

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on Friday 10 February 2012

Present:

Mr G N Cook in the Chair

Councillor Forbes, Tate, T Wright and Mr J P Paterson.

Declarations of Interest

The following Councillors declared personal interests in the reports listed below for the reasons indicated: -

Item 6 – Treasury Management Policy and Strategy	Councillor Tate	Member of Newcastle International Airport Local Authority Holding Company
Item 8 – Audit Plan for 2011/2012	Councillor Tate	Member of GMB

Apologies for Absence

Apologies for absence were received from Councillors Rolph and Speding.

Minutes

37. RESOLVED that the minutes of the meeting of the Committee held on 20 January 2012 be confirmed and signed as a correct record.

Internal Audit Progress Report

The Head of Audit, Risk and Procurement submitted a report outlining progress of Internal Audit up to 30 December 2011, the areas of work undertaken and the internal audit opinion regarding the adequacy of the overall system of control within the Authority.

Members' attention was drawn to Appendix 1, which showed that all Key Performance Indicators had been met with the exception of two areas. One of these

was the percentage of audits completed by target date which stood at 72% against a target of 80%. This was mainly because of the support work being required by managers due to the amount of change currently underway and the availability of clients. This was not considered to be of any concern.

The other area which was behind target was the implementation of medium risk recommendations. This currently stood at 78% against a target of 90% and Members had previously been made aware this was mainly due to low rates of implementation in Health, Housing and Adult Services. Action was being taken within the Directorate to address this but it would take a number of months before it was reflected in the overall rate. It was suggested that if the direction of travel did not improve for the implementation of medium risk recommendations, the Committee would consider inviting the Executive Director of Health, Housing and Adult Services to attend a future meeting to outline the action being taken by the Directorate.

Good progress had been made against the Internal Audit Plan and all Key Risk Areas were showing an overall opinion of good or satisfactory. The Head of Audit, Risk and Procurement advised that if any piece of work which was in the plan was not carried out, an explanation would be given.

Councillor Wright noted that implementation rates of medium risk recommendations had reduced in some directorates between November and December and asked how this was measured. The Head of Audit, Risk and Procurement advised that the implementation rate was based on the last 10 to 12 follow up audits in each directorate which look at the total number of recommendations and total number which had been implemented. This would provide the latest attitude towards implementation in directorates.

Referring to housing benefit fraud, Councillor Wright queried the different values of overpayment reflected in the report and was informed that seven prosecutions had arisen as a result of the National Fraud Initiative and the other overpayments were identified through a Department for Work and Pensions (DWP) matching exercise. The Head of Audit, Risk and Procurement explained that when overpayments were identified, 40% of the value was received back from the DWP and the Council then had to recover the rest from the individual concerned. The rate of recovery was currently 71% across all overpayments. As this was already at a high level, increased resources in the area would not make a significant impact.

Councillor Tate highlighted the audits of schools and asked how an auditor might differentiate between an opinion of good or satisfactory. The Head of Audit, Risk and Procurement stated that the audit opinion was a judgement rather than a formula and schools which met the minimum standards would be judged as satisfactory and those where compliances levels were very high would be judged as good. Internal Audit would only carry out follow up audits with schools if there were any medium risk recommendations.

Councillor Wright asked for further information about the unplanned audit of 'Technoforge' and was informed that this was an IT system which stored data on land and property. The audit opinion had been unsatisfactory but only medium risk because the system was not yet being relied upon and needed improvement before

it went live. Councillor Wright added that he assumed an audit of assets would have to be carried out, given that the Government had said that local authority assets could be transferred to the community. Dennis Napier, Assistant Head of Financial Resources reported that an exercise had been carried out within a separate system to account for assets and match what was held by Technoforge. A full audit of the area had been carried out.

In response to a query from Councillor Forbes, the Head of Audit, Risk and Procurement advised that work to identify any duplicate payments would also seek to identify the reasons for any duplicates as well as recovery of the payments.

Councillor Forbes also expressed concern that an audit of adoption allowances had resulted in an unsatisfactory conclusion. The Head of Audit, Risk and Procurement advised that the allowances had been set in 1993/1994, had not been reviewed for some time and there was no information to indicate how they had initially been structured. In addition, adoption allowances were not linked to fostering allowances. A number of other issues had been identified which had led to the unsatisfactory opinion but Members were assured that these would all be addressed through the recommendations made, which would be followed up.

Having considered the report, the Committee: -

38. RESOLVED that
- (i) the information regarding progress against the planned audit work for the year and performance targets be noted;
 - (ii) the opinion that the Council continues to have an adequate system of internal control be noted; and
 - (iii) the rate of implementation of medium risk recommendations in Health, Housing and Adult Services be monitored.

Treasury Management – Third Quarterly Review 2011/2012

The Executive Director of Commercial and Corporate Services submitted a report detailing the third quarterly review of Treasury Management performance for 2011/2012 in accordance with the requirements of the Treasury Management Policy and Strategy.

The Assistant Head of Financial Resources stated that this was a very positive report and that the performance of the Treasury Management function continued to make contributions by making financial savings to support future year's capital programmes and by taking advantage of debt rescheduling opportunities and obtaining low cost borrowing where possible, which in turn also helped reduce capital financing costs for the revenue budget. Higher rates of return on investments also helped to support the revenue budget.

The Committee were informed that the Council's interest rate on borrowing was very low and the levels and types of borrowing were well within all Prudential Indicators. The rate of return on investments was also higher than expected at 1.63% compared with the benchmark rate of 0.4%. To put this in context, the Assistant Head of Financial Resources advised that additional interest received was almost £1.1 million above the budget target for 2011/2012 up to the end of December 2011.

Members were assured that changes to financial institutions ratings were monitored on a daily basis and changes made accordingly. Recent amendments to the Counterparty Criteria and Approved Lending List had been highlighted in bold within the report. The Council would continue to follow its prudent policy in relation to all Treasury Management activities.

Having congratulated the officers involved on an excellent report, the Committee: -

39. RESOLVED that: - (i) the Treasury Management performance for quarter 3 of 2011/2012 be noted; and
- (ii) the amendments to the Lending List Criteria and the Lending List be approved.

Treasury Management Policy and Strategy 2012/2013

The Executive Director of Commercial and Corporate Services presented a report informing the Committee of the proposed Treasury Management Policy and Strategy for 2012/2013 and the Prudential 'Treasury Management' Indicators for 2012/2013 to 2014/2015. The Committee was requested to provide comments to the Cabinet and Council on the Strategy where appropriate.

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

The Assistant Head of Financial Resources reported that there were no major changes being proposed to the overall Treasury Management Strategy in 2012/2013 which would maintain the careful and prudent approach adopted by the Council in previous years. The strategy was informed by factors such as the extent of potential borrowing included in the Council's capital programme, the availability of borrowing, the current and forecast UK and world economic position, specifically in relation to interest rates and security of investments. Despite this, there was still enough flexibility within the strategy to allow for changes to be made at short notice.

Members' attention was drawn to the Treasury Management Indicators and the legal requirement to provide assurance that the Council's Capital Programme was affordable.

The Treasury Management Policy Statement must be approved each year and there was a new requirement for this year's document to be more explicit about both the Council's Borrowing and Investment Strategies, which were set out in summary in

Appendix 2 to the report, to help explain the overarching policies and strategies being adopted in 2012/2013. The Committee were assured that investments were at first deemed to be safe and the optimisation of yields would be considered once security was assured. The Lending List Criteria and Approved Lending List showed that government backed institutions provided the safest opportunities for investment and only short term loans would be taken with other banks.

The Committee were pleased to note that the careful and prudent approach adopted by the Council in previous years would continue and accordingly: -

40. RESOLVED that the Council be advised that, having considered the report on the Treasury Management Policy and Strategy for 2012/2013, the Audit and Governance Committee had concluded that the arrangements for Treasury Management were in an excellent position for next and future years.

Annual Grants Report for 2010/2011

The Executive Director of Commercial and Corporate Services submitted a report presenting the Audit Commission's Annual Report on the Certification of Grants and Claims and Gavin Barker, representing the Audit Commission, spoke to the report.

Gavin advised that the report detailed a good outcome for the Council. There had been no loss of grant due to any error and the amendments made to claims were due to external factors. The most significant change to a claim was £4.1 million of expenditure from the Single Programme which was allowed to be claimed in 2010/2011 due to the programme coming to an end. This had been managed through successfully by officers.

There had been a qualification letter issued for the New Deal for Communities claim but this had not impacted on the grant receivable. The fee for the work in 2010/2011 had been £40,460 which had been £3,500 below the anticipated cost.

Councillor Forbes asked if the Audit Commission had identified any issues with partnership claims and Gavin commented that the Council had a well established verification framework and had good relationships with partners but issues did arise each year from the verification work carried out by council officers. Assurance was necessary for the Council's grant claim but the Audit Commission as part of the process had to review the verification work of Internal Audit with partners.

The Head of Audit, Risk and Procurement added that some problems had arisen as a result of conditions imposed by central Government and the difficulties associated with communicating these to external bodies.

Following consideration of the report, the Committee: -

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

Audit Plan for 2011/2012

The Executive Director of Commercial and Corporate Services introduced the Audit Commission's Audit Plan which notifies the Council of the work that the Audit Commission is proposing to undertake in respect of the audit of the financial statements and the value for money conclusion for 2011/2012.

Gavin Barker, Senior Audit Manager, advised that the plan would be based on the Audit Commission's risk based approach to audit planning. He highlighted that the following risks which had been identified in relation to the audit of the accounting statements: -

- Potential liabilities in respect of equal pay;
- Valuation of Newcastle International Airport;
- Correct accounting treatment of Care and Support Sunderland; and the
- New requirement to account for heritage assets.

Gavin also drew Members' attention to the significant risks which were relevant to the value for money conclusion. These were:

- Delivery of improvements through the Sunderland Way of Working and Corporate Transformation Programmes;
- Close monitoring of the budget position to ensure the delivery of actual savings and efficiencies, given the tight financial settlement, particularly the SWITCH process;
- Maintenance of good governance during a period of major change – evidence of the maintenance and/or improvement of service delivery, despite the difficult financial position;
- Review of any further measures to make savings required for future years; and
- The exploration of alternative models for service delivery.

The Audit Plan set out the key milestones and deadlines to be met by the audit team for 2011/2012 and also the fee for the work. The audit fee was £299,270 which was a 10% reduction on the scale fee for 2010/2011. The fee for auditing grants would also reduce by 13.4% as the number of grants which were subject to audit decreased.

Councillor Wright asked about the likely impact of equal pay claims on the Council and the Executive Director of Commercial and Corporate Services reported that a judgement had been received in relation to a particular tranche of claims and it had gone against the Council. The full detail of the judgement was still being worked through and a view would subsequently be taken about the potential next steps in the process. The Audit Commission had previously noted that the Authority was as best placed as it could be to respond to the issue.

Upon consideration of the report, it was: -

42. RESOLVED that the content of the report and the reduced audit fees for work undertaken in 2011/2012 be noted.

Local Public Audit – The Government’s Response to the Consultation

The Executive Director of Commercial and Corporate Services submitted a report providing a summary of the Government’s response to the consultation on the future arrangements for local public audit.

Following the decision to abolish the Audit Commission, the Government had consulted on proposals for a new local public audit framework and the Council had responded in June 2011. The current position on elements of the framework and relevant commentary from Council officers was outlined within the report.

The Head of Audit, Risk and Procurement highlighted the section relating to the appointment of auditors and that an Independent Auditor Appointment Panel would oversee the process and make a recommendation to full Council. Where a body already had an independent audit committee it could be used as the Auditor Appointment Panel. Over the next few years, Sunderland would need to consider how best to address this, by either establishing a separate Appointment Panel or by altering the make up of the Audit and Governance Committee.

The Audit Commission had evaluated the bids which had been made for its audit work and would make the decision to award contracts on a three or five year basis following discussion with the Department of Communities and Local Government (CLG). The results of the bidding process would be known on 6 March 2012.

The Government had held recent events to enable local authorities, local public bodies and the audit sector to give their views about the underlying detail of the framework. The Executive Director of Commercial and Corporate Services reported that he had attended an event on 27 January 2012 which had been led by CLG, with the Audit Commission and National Audit Office in attendance. There had been discussions about the future shape of the value for money assessment also the arrangements for the Independent Auditor Appointment Panel.

Councillor Wright welcomed the idea of auditors being appointed by an independent panel but commented that he felt the current committee set up was effective and asked if there was potential to establish a sub-committee of the main committee to appoint auditors. The Executive Director advised that this was a possibility, as long as there was a majority of independent members on the appointment panel.

Following discussion, the Committee: -

43. RESOLVED that the report be noted.

(Signed) G N COOK
Chairman

