

AUDIT AND GOVERNANCE COMMITTEE
Friday 27 June 2014

Present:

Mr G N Cook

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

In Attendance:

Sonia Tognarelli (Head of Financial Resources), Paul Davies (Head of Assurance, Procurement and Projects), Dennis Napier (Assistant Head of Financial Resources), Sarah Reed (Assistant Chief Executive), Diane Downey (Acting Head of ICT), Tracy Davis (Audit, Risk and Assurance Manager), 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 Councillor Speding.

Minutes

1. RESOLVED that the minutes of the meeting of the Committee held on 28 March 2014 be confirmed and signed by the Chair as a correct record.

Annual Governance Review/Annual Governance Statement 2013/2014

The Head of Assurance, Procurement and Projects submitted a report providing details of the 2013/2014 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 were also included.

The Annual Governance Review was undertaken by gathering assurance from a number of sources via the Integrated Assurance Framework and led by the Corporate Assurance Group. The review considered information from Members,

Heads of Service, Executive and Corporate Directors, specialist functions, the Risk and Assurance team, Internal Audit, the External Auditor and other external agencies.

Members were directed to the Corporate Assurance Map which showed the position at the end of the year. The map showed a positive picture, subject to the Risk and Assurance opinion on ICT Strategy and Delivery, which the Committee had been made aware of at their last meeting.

With regard to the Internal Audit performance, the Head of Assurance, Procurement and Projects advised that all targets had been met apart from the implementation of medium risk recommendations which stood at 82% against a target of 90%.

The Committee were informed that the original audit plan had included 80 audits for the Council and that three had been cancelled for the following reasons: -

- Health and Wellbeing partnership – a Peer review was ongoing so the audit was deferred;
- Personal Budgets – an extended review of arrangements was due to end in March 2014 and an action plan for improvements developed, so the audit had therefore been deferred into 2014/2015; and
- ICT Strategy – the strategy had been under review during the year and a review of the ICT service was currently underway. Appropriate work would be planned once the outcome of this was known.

Counter fraud work had been undertaken in a number of areas during the year and although no fraud was identified, the work did identify a number of opportunities to improve the control environment.

A Corporate Governance Improvement Plan had been drawn up and was attached to the report as Appendix 1 and the draft Annual Governance Statement, taking into account the findings of the governance review was attached at Appendix 2.

Councillor Farthing referred to recent media focus on governance in schools and noted that a lot of work had been done, however in academies where the local authority had less control, she queried if this sort of work was left to Ofsted.

The Head of Assurance, Procurement and Projects stated that this was a wider issue to do with the role of the authority in relation to schools and academies. The Council's Associate Director of Education had been looking at the relationship of the Council with schools moving forward and which areas the authority should be challenging and which it should be supporting. The Assistant Chief Executive indicated that this had been the subject of the recent Education Conference and the Chair requested that an update report be provided for a future meeting.

From the perspective of Internal Audit, they carried out audit work for all grant maintained schools. Academies were required to have audit provision and could contract this service from the Council's team.

Mark Kirkham highlighted that Ofsted expected the Council to act in a corporate parenting role for all schools and this included early warnings and safeguarding.

Councillor N Wright commented that she had been told that some schools had not allowed access to the Police and Fire service and this was of great concern because of the local authority's ultimate responsibility for all children. She supported the Chair's request that this matter be followed up and brought back to the Committee.

Following on from the report given to Members at the last meeting, the Assistant Chief Executive provided an update on the work being done to address the key areas of concern highlighted by the Risk and Assurance team in relation to the ICT Strategy and Delivery.

The ICT resource management group continued to meet to co-ordinate ICT resources, reports were provided to the Chief Executive on a monthly basis and the Leader and Deputy Leader received regular updates. The Acting Head of ICT was closely managing the audit actions and the report outlined where improvements were being made.

The Assistant Chief Executive advised that progress had been made on getting the right staffing in place for the service and Human Resources were looking at capability and capacity going forward. ICT continued to be developed to improve the customer experience and the Council was looking at bring economic benefits to Sunderland through Software City. The Committee were informed that Sunderland had recently received a Digital City award, against some strong competition, which recognised that although there was a great deal to do, the impact was being seen on the ground.

Mr Knowles asked what the timescales would be for the improvements to the firewalls and the future ICT structure.

The Acting Head of ICT explained that the Council's ICT infrastructure went through a regular refresh cycle and this time was now approaching. Capital resources were in place to renew the firewall and the planning would be around how what was already a good system, could be replaced. Planning for the implementation of the improvements would take place over the next two to three months.

Having considered the report, the Committee: -

2. RESOLVED that: -

- (i) the report and updated Corporate Assurance Map be noted;
- (ii) the Improvement Plan at Appendix 1 be agreed; and
- (iii) the draft Annual Governance Statement at Appendix 2 be agreed.

Review of Internal Audit

The Head of Assurance, Procurement and Projects submitted a report informing the Committee of the results of the review of Internal Audit undertaken by the External Auditor.

Gavin Barker advised that a detailed assessment had been carried out and that the External Auditors had found that the Council's arrangements were very good and that the Internal Audit Service was compliant with the requirements of the Public Sector Internal Audit Standards and the CIPFA Application Note.

A small number of minor improvement points were identified and these had been discussed with, and would be picked up by, the Head of Assurance, Procurement and Projects.

3. RESOLVED that the positive opinion provided be noted.

Corporate Assurance Map 2013/2014 – 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 the overall view in relation to Strategic and Corporate risk areas had remained the same. The Head of Assurance, Procurement and Projects stated that ICT had already been discussed and there were no additional issues to draw to the attention of Members.

The Key Performance Indicators for the Internal Audit Service were outlined at Appendix 4 to the report and the Committee were informed that the performance was on target in all except three areas, which were:

- Percentage of draft reports issued within 15 days of the end of fieldwork which stood at 86% against a target of 90%
- Percentage of audits completed by target date which stood at 71% against a target of 80%
- The current percentage of medium risk recommendations implemented (excluding schools) which now stood at 80% against a target of 90%.

The Head of Assurance, Procurement and Projects highlighted that the slip in the implementation rates of medium risk recommendations was something which should be monitored. The Chair commented that the implementation rates were not impressive and asked that the Head of Service draw the attention of his colleagues to the recommendations of Internal Audit.

The Chair referred to risk EC 1 and stated that he felt that the access of young people to higher and further education in the city was vital. He wished to know, through the Deputy Chief Executive or the Economic Leadership Board, whether there were any targets for this as he felt that this was at the core of retaining quality in the city. The Head of Assurance, Procurement and Projects suggested that a report be brought to the next Committee and he would liaise with the relevant Head of Service in relation to this.

Councillor Farthing asked for more detail about the 'plan on a page' referred to under risk PE 3 and the Head of Assurance, Procurement and Projects explained that People Services were trying to introduce this for all Heads of Service and service managers as a quick way of presenting priorities and KPIs.

Councillor Farthing went on to ask about the reference to 'bucket' positions within the scope of the 2014/2015 audit of SAP Organisation Structures. The Committee were informed that the SAP system was set up to mirror the structure of the Council and the 'bucket' positions were used for casual staff and there was a risk related to the these positions being outside the main authority structure. Councillor N Wright commented that 'bucket' was an unfortunate term and appeared rather derogatory.

In relation to EC 2, Councillor T Wright stated that he was concerned about the lack of available land for inward investment. The Head of Assurance, Procurement and Projects said that this risk was more around the lack of developed sites rather than a lack of land. The local authority was conscious of the need to develop sites which were attractive for investment as developers would not now carry out works on a site and then invest. The Head of Financial Resources highlighted that, in addition to the Vaux site, the International Advanced Manufacturing Park was also being developed and a lot of work was being done to promote inward investment through this project.

Upon consideration of the report, it was: -

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

External Auditor – Audit Progress Report

The Head of Financial Resources introduced the Audit Progress Report from the Council's external auditors, covering the period up to June 2014.

Gavin Barker, Senior Engagement Manager, informed the Committee that the early work in respect of the audit opinion and Value for Money conclusion was going well. Mazars' report highlighted some emerging issues including the proposed closure of the Audit Commission, Value for Money profiles, 2014/2015 work programme and scale of fees and rebates and future reductions.

The audit fee for Sunderland City Council had been confirmed as £179,562 for 2014/2015 and this was the same fee as both 2012/2013 and 2013/2014. The Audit Commission had also provided a 13.7% rebate to all authorities on the fees for the 2012/2013 audit.

Councillor Farthing commented that she had looked at the Value for Money profiles and found that these highlighted some of the issues which were currently being addressed by the Council and thought they might be of interest to all elected Members. The Head of Financial Resources stated that officers did review Value for Money profiles and took them to various bodies for consideration. It would be possible to hold a seminar for Members and highlight areas for review which would complement what had come out of the profiles.

The Head of Financial Resources added that this was included in the Members' induction programme and Councillor N Wright suggested that this might be tied in with scrutiny training which was currently being planned. It was also noted that the medium term financial planning context was provided to Members when the budget was being developed and Councillor Farthing proposed that the Value for Money profiles could be used as part of the lead up to that process.

Accordingly, the Committee: -

5. RESOLVED that the Audit Progress Report be noted.

Annual Report on the Work of the Committee 2013/2014

The Head of Assurance, Procurement and Projects submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2013/2014 and the outcome of this work. The purpose of the report was to demonstrate how the Committee had fulfilled its role and would be presented to Council once it had been agreed by the Committee.

The report outlined the Committee's role and the matters which had been considered throughout the year including the Corporate Assurance Map, the annual review of the effectiveness of internal audit, progress reports from the external auditors and the review of the implementation of the Integrated Assurance Framework. The Committee's work in monitoring the Corporate Assurance Map and Treasury Management was also highlighted.

The Committee felt that the report provided a true reflection of their work throughout the year and it was: -

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

Statement of Accounts 2013/2014 (Subject to Audit)

The Head of Financial Resources submitted a report providing members with a certified copy of the Council's Statement of Accounts 2013/2014 (Subject to Audit) and the draft Letters of Assurance required by the external auditor as part of the final accounts process.

The Accounts, subject to audit, were required to be certified by the Relevant Finance Officer by 30 June of each year and once audited, needed to be approved by the Committee before 30 September each year in accordance with statutory requirements.

The Head of Financial Resources drew the attention of Members to her Foreword to the Accounts which was presented at pages 5 – 13 of the Statement of Accounts document. Group Accounts had been prepared for the first time and presented the financial statements for the Council and now also included the financial results of its

subsidiary arrangements; Care and Support Sunderland Limited, Sunderland Care and Support Limited and Sunderland Live Limited.

For the seventh consecutive year, Sunderland had set the lowest Council Tax level in the whole of the North East and had achieved an overall net saving of £8.6m for the year. This had been achieved as a result of reductions in debt charges and other savings in respect of the Council's improvement agenda, including controls on staffing and vacancy management, and good budget management across the Council. This had enabled the Council to earmark reserves of £3.6m for specific purposes in order to help mitigate future years' cost pressures on the revenue budget and to allocate the remaining £5.0m to support capital priorities in 2014/2015 and in future years, which had been agreed by Members.

The general reserve balance had been maintained at £7.570m and this was considered a prudent level. Schools balances had been reduced by £1.0m to £8.325m and these were fully committed and held in accordance with the appropriate regulatory powers.

The Head of Financial Resources drew Members' attention to the capital position outlined on page 11 of the Accounts and the major projects which the Council was undertaking. She also referred to the Local Asset Backed Vehicle and City Deal, which were additionally being progressed by the Council, and would make inroads into regenerating the city and its economy.

The overall financial health of the Authority was shown by the Balance Sheet on page 26 and in this context, the Head of Financial Resources confirmed that the Council remained financially resilient but continued to face a challenging financial position. Appendix D and E to the report had been circulated to Members at the meeting and these included high level notes which explained key issues within the financial statements and also aimed to make the Accounts, which were complex in nature, easier to understand.

Councillor T Wright asked if the Port Board accounts would be presented to the Committee. The Head of Financial Resources advised that the Port Board would receive the individual Port accounts for consideration and the position of the Port was incorporated within the Council financial statements with a brief summary of the port's financial position being outlined on page 95 of the notes to the Accounts.

Councillor T Wright went on to say that there seemed to be more and more partnership arrangements and he was concerned about the scrutiny of these bodies. The Committee were informed that related party transactions had to be shown within the Statement of Accounts and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/2014 was adhered to in relation to the preparation of Group Accounts.

Mr Knowles noted the reference to 'the *aggressive* approach to reducing back office support costs' and queried the use of the word aggressive. He also asked if equal pay claims were appropriately provided for and queried if the interest rate assumptions were a little long.

The Head of Financial Resources acknowledged that 'aggressive' was possibly not the best term to use and would review this. She confirmed that adequate provision had been made for equal pay claims and that interest rates would be covered within the agenda item on Treasury Management.

Councillor N Wright highlighted that the Scrutiny Committee had been looking at the lines of accountability for the local authority companies and felt that this needed to be examined in more detail. The Head of Financial Resources advised that there were various performance management arrangements in place for the companies and finance officers received quarterly reports and the information was then passed through to the Cabinet. Councillor T Wright stressed the importance of these matters being made clear to Members within the Accounts so that questions could be asked where necessary.

Members having considered the Statement of Accounts, it was: -

7. RESOLVED that: -

- (i) the Statement of Accounts 2013/2014 (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 Annual Review 2013/2014

The Head of Financial Resources submitted a report outlining the Treasury Management borrowing and investment performance for 2013/2014.

The Committee received quarterly reports updating them on the performance of the Council's Treasury Management function and this report brought together all of the information which had been presented through the year.

The Treasury Management function continued to contribute significant financial savings which were used to provide funding to support the Council's revenue budget. The average rate for Council borrowing at 3.47% was in the top quartile when benchmarked against other authorities. The rate of return achieved on investments was 1.03% for the year which was also in the top quartile against a benchmark rate of 0.35%. It had been a major challenge to continue to achieve these rates and this would only become more difficult in the year ahead.

Members were reminded of the basis of the Borrowing Strategy for 2013/2014 and that it had been reviewed by the Committee in June, September and December 2013. All external borrowing and investments undertaken in 2013/2014 had been subject to the monitoring requirements of the Prudential Code and the Council was currently within the limits set for all of its Treasury Management Prudential Indicators.

The Investment Strategy for 2013/2014 had been approved by the Council on 6 March 2013 and all investments placed in 2013/2014 had been in accordance with the prudent strategy agreed. The Council's Authorised Lending List and Criteria was regularly updated in the light of financial institution mergers and changes in institutions' credit ratings. Changes made during 2013/2014 had been reported to Members as part of the quarterly Treasury Management reporting cycle.

8. RESOLVED that the positive Treasury Management performance for 2013/2014 be noted.

Treasury Management 2014/2015 – First Quarterly Review

The Head of Financial Resources presented a report outlining the Treasury Management performance for the first quarter of 2014/2015. The report also detailed amendments which had been made to the Lending List Criteria and the Approved Lending List.

The Council's Treasury Management function continued to look at ways of maximising financial savings and increasing investment return to the revenue budget. One option for this was debt rescheduling but as rates had not been considered sufficiently favourable, no debt rescheduling had been possible so far in 2014/2015. The Council's interest rate on borrowing remained low at 3.55% and it remained in the top quartile for the cost of borrowing. The Assistant Head of Financial Resources advised that some borrowing had matured and a loan had been repaid but no further borrowing had been taken out which helped explain the small variation compared to the year end rate reported of 3.47%.

The rate of return on investments had dropped dramatically to 0.58% as a result of the more challenging market conditions which were being experienced and which had been highlighted in previous reports. The Assistant Head of Financial Resources stated that the authority still invested with special tranche rates and would try to achieve a higher return through negotiation where possible. Rates could move around unexpectedly and would increase, possibly sooner than expected, and the Council would invest over the short term to ensure that it was not caught out and could take advantage of future higher rates.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was within the limits set for all of these. Overall, Sunderland continued to be in a good position and outperformed its neighbours. It had a low risk and prudent Treasury Management policy which was predicated on the Government's guarantee for all UK based institutions and if this position changed then the Council's Treasury Management policy would have to be reviewed accordingly. It was possible that new Lending List Criteria would have to be drawn up if the Government's guarantee support scheme was withdrawn, which was rumoured could occur in the early part of next year, but any such changes would be brought back to the Committee for approval should this be required.

Upon consideration of the report, the Committee: -

9. RESOLVED that: -

- (i) the Treasury Management performance for the first quarter of 2014/2015 be noted; and
- (ii) the amendments to the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

Certification of Claims and Returns – Workplan 2013/2014

The Head of Financial Resources submitted a report which presented the work which the Council's external auditors planned to carry out for all grant claims and returns made by the Council for the year 2013/2014.

Gavin Barker presented the work plan which set out the arrangements for certification of grants requiring an external audit opinion and he stated that the auditors had good working arrangements based on agreements between the Audit Commission and Government departments.

It was highlighted that there were a reducing amount of claims which were required to have external certification and the majority of these were now reviewed and certified internally. The Housing Benefit grant claim was the one remaining claim which was subject to external audit and due to the reduction in the work required, the scale fee had been reduced accordingly from £15,600 to £12,412.

There was now a requirement for further work to be carried out for the Council in respect of its Section 256 agreements. The Audit Commission had also made a late decision to remove the Teachers Pension Return from the list of those requiring external review but it was unclear whether the Teachers Pension Agency would require a separate certification. The cost of the additional work had not yet been agreed and would need to be negotiated with Mazars if required.

10. RESOLVED that the contents of the report be noted.

Tyne and Wear Economic Development Joint Committee – Audited Annual Return and Accounts 2013/2014

The Head of Financial Resources submitted a report reporting on the communications received from the External Auditors concerning the financial statements of the Joint Committee for 2013/2014 and providing the Audited Statement of Accounts and Annual Return for 2013/2014.

The Tyne and Wear Economic Development Joint Committee had ceased to exist from 1 April 2014 and had held its final meeting on 31 March 2014. At this meeting, the draft Accounts for the year 2013/2014, subject to audit, had been approved and it was agreed that the Lead Authority (Sunderland City Council) would ensure that the

final audited set of accounts and the Annual Return for 2013/2014 would be scrutinised and approved in accordance with the applicable statutory requirements.

The Council had been allocated funds to settle the external auditor's fees, recognising that the Joint Committee would cease to exist from 1 April 2014.

The Head of Financial Resources referred Members to the Notes to the Accounting Statements and the distribution of funds to each of the constituent authorities. The income and expenditure and balance sheet for the Joint Committee were outlined on pages 160 and 161 and showed that there were no funds remaining. It was also pointed out that the Accounts had been audited and that there were no adjustments to the Accounts or any matters that the auditors wished to raise with Members.

11. RESOLVED that: -

- (i) it be noted that the External Auditor, BDO LLP (Chartered Accountants) had issued an unqualified audited Annual Return; and
- (ii) as Lead Authority, the unadjusted and audited Statement of Accounts for the financial year ended 31 March 2014 be approved.

Joint Committee for the North of England Open Air Museum – Audited Annual Return and Accounts 2013/2014 (Subject to Audit)

The Head of Financial Resources submitted a report providing the Statement of Accounts and Annual Return (Subject to Audit) for the Joint Committee for the North of England Open Air Museum for 2013/2014.

Members of the Joint Committee had agreed to disband the Committee in July 2013 and this decision was ratified and approved at its final meeting held on 28 March 2014. At this meeting it was also agreed that the Statement of Accounts and Annual Return for 2013/2014 would be scrutinised and approved in accordance with the applicable statutory requirements by the financial lead authority (Sunderland City Council) on behalf of the Joint Committee.

The Joint Committee's external auditors, BDO LLP (Chartered Accountants) were required to issue their audit report on the final accounts by 30 September of each year, but could only commence this work once the Committee had formally approved the Annual Return and the appropriate statutory notice of inspection of the Annual Return had been given to the residents of Tyne and Wear.

12. RESOLVED that, as Lead Authority, the Statement of Accounts and Annual Return for the financial year ended 31 March 2014 be approved.

Current Developments

The Head of Assurance, Procurement and Projects delivered a presentation to the Committee providing an overview of the current developments within the Council and his view of the possible future direction of the Authority.

The Committee was reminded of the Council's drive to become a Community Leadership Council with elected Members at the centre, working with and through partners to ensure that needs in the city were being met, not just by the Council but through other vehicles. This presented the Council as an enabler rather than a provider.

The Council's priorities for the City under this were Economy, Education and Skills and Health and Wellbeing. It was clear that the economy of the city needed to grow, employment needed to grow and there needed to be more high quality jobs created. This theme had a primacy and was driven by the Economic Leadership Board but all of the priorities had major implications.

The Education Leadership Board was looking at aligning education and skills to the future needs of business and the Health and Wellbeing Board was focused on better health generally and having residents who were better placed to take up work. This also had a financial benefit as well as it being a moral obligation to promote the wellbeing of people in the city.

The Head of Assurance, Procurement and Projects highlighted significant changes which had already taken place or may happen in the future. These included the establishment of Sunderland Live Limited and Sunderland Care and Support Limited, the Local Asset Backed Vehicle, the Customer Service Network and Leisure Joint Venture. Possible future developments were an ICT review, move towards mutualisation, shared services and more workforce reductions.

From an audit perspective, changes in the Council would change the nature of risk in the organisation. There was less resilience in the organisation due to the Council being smaller than it was in the past and not able to respond in the same way and these risks needed to be managed.

The Chair thanked the Head of Assurance, Procurement and Projects for a very interesting and useful summary. Councillor Farthing suggested that changes to pensions could be added to the list of significant changes as there was an ongoing consultation relating to changes to the Local Government Pension Scheme.

The Head of Financial Resources commented that of the implications of pension changes would be taken into account within financial planning assumptions. The authority needed to plan on the basis of further significant resource reduction and the consequential changes in the way the Council needed to consider future service delivery.

Councillor T Wright highlighted the risk that Members had not received a report on schools which were becoming academies and the impact that this was having on the Council and its staff. He also noted that Gentoo were debating a change to their

governance structure and the potential impact on the Council and queried if the Authority was happy with the reserve which had been set aside for equal pay.

The Head of Financial Resources from a financial perspective, the impact of academies was taken into account in the budget planning process and reported accordingly through the Cabinet. In addition, prudent arrangements had been made for equal pay.

It was noted that Gentoo was a registered housing provider, not a charity, and proposals for change were to maximise Gentoo's tax position. This would not have a financial impact on the Council.

Having thanked the Head of Assurance, Procurement and Projects for his presentation, the Committee:-

13. RESOLVED that the information be noted.

(Signed) G N COOK
Chair

