had been assessed as inadequate by Ofsted in their report on Children's Services and would be issuing a qualified Value for Money Conclusion.

The Audit Completion Report concluded that the Council had presented a very strong set of financial statements. Gavin thanked the Assistant Head of Financial Resources and his team for the high degree of co-operation with the external auditors and acknowledged the huge amount of work which had gone into the preparation of the Accounts.

With regard to the significant findings from the audit, Mazars had considered all of the significant risks which were outlined in the Audit Strategy Memorandum and found that there were no issues to bring to the attention of the Committee. There were also no issues highlighted with regard to internal control, it was noted that there were some issues in relation to IT controls but these were not significant.

In considering the Council's 'Value for Money', the external auditors were required to satisfy themselves that the Council had proper arrangements in place for securing financial resilience and for challenging how it secured economy, efficiency and effectiveness. Gavin reported that the Council had been judged to be in a good financial position with a sound financial base, whilst acknowledging the difficulties experienced in making efficiency savings and the achievements of the transformation programme. Mazars noted that the Accounts reflected these difficulties and the challenges which would be faced going forward.

Gavin highlighted the views of the auditors in relation to the Ofsted inspection and advised that there were a number of options in giving a qualified conclusion and that Mazars had given an 'except for' conclusion, which meant that they were satisfied with the adequacy of the arrangements, except for one matter which had been brought to their attention. The Assistant Head of Financial Resources advised that the Annual Governance Statement had also been amended to reflect the Ofsted judgement.

Having considered the report, the Committee: -

15. RESOLVED that: -

- (i) the contents of the Letter of Representation be noted;
- (ii) the contents of the Audit Completion Report provided by Mazars LLP be noted;
- (iii) the slightly amended Annual Governance Statement be approved; and
- (iv) the Amended Audited Statement of Accounts for the financial year ended 31 March 2015 be approved.

Review of Arrangements for Securing Value for Money 2014/2015

The Director of Finance submitted a report to enable the Committee to consider and comment upon the external auditors' Review of Arrangements for securing Value for Money covering the year 2014/2015 which formed the basis of the external auditors' Value for Money Conclusion included within the Statement of Accounts.

The report was a new initiative with the aim of providing both members and officers of the Council with much more detail on the information, factors and data which the external auditors have drawn upon in assessing the Value for Money Conclusion issued to the Council. Mark Kirkham advised that Mazars would carry out a risk

assessment, consider the expected features of the Council's arrangements and determine whether there were any areas which required further work.

The Chair commented that it was a fascinating report but painted a rather bleak picture for the future, Mr Knowles added that the report did recognise that the Council had a strong record in achieving its objectives.

Councillor Wright concurred with the comments of the Chair and stated that the results of the cuts were being felt by the general public. On behalf of the Committee, Councillor Wright commended the auditors and officers involved in the work and for achieving positive outcomes in difficult situations.

16. RESOLVED that the report be noted.

(Signed) G N COOK
Chair

