

AUDIT AND GOVERNANCE COMMITTEE
Friday 28 June 2013

Present:

Mr G N Cook

Councillors Farthing, Forbes, Speding, T Wright and Mr J P Paterson.

In Attendance:

Malcolm Page (Executive Director, Commercial and Corporate Services), Paul Davies (Head of Corporate Assurance and Procurement), Rhiannon Hood (Assistant Head of Law and Governance), Tracy Davis (Audit, Risk and Assurance Manager), Dennis Napier (Assistant Head of Financial Resources), Gavin Barker (Mazars), Cathie Eddowes (Mazars), Susan McNair (PWC) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillor N Wright.

Minutes

1. RESOLVED that the minutes of the meeting of the Committee held on 22 March 2013 be confirmed and signed by the Chair as a correct record.

Update on Current and Future Key Developments

The Executive Director of Commercial and Corporate Services provided a verbal update to the Committee on the current issues affecting the Council.

The Executive Director stated that the recent Government Spending Review had continued the policy of fiscal tightening with social care being the only area which would potentially see some development.

The Department for Communities and Local Government (DCLG) was to experience budget reductions of 10% in 2015/2016 and the Executive Director stated that as the authority had already planned prudently for the forthcoming years, he did not believe that this would alter the current plans in a major way.

It had been confirmed that the Council Tax freeze grant component would be available again in 2014/2015 and 2015/2016 and it was up to individual local authorities if they decided to take the freeze option.

The headlines from the Spending Review had included previously announced funding for infrastructure and investments and a £2billion fund for Local Enterprise Partnerships. There was also early information about the next EU Fund Programme and the news on this related to Tyne and Wear was more positive than expected.

The Executive Director also referred to the Combined Authority which the Tyne and Wear authorities and Durham and Northumberland Councils had agreed to establish. The Combined Authority would primarily deal with skills, transport and economic development across the LA7 area.

The Council continued to work in line with its Medium Term Financial Strategy to 2016. New service delivery models were being designed to ensure that frontline services were being protected. This would present some different demands and challenges to the way the Council managed its business but the financial resilience of the authority remained strong.

The Chair enquired about funding for the Combined Authority and Councillor Wright asked about its relationship with the Local Enterprise Partnership. The Executive Director reported that the funding had not yet been determined but that the primary purpose of the Combined Authority was to be a receptacle for funds being received from the Government. All of the seven local authorities involved had agreed that Combined Authority should cost the same as, or less than, existing spend.

The Combined Authority and the Local Enterprise Partnership (LEP) had identical geographies, however, the Combined Authority was a legal entity whereas the LEP was not. Details about the human resources required for the Combined Authority had not yet been determined as a negotiation process would now take place with the Government prior to the launch of the Combined Authority in April 2013. There would be a relationship between the Authority and LEP but this was also to be worked through.

Having thanked the Executive Director for the update, the Committee: -

2. RESOLVED that the information be noted.

Annual Governance Review/Annual Governance Statement

The Executive Director of Commercial and Corporate Services presented a report providing details of the 2012/2013 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. The report also included the draft Annual Governance Statement and a draft revised Local Code of Corporate Governance.

The Head of Corporate Assurance and Procurement reported that the Council was required to produce an Annual Governance Statement every year and that this was prepared against the backdrop of the Council's Local Code of Corporate Governance. The Local Code had also been reviewed and some of the language within it revised to ensure it remained up to date and effective. As a result of the Annual Governance Review, an improvement plan had also been drawn up with a number of actions for the year ahead.

Councillor Farthing made reference to asset management and that some local authorities had been found to be selling assets without a proper valuation, and asked which Council policy would cover this area of business.

The Executive Director highlighted that the Council had sold very little of its large assets – land and buildings – in recent years and had now taken the view that it would hold on to its assets until the value increased. The Head of Corporate Assurance and Procurement advised that there were financial procedure rules within the Council's Constitution which would be followed with regard to the disposal of assets and this was reflected in the asset management element of the Corporate Assurance Map.

Councillor Forbes raised the issue of business continuity not being up to date and the Audit, Risk and Assurance Manager reported that all updates had been sent to senior management and it was now just a matter of reflecting these changes in the documentation.

Councillor Wright noted that a number of audits were cancelled after schools had converted to academies and asked if this meant that they were automatically removed from the Internal Audit system. The Head of Corporate Assurance and Procurement explained that Internal Audit provided the audit service for all maintained schools but also offered the service to academies. A number of academies had taken up the service but were not included within the Council Audit Plan as they were now outside the local authority. There was a potential risk for future resources as maintained schools were audited once every three years but it was being recommended that academies were audited annually.

It was highlighted that an exercise had been carried out to identify any duplicate payments and unclaimed VAT covering £1billion of transactions over the past four years. The company engaged to do this work were paid on a commission only basis and there was no cost to the Council in this exercise.

Accordingly the Committee: -

3. RESOLVED that the improvement plan, revised Local Code of Corporate Governance and the draft Annual Governance Statement be agreed.

Annual Report on the Work of the Committee 2012/2013

The Executive Director of Commercial and Corporate Services submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2012/2013 and the outcome of the work.

The report outlined the role of the Committee and detailed the matters which had been considered during the course of the year, including the Corporate Assurance Map for 2012/2013, the review of the effectiveness of Internal Audit, the Risk Management Strategy and Policy, the Council's Treasury Management arrangements and the annual Statement of Accounts 2011/2012.

Areas which the Committee was proactively monitoring were also highlighted, such as the implementation of agreed audit recommendations, the Integrated Assurance Framework and the Corporate Risk Profile.

The Chair commented that he felt that the Committee had done a substantial and comprehensive job over the past year. He was pleased with the work that had been done and hoped that the Members of the Council would endorse the report.

The Committee therefore

4. RESOLVED that the annual report of the Committee be approved and presented to the Council for their consideration.

Statement of Accounts 2012/2013 (Subject to Audit)

The Executive Director of Commercial and Corporate Services presented the Council's Statement of Accounts 2012/2013 (Subject to Audit) to the Committee and also presented the draft Letters of Assurance required by the external auditor as part of the final accounts process.

The Statement of Accounts would be certified by the Executive Director and then audited by the Council's external auditor before being brought to the Committee for final approval on 27 September 2013. The Accounts were compliant with the International Financial Reporting Standards and the Executive Director took the opportunity to thank the Assistant Head of Financial Resources and his team for the work which they had done to prepare the Accounts.

He then drew Members' attention to the Foreword to the Accounts which outlined the high level issues from the last financial year. It was noted that the level of Council Tax had been frozen again this year and that Sunderland continued to set the lowest level in Tyne and Wear. There had been a positive and successful outcome for the 2012/2013 budget, with a small underspend which demonstrated the strong financial leadership and control within the organisation. There had been a slight decrease in the Locally Managed Schools Reserve which illustrated the fact that schools were finding the financial climate challenging.

It was emphasised that the Council had made significant savings but was continuing to plan for further reductions and risks, such as the changes which had taken place with regard to the Business Rates Retention system and the Localisation of Council Tax Support.

The Executive Director referred to the section of the Foreword which detailed the work carried out under the Council's Transformation Programme and he highlighted that the workforce had been reduced significantly during the year and this had secured significant savings, however it was recognised that there was now reduced capacity in the organisation.

Members were informed that the Council had agreed to participate in the refinancing of Newcastle International Airport Limited and as a result had acquired additional shares in the Airport, the valuation of which had been reflected in the Accounts at their market value. The Executive Director was confident that these decisions would generate a commercial benefit to the Council over time.

Despite the continued economic downturn, £50m had been invested in the city via the Council's capital programme and it was noted that the authority was well within its borrowing limits and prudently placed. The Foreword also provided narrative on Treasury Management and pensions and provided additional information on progress on the settlement of equal pay claims.

The Executive Director highlighted that the remainder of the Statement of Accounts document set out the income, expenditure and reserves position for the authority and demonstrated that the authority remained financially resilient.

Having considered the report, the Committee: -

5. RESOLVED that: -

- (i) the Statement of Accounts 2012/2013 (Subject to Audit) be noted;
- (ii) the contents of the Letter of Assurance from those charged with governance be approved; and
- (iii) the Letter of Assurance from those charged with discharging management processes and responsibilities be noted.

Treasury Management – Review of Performance 2012/2013

The Executive Director of Commercial and Corporate Services submitted a report outlining the Treasury Management borrowing and investment performance for 2012/2013.

The Committee had received regular reports throughout the year on Treasury Management and were advised that the service continued to contribute significant financial savings which were used to support the Council's revenue budget. The average rate of Council borrowing was at 3.49% which was in the top quartile when

benchmarked against other authorities. The average rate of return on investments was 1.91% against a benchmark rate of 0.39%.

It was highlighted that within the Borrowing Strategy a benchmark financing rate of 4.5% for long term borrowing had been set, however no new borrowing had been taken out.

The report set out the Prudential Indicators for 2012/2013 and the Authorised Borrowing Limit for External Debt and the Committee were told that the Council was well within its guidelines for borrowing and had complied with all of the Treasury Management Prudential Indicators. The Investment Strategy was approved by the Council on an annual basis and had been fully complied with in 2012/2013.

Looking ahead to the next financial year, the Assistant Head of Financial Resources reported that there would be an impact on the Treasury Management Policy if the Government was to divest its shares in banking institutions such as Lloyds TSB. The Council would then have to consider the rating of the institution rather than using the UK Government's rating and the Authorised Lending List would have to be amended to reflect this change.

The Assistant Head of Financial Resources reported that the Chancellor had indicated that the Bank of England base rate was unlikely to change for the foreseeable future and as there was a squeeze on returns from investment, the Council's rate of return was expected to fall during the next financial year.

Councillor Farthing commented that it would be useful to know more about how the Authorised Borrowing Limit was set and suggested that this be addressed at a future Committee training session.

Following consideration of the report, it was: -

6. RESOLVED that Treasury Management performance for 2012/2013 be noted.

Review of Internal Audit 2012/2013

The Executive Director of Commercial and Corporate Services presented a report informing the Committee of the results of the review of Internal Audit undertaken by Mazars, the Council's external auditor.

Cathie Eddowes, representing Mazars, reported that they had carried out a review of Internal Audit in line with the standards set out by CIPFA. The financial year 2012/2013 had been the first that Internal Audit had been operating at a reduced size and the review had found that it was continuing to meet the required standards.

Mazars had reviewed five areas of work in detail and any minor points which had been identified had been dealt with immediately by Internal Audit. The changes to the service as part of the introduction of the Integrated Assurance Framework had now become embedded but it was noted that some key documents were in need of updating to reflect the new structure and processes in place.

The External Auditor's review concluded that the Internal Audit service continued to meet its professional and statutory duties. The processes which were in place were driven by a Quality System and the detailed review of the files by Mazars did not highlight any significant non-compliance with the Quality System or the Code.

7. RESOLVED that the report be noted.

Review of the Integrated Assurance Framework

The Executive Director of Commercial and Corporate Services submitted a report informing the Committee of the results of the review of the Integrated Assurance Framework which had been undertaken by PricewaterhouseCoopers (PWC).

2012/2013 had been the first year of operation for the Integrated Assurance Framework and PWC, the Council's Assurance Partner, had been requested to review the progress made so far in the context of recognising that the Integrated Assurance Framework was a new and innovative development in its formative stages.

Susan McNair of PWC was in attendance to present the report. She commented that very few authorities were adopting this approach due to its complexity, but it was an innovative method and Sunderland was one of the best early adopters. The review highlighted a number of points of good practice and also recommended areas for further development to broaden the approach. The review concluded that the Council had made good progress in implementing the Integrated Assurance Framework and there was a good understanding of how the Framework operated.

The Committee therefore: -

8. RESOLVED that the report be noted.

Framework Underpinning the Corporate Assurance Map

Tracy Davis, Audit, Risk and Assurance Manager, delivered a presentation on the framework underpinning the Corporate Assurance Map.

Tracy explained how each of the elements of the Map were developed. Strategic risks were identified by the Executive Management Team, action areas identified and reviewed through the Corporate Assurance Group and actions monitored by the Risk and Assurance Team.

Management assurance was gained through questionnaires to Heads of Service which covered the key governance arrangements. These were then analysed to provide the levels of assurance displayed in the Corporate Assurance Map. Specialist assurance was obtained through a quarterly assurance schedule which was completed by all specialist functions. The specialist functions were Legal Services, Financial Resources, Schools Financial Resources, Transformation,

Programmes and Projects, Strategy, Policy and Performance, Human Resources and Organisational Development and Business Continuity.

The variety of work covered by Risk and Assurance was wide ranging and assurance work could take a variety of different forms including; supporting the development of risk registers, supporting consideration of risks in business/service planning and advising on the establishment of alternative models of service delivery.

The Risk and Assurance team had an extensive work programme at the current time and this would only increase in size. An opinion would only be given if the team was sure that there was enough background to justify the view which was given.

Planned audits were set out in the Internal Audit annual plan and the overall opinion for each risk area was based on the opinions from audits in the current year plus the previous two years. Assurance gathered from external sources could include external auditors, external inspectors and peer reviews.

The Committee thanked the Audit, Risk and Assurance Manager for her presentation and stated that this had enabled them to have a greater understanding of the work that goes on underneath the Corporate Assurance Map.

9. RESOLVED that the presentation be noted.

Corporate Assurance Map – Update 2013/2014

The Head of Corporate Assurance and Procurement presented the updated Corporate Assurance Map which had been reviewed based on the work undertaken so far this year, the Internal Audit opinion on the adequacy of the overall system of internal control and the performance of Internal Audit. The report also covered the key performance measures for Internal Audit.

The Committee were informed that there were no opinions reflected in the Map for the Strategic Risk areas as the Strategic Risk Profile was currently being finalised with the Council's Executive Management team. With regard to the Corporate Risk areas, there were no red boxes and this showed a positive assurance position.

The Head of Corporate Assurance and Procurement highlighted that in November 2012, the external auditor had passed a letter of complaint to the Authority which had made allegations about the relationship between Council officers and Wearside Women in Need (WWIN), a charity which received funding from the Council to provide Housing Related Services.

Internal Audit carried out a full investigation, which was then reviewed by Mazars, and found that there was no evidence that Council officers had acted corruptly in their dealings with WWIN and that although WWIN had consistently submitted their accounts to the Charities Commission late, examination of their financial position showed no reason to discontinue their funding for the remainder of the grant period.

It was acknowledged that while all providers were treated equally, a competitive process had not been undertaken in this case and from April 2014, a procurement process would be in place for the provision of Housing Related Services. Financial monitoring had not been undertaken by the Health, Housing and Adult Services Commissioning Team in 2012/2013 and Internal Audit were currently helping with the strengthening of these arrangements, however an independent value for money assessment in 2011 had been positive.

The Head of Corporate Assurance and Procurement concluded that this had not been an ideal situation, and it should not happen again, however Internal Audit had made recommendations which had already been acted upon to improve the current position.

The Executive Director of Health, Housing and Adult Services was in attendance for this item of business and he took the opportunity to thank officers from Internal Audit who had supported the directorate in addressing this issue. All of the recommendations in the action plan from Internal Audit had been completed or were as complete as they could be at this point in time. The actions were on track with regard to timescales and it was expected that many would be implemented early.

The future procurement arrangements for the provision of Housing Related Services had recently been presented to Cabinet and monitoring reports would be considered by the Directorate Management Team and the Executive Director. Regular meetings were also held with the Cabinet Portfolio Holders and they were provided with the monitoring reports.

Councillor Wright commented that the issue had been dealt with sensibly but queried whether the need for confidentiality had impeded the necessary monitoring in the past. The Executive Director of Health, Housing and Adult Services stated that the assurances which were required did not include any sensitive information.

Councillor Forbes had understood that under the rules for making grants, accounts were required to be submitted once a year and it appeared that the issue with WWIN had been going on for a number of years. The Head of Corporate Assurance and Procurement stated that the present time, there was no requirement for a financial evaluation to be done prior to a grant being awarded and no rule to say that this should be checked once a year if the grant period extended for longer than one year. Internal Audit had made a recommendation that these checks should be made for 'significant' grants, which were categorised as those over the value of £50,000.

The Executive Director of Commercial and Corporate Services added that where business went through a competitive process, the appropriate financial checks which had been discussed would be made and the vast majority of the Council's business went through this process. The Executive Director of Health, Housing and Adult Services acknowledged that the financial checks done in 2009 before the grant was made to WWIN were not sufficient for the period of the grant.

Councillor Forbes made reference to the lack of consultation with service users and queried how this had happened. The Executive Director of Health, Housing and Adult Services responded that while the directorate carried out a lot of consultation in

many different ways, on this occasion, it had relied on the consultation which had been done by the provider organisation.

With regard to the original complaint, the Executive Director of Commercial and Corporate Services stated that he had written to the complainant but had not received a response. If there was further correspondence with the complainant, depending on the views expressed, it may be brought back to the Committee.

Gavin Barker of Mazars explained that they had received the complaint initially and had an ongoing relationship with Internal Audit on this type of matter. Mazars had reviewed the work of Internal Audit in detail and found it thorough and comprehensive and there was no evidence of any unlawful practice or of the Council suffering any loss as a result.

It was noted by Councillor Forbes, that the statement that the Council was receiving better value for money under the new arrangements, suggested that it was not receiving a good value service before then. The Head of Corporate Assurance and Procurement explained that, in 2011, the Council had reviewed its way of working in relation to Housing Related Services and allowed organisations to work more flexibly to meet outcomes with reduced resources. At this point, all providers were ranked and assessed by an independent consultant and those who scored the best received the least amount of reduction in funding. WWIN were one of the higher scoring organisations and received the smallest reduction. Overall funding had now been reduced by 26% and the Council was still referring residents to the service and people could also self refer, and this led to the conclusion that the Council was still receiving value for money.

Having noted that all of the Key Performance Indicators had been met, except for the implementation of medium risk recommendations, the Committee: -

10. RESOLVED that the report and the updated Corporate Assurance Map be noted.

External Auditor – Audit Progress Report to June 2013

The Executive Director of Commercial and Corporate Services introduced the Audit Progress Report from the Council's external auditors, covering the period up to June 2013.

Gavin Barker informed the Committee that there continued to be good progress on the 2012/2013 audit and echoed the comments of the Executive Director in respect of the officers who had worked extremely hard to prepare the financial statements and created the conditions for a smooth audit process.

Mazars had made an initial Value for Money assessment which – with the caveat that this would not be final until September – was positive and had found that the Council was in a strong and resilient position and also looked to continually improve.

The report also highlighted a number of emerging issues including; a Practical Guide for Local Authorities on Income Generation, the National Fraud Initiative, the Public Sector Internal Audit Standards and the Local Audit and Accountability Bill.

Councillor Wright asked if there was anything within the Local Audit and Accountability Bill which the Committee needed to be aware of at an early stage and Gavin stated that the main effect of the bill was to abolish the Audit Commission. The bill also provided for local authorities to appoint their own external auditors in the future, having had regard to the recommendations of an independent appointment panel. Further guidance was expected to support the implementation of this proposal and full details would be brought to the Committee in due course.

The bill would amend the legislative framework for council tax referendums and provided for measures which would ensure local authority compliance with the Code of Recommended Practice on Local Authority Publicity.

11. RESOLVED that the Audit Progress Report be noted.

Treasury Management 2013/2014 – First Quarterly Review

The Executive Director of Commercial and Corporate Services presented a report outlining the Treasury Management performance for the first quarter of 2013/2014.

The Treasury Management function continued to consider ways of maximising savings and increasing returns on investments. One way of achieving this was through debt rescheduling, however this had not been possible as yet in 2013/2014 as rates had not been sufficiently favourable. The Council's interest rate on borrowing was low and it continued to benefit from this rate and the ongoing savings from past debt rescheduling exercises.

The Council had approved the Treasury Management Policy and Strategy in March 2013 and within this, the Authorised Borrowing Limit for External Debt had been set at £398.602m for 2013/2014 and the Council was well within this limit.

There was a continuing challenge for the authority in trying to achieve the best rate it could on investments, in line with the policy which had been adopted. The Treasury Management team had achieved a rate of return of 1.07% against a benchmark of 0.36%. The rate of return on investments had fallen markedly in recent months and this trend was expected to continue for the forthcoming year.

It was noted that the Council's Authorised Lending List was required to take into account financial institution mergers and changes in credit ratings and the updated Approved Lending List was shown at Appendix B. Where ratings institutions differed in their views, the lowest rating was taken into account as part of the Council's prudent approach.

Councillor Farthing commented that the former Governor of the Bank of England had suggested that banks needed to have more cash available in order to improve the rate of return on investments. The Assistant Head of Financial Resources stated that

it could sometimes be the case that if banks wished to get more funding, local authorities were seen as a safe option. The Council did not place any funds for longer than one year and would always examine any opportunities very carefully before investing funds to ensure it safeguarded the amount invested.

Having considered the report, the Committee: -

12. RESOLVED that: -

- (i) the Treasury Management performance for the first quarter of 2013/2014 be noted; and
- (ii) the amendments to the Lending List Criteria at Appendix A and the Approved Lending List at Appendix B be noted.

Committee Membership

The Chair announced that Mr Paterson was retiring from the Committee. On behalf of the Audit and Governance Committee he thanked Mr Paterson for the valuable contribution he had made during his time as a Member.

Mr Paterson thanked the Members and officers for their kind words and wished them all the best for the future.

(Signed) G N COOK
Chairman