

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on Friday 30 September 2011

Present: -

Mr G N Cook in the Chair

Councillors Forbes, Rolph, Speding, Tate and Mr J P Paterson.

Declarations of Interest

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

Item 5 – Internal Audit Progress Report	Councillor Rolph	Blue Badge Holder
Item 9 – Audited Statement of Accounts	Councillor Rolph	Member of the LGPS
	Councillor Tate	Member of GMB, the LGPS and the Sunderland Empire Theatre Trust.

Apologies for Absence

Apologies for absence were received from Councillor T Wright.

Minutes

19. RESOLVED that the minutes of the meeting of the Committee held on 22 July 2011 be confirmed and signed as a correct record.

Strategic Update

The Executive Director of Commercial and Corporate Services delivered a presentation to the Committee giving a strategic update on the Council's position, the budget and potential developments to the role of the Audit and Governance Committee over time.

He outlined the policy context and the impact of public reform on local people, local businesses and partner services. Government priorities had been identified broadly as Growth Strategy, Social Policy and Public Sector Reform.

Details of the Government's deficit reduction plan and the uncertainty that existed beyond 2013/2014 were highlighted. The Executive Director referred to the Council's successes in response to the spending review including the development of the Sunderland Way of Working 18 months prior to significant funding reductions which had enabled Sunderland to take a different approach to other councils. The Business Transformation Programme had protected frontline services whilst improving customer services and had maximised productivity and efficiency through the streamlining of Support Services and through better procurement and use of ICT and buildings.

The Council had also been reviewing services to continue to provide the most effective outcomes by modernising social care, reconfiguring customer services and developing responsive local services. The community leadership programme had put members at the heart of decision making and the Council had maintained its broad economic regeneration ambitions including for the Vaux site, the Port and the new Wear Bridge. There would be a new and more commercial approach to the work of the Authority in the future and the foundations for this were already being established.

The Executive Director provided a summary of the funding gap and the savings programme 2011-2012 to 2014-2015. He advised that the Audit and Governance Committee would have a key role in underpinning the governance of the Authority going forward and would continue to play a key role in assurance and risk management processes as these would inevitably develop to reflect the changing role of the Authority.

Councillor Forbes asked if there were specific criteria which applied when the Council was reinvesting money. The Executive Director replied that there had to be a demonstrable business case for the better outcomes which would be achieved and efficiencies would have to be created to cover the investment. On regeneration projects, there were very strong arrangements for the business case to be absolutely right before pursuing any new developments.

The Chairman asked if the localisation of business rates would mean that authorities would consume what they had earned. The Executive Director stated that on face value, Sunderland collected less than was distributed from the business rates pool, but would be classed as a 'top up' authority and therefore it was the intention of the Government that it would be compensated for the gap. The key issues would be to ensure that the tariff and top up system worked correctly and that any growth generated was attributable to the local authority. The risk posed to the Authority from the new arrangements was recognised.

There was a big risk in transferring this from central to local government and there were ongoing conversations about what would happen if businesses failed but it was hoped to get these issues resolved in the near future.

Having thanked the Executive Director for his presentation, the Committee: -

20. RESOLVED that the information be noted.

Internal Audit Progress Report

The Head of Audit, Risk and Procurement presented a report detailing the performance of Internal Audit up to 9 September 2011, the areas of work undertaken and internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

All of the Key Performance Indicators (KPIs) were on target with the exception of the implementation of medium risk recommendations which stood at 81% against a target of 90%. A particular problem had been observed in Health, Housing and Adult Services where the implementation rate was only 59%.

All audits carried out so far this year had resulted in good or satisfactory opinions and no concerns to highlight to the Committee from the other work undertaken. Good progress had been made against the plan and the key risk areas were now all either good or satisfactory.

Following the audit of Information Governance in 2010/2011, an unsatisfactory opinion had been issued. However, good progress had been made towards implementing recommendations arising from the eight audits carried out in this area and the Head of Audit, Risk and Procurement had advised that the opinion had now been changed to 'satisfactory'.

Councillor Rolph commented that the directorates who were performing least well were those who were undergoing restructures and asked if this had impacted on their ability to implement recommendations. She also asked if the awarding of the contract to Choices Care had been taken account of in the opinion relating to Procurement and Contract Management.

The Head of Audit, Risk and Procurement stated that it was too early to ascertain whether the new structures had impacted on the implementation rate. The implementation rates looked back over the previous twelve months and so the impact would not been seen for some time, but during recent follow up work it had been mentioned by some areas that things had not been implemented due to reduced resources.

In respect of Choices Care, Internal Audit had not reviewed the award of the contract. Councillor Rolph suggested that an audit could be carried out, however the Executive Director stated that the focus had been getting the Local Authority Controlled Company in place and through the actions taken, management had picked up and addressed the relevant issues.

Graham King, Head of Strategic Commissioning within Health, Housing and Adult Services was in attendance to update the Committee on the progress made against the recommendations of the audit into Vulnerable Adults Protection Arrangements.

He advised that the full review of the approach to safeguarding was still underway but that the new business processes would be implemented before the conclusion of the review and the safeguarding module would go live on 12 October 2011.

The project implementation schedule had been shared with Internal Audit and staff training was currently underway. Further training would be carried out in April 2012 to tie in with the implementation of the new system.

With regard to the level of implementation of recommendations generally within Health, Housing and Adult Services, Graham acknowledged that there had been a dip but reassured the Committee that the directorate had instigated changes in the way audit recommendations were dealt with. Performance and Commissioning Clinics were now held monthly and progress would be checked against audit recommendations long before the due date for implementation. He highlighted that two recent audits were showing 100% compliance for implementation but a further audit of personalisation services showed very poor implementation and was affecting the total implementation rate due to the fundamental changes that had to be made in this area.

The Chairman thanked Graham for the update and asked that he make the Executive Director of Health, Housing and Adult Services aware that if an improvement was not seen, the Committee would want to discuss this with the Executive Director himself.

Tom Baker, Head of ICT was in attendance to update the Committee on the progress made following the audit of HR Management / Financial Management System Consolidation. A number of recommendations had come out of the audit, with some being higher risk than others. Tom reported that ICT was featuring regularly in the Managers monthly briefing, processes for disabling user accounts and for requesting access to accounts had been redesigned and a new process had been developed for account management on the Council network.

A significant issue from the audit had been the protection of Finance and HR systems from system failure. New arrangements had been tested earlier in the week and, although not perfect, the trial had gone well. Another test would be carried out imminently, inside the agreed timescales. An interim solution would be in place in advance of the deadline with a final solution next year.

The Head of Audit, Risk and Procurement added that the Council's systems were resilient, the issue had been that although ICT knew how they would deal with a system failure, the process had not been documented or tested.

Councillor Tate asked if the ICT service had any responsibility for the contract with RM to provide ICT in schools. The Head of ICT stated that the contracts were managed by Children's Services with advice being offered by ICT. He was aware that there had been a number of issues, particularly with management information. The Chairman stated that Councillor Tate was welcome to ask for this issue to be considered by the Committee in the future if he had concerns about it.

Following discussion, it was: -

21. RESOLVED that the report be noted.

Bribery Act 2010

The Head of Audit, Risk and Procurement presented a report which detailed the key provisions of the Bribery Act 2010 and provided an update on the work carried out to assess and respond to the implications of the Act.

The new Act reforms UK criminal law in respect of bribery and corruption and creates four new offences, including one of 'failing to prevent bribery' which would mean that councils could be prosecuted if they did not have adequate procedures in place to prevent bribery.

Guidelines had been set out and a review of the arrangements already in place had found that: -

- The arrangements the Council has in place compare favourably in light of the Act;
- The provisions of the Act have been communicated to the majority of key stakeholders, including EMT and Cabinet;
- An initial assessment of the level of bribery risk faced by the Council and has been assessed as low; and
- Any improvements made will be considered proportionate to the risk.

As well as communicating the implications of the new Act to the Cabinet and Executive Management Team, a briefing had been circulated to all Members of the Council.

22. RESOLVED that the report be noted.

Treasury Management – Second Quarterly Review 2011-2012

The Executive Director of Commercial and Corporate Services submitted a report outlining the Treasury Management performance for the second quarter of 2011/2012 and asking the Committee to approve amendments to the Lending List criteria and the Lending List.

The Assistant Head of Financial Resources stated that the report depicted a positive situation and the performance of the Treasury Management function continued to contribute financial savings to support future year's capital programmes and also helped to support the Council's revenue budget by taking advantage of debt rescheduling opportunities when appropriate. It was noted that the average long term rate for the Council was very low and was in the top quartile of local authorities.

Treasury Management Prudential Indicators were regularly reviewed and none had been exceeded to date. The investment policy was regularly monitored to ensure compliance within the agreed and prudent Treasury Management policy and strategy

and that options and limits with financial institutions were also reviewed so that the Council could take full advantage of market conditions and opportunities as they arise. It was therefore recommended that the Lending List criteria be amended to increase the amounts able to be invested with AAA rated institutions from £50 to £70 million.

The funds managed by the Council's Treasury Management team had achieved a return of 1.51% on investments compared with the benchmark rate of 0.4%. This increased rate of return to date had generated additional interest above the budget target for 2011/2012 of almost £600,000.

Councillor Rolph welcomed the prudent approach which had been adopted with regard to treasury management and asked if the Council would be able to respond quickly if the Government decided to re-privatise the banks in which it held a stake.

The Committee were informed that the Government had guaranteed banks until 2014. The Government had also previously indicated that it would provide appropriate notice if it was to withdraw this guarantee early or where it was to consider selling its shares in its stakes in RBS and Lloyds TSB. It was stated that it was also unlikely that the Government would ever allow a major UK bank / clearing bank to fail because of the wider implications to the economy and to the financial reputation of the UK's banking sector. If these events occurred then the Council would be monitoring the position and would change its Treasury Management strategy accordingly. In practice, investments were being held shorter term than would normally be the case because of the current uncertainty in the global markets but particularly in the Euro Zone and the problems in the US economy. The Treasury Management team continued to be proactive and responsive to changes in the financial markets as necessary and continued to monitor the position on a daily basis.

Upon consideration of the report, the Committee: -

23. RESOLVED that: - (a) the Treasury Management performance for Quarter 2 of 2011/2012 be noted; and
- (b) the amendments to the Lending List Criteria set out in Appendix B and Lending List set out in Appendix C be approved.

Update on the Future of Local Public Audit

The Head of Audit, Risk and Procurement provided an update on the provision of local public audit over the next three to five years.

The Department for Communities and Local Government (DCLG) had confirmed that all work currently carried out in-house by the Audit Commission would be outsourced. The procurement process had now begun with ten lots being grouped into four English regions. A firm could only be successful with a bid for one lot in any

one region and lots would be awarded in order of size, largest to smallest. The North East and North Yorkshire was the third lot in the Northern region.

A new firm, the DA Partnership, had been created by the Audit Commission's in-house service and an international financial firm (Mazars UK) and was expected to bid for as many contracts as it could. If any bids were won, employees of the audit practice would transfer to the stand alone entity which could be employee owned.

It was still undecided whether three or five year contracts would be awarded but it would be some time before individual authorities were able to appoint their own auditors.

Councillor Rolph queried how, as the smallest lot within the Northern region, it could be assured that best value was achieved for the contract.

The Head of Audit, Risk and Procurement reported that the evaluation criteria to be used for the procurement was not yet public so it was hard to give a definitive answer. However, it was envisaged that local authorities would pay a set fee, regardless of which firm carried out the audit, and once the Audit Commission had taken a percentage to fund itself, rebates may then be issued. Having considered the information, it was: -

24. RESOLVED that the report be noted.

Audited Statement of Accounts 2010-2011

The Executive Director of Commercial and Corporate Services submitted a report presenting the Letter of Representation, Letters of Assurance, the Annual Governance Report from the Audit Commission and the amended Audited Statement of Accounts for 2010/2011.

The Executive Director expressed his satisfaction with the report of the Audit Commission which was very positive overall and which gave an unqualified audit opinion. The main positives from the report were highlighted as the work carried out in producing the accounts, the value for money conclusion and financial resilience and planning. He also drew Members' attention to the Annual Governance Statement which had been slightly amended and required approval from the Committee.

The Executive Director referred to his foreword to the Statement of Accounts and stated that the Authority was in a healthy and positive position in relation to balances and was strong in the area of financial resilience which was important given the financial challenges the Authority faced over the medium term.

Pensions continued to be managed properly and the Council was making the necessary pension deficiency payments and could meet the assessed deficit with planned and agreed future years contributions. The Accounts were contextualised in the light of the current financial situation and economic downturn and the Council continued to take a prudent approach to capital borrowing and its investment activity.

With regard to Single Status and Equal Pay claims, there were likely to be no significant milestones until the next calendar year.

The Executive Director paid tribute to the team who had compiled the Accounts in line with the International Financial Reporting Standards under very challenging conditions and the Chairman echoed those remarks.

(a) Letter of Representation

The Committee considered the Letter of Representation prepared by the Executive Director of Commercial and Corporate Services which set out the principles used in preparing the accounts and provided the external auditor with the necessary assurances required by regulation.

25. RESOLVED that the Letter of Representation be received and noted.

(b) Letters of Assurance

The Committee considered two Letters of Assurance, from those charged with governance and those charged with discharging management processes and responsibilities.

26. RESOLVED that the contents of the Letters of Assurance be received and noted.

(c) Annual Governance Report

Steve Nicklin, the District Auditor, presented the Annual Governance Report to the Council.

He commended Sunderland for their work in complying with the International Financial Reporting Standards for the Accounts and commented that any required changes to the Accounts were only presentational. He was pleased to be able to issue an Audit Certificate, not only for the 2010/2011 Accounts but also for financial years 2007/2008, 2008/2009 and 2009/2010 when the Audit Certificates had not been issued due to objections to the accounts which had been fully resolved in favour of the Council.

27. RESOLVED that the Annual Governance Report from the Audit Commission be received and noted.

(d) Amended and Audited Statement of Accounts 2010/2011

The Executive Director of Commercial and Corporate Services submitted the Audited Statement of Accounts 2010/2011 for consideration by the Committee and highlighted that the Accounts had been amended to reflect a number of presentational adjustments following the audit. This included a late change to the Council's Cash Flow Statement that was tabled at the meeting.

Councillor Rolph made reference to the requirement to account for heritage assets and asked if these were recorded by organisations such as the Tyne and Wear Archives Joint Committee rather than the local authorities. The Assistant Head of Financial Resources advised that the requirement to account for these assets would not apply to local authorities until the next financial year and that Note 3 to the accounts had flagged this as an issue to be addressed fully in the next year's accounts.

Councillor Forbes highlighted that the Annual Governance Report referred to the Council's scrutiny system and the ability to call-in decisions, but there were occasions when call-in was impossible due to time constraints. The Head of Law and Governance explained that the provision for call-in of decisions was in line with legislation but there was also provision to block call-in if there were specific reasons for this.

Having confirmed that there had been no further appeal from the objector to previous year's accounts, the Committee: -

28. RESOLVED that: - (a) the Amended Audited Statement of Accounts 2010/2011 be approved: and
- (b) the amended Annual Governance Statement (AGS) for 2010/2011 be approved.

(Signed) G N COOK
Chairman

AUDIT AND GOVERNANCE COMMITTEE

25 November 2011

INTERNAL AUDIT PROGRESS REPORT

Report of the Head of Audit, Risk and Procurement

1. Purpose of Report

- 1.1 To consider the performance of Internal Audit up to 4th November 2011, areas of work undertaken, and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

2. Description of Decision

- 2.1 The Audit and Governance Committee is asked to consider the report.

3. Key Performance Indicators

- 3.1 Performance against the agreed KPIs to date is shown in Appendix 1.

- 3.2 All KPI's are on target with the following 2 exceptions:

- The percentage of medium risk recommendations implemented currently stands at 79% (excluding schools) against a target of 90%. A summary of the performance by directorate for medium risk recommendations is shown in the table below. Members will be aware that action is being taken by Health, Housing and Adult Services to improve their implementation rate, although this will take time to filter through to the overall rate.

Directorate / Body	Implementation Rate - Sept	Implementation Rate - Nov
Children's Services (non schools)	83%	83%
City Services	92%	91%
Office of the Chief Executive	88%	83%
Commercial and Corporate Services	93%	94%
Health, Housing & Adult Services	59%	54% *
Implementation Rate (exc. schools)	81%	79%
Schools	87%	87%

Total Implementation Rate	82%	82%
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* the results of the last two follow ups in the directorate have been 100%

- Percentage of audits completed by the target date (from scoping meeting to issue of draft report). The actual performance is 75% against a target of 80%. This is mainly due to either the availability of clients as staff around the Council are busy implementing many ongoing changes, and urgent work that was required over the summer period to respond to specific issues.

4. Summary of Internal Audit Work

4.1 The audit opinion for the audits carried out so far during the year is shown in Appendix 2 along with the current overall opinion based on the current and 2 previous years audit work. Of the 100 planned audits, 58 have been completed to date (5 of which relate to associated bodies). Two of these have been cancelled as they are no longer required, they are Stroke Care Grant and Information Governance at Beamish Museum. The following planned audits are currently ongoing:

- Payroll Processing and Accounts Payable (ongoing throughout the year)
- Administration / Business Support
- Council Tax – Recovery
- Budget Management
- Health, Housing and Adult Services – Charging for Services
- Health, Housing and Adult Services – Reablement at Home
- ICT – Remote Access / Mobile Threats

4.2 Four unplanned audits have been completed, as follows:

- SWITCH Modelling
- Corporate Data Protection Arrangements
- SIB and Community Chest Grants
- Internal audit certificate for the Small Bodies Return for Beamish Museum

A further three unplanned audits are also ongoing.

4.3 The Internal Audit Annual Report, presented to the Committee in May highlighted a small number of areas of concern where either significant recommendations had been made or the opinion had been reported as unsatisfactory. An update on the position regarding Vulnerable Adults Protection Arrangements is as follows:

It has been confirmed that the Safeguarding Module did go live in October as planned and the Head of Strategic Commissioning has stated that it is in use in the areas where it is appropriate to do so at this time. The relevant staff have received training in the revised procedures. As has previously been

reported, the current review will fundamentally change the safeguarding model and new procedures will result from this. Once the new model is finalised the new procedures will be developed and implemented and staff trained accordingly.

4.4 Internal Audit carry out proactive advice and guidance work in many areas across the Council where procedures and arrangements are being developed or changed. This work is important in helping the Council build appropriate controls into new systems or procedures and helps to provide assurance that risks are being considered and managed, where appropriate. Guidance has been provided or is ongoing in the following areas:

- A significant amount of time has been spent supporting the set up and implementation of a Local Authority Trading Company, Care and Support Sunderland Limited which was established to take over the care of vulnerable people previously in the care of Choices Care which went into Administration. Support regarding the ongoing governance arrangements of the Company will continue as the arrangements develop.
- Proposed changes to the way direct payments are administered in relation to social care.

4.5 Specific work aimed at detecting fraud, misappropriation or errors which may have resulted in financial loss is currently ongoing in the following areas:

- From the National Fraud Initiative (NFI) 2010, work has been completed in relation to blue badge permits, residential care payments, pensions to deceased pensioners, payroll to UK visas, and insurance claims, which did not identify any issues of concern. In relation to Housing Benefit matches which were received in March 2011, from a total of 3,848 matches, 618 were recommended for further review, these are currently being reviewed with 3 fraud prosecutions resulting to date with an overpayment value of £19,644. Recovery of these monies is to be undertaken. Further matches are to be examined and additional prosecutions are anticipated.

Review of creditor payment information has highlighted 8 duplicate payments to date with a value of £8,608.45. Recovery of these monies is underway. Six further matches are being investigated.

- Overtime / honoraria payments to ensure they are legitimate, accurate and appropriately authorised.
- Grant awards to ensure grant monies awarded are used appropriately.
- Gifts and hospitality – review of expenditure classified as hospitality. Also review of Code of Conduct forms for declarations of gifts and hospitality received.

- Cash and bank balances to ensure that balances are accounted for and held responsibly.

4.6 During the summer a procurement exercise has been carried out to appoint a specialist firm who will carry out an exercise to review the Council's creditor payments using advanced software technology to identify any further duplicate payments. The work will also help to establish the effectiveness of the NFI exercise. Work will be carried out on a commission only basis. The process is nearing completion with the work anticipated to be carried out during the winter period.

5. Future Arrangements for Providing Assurance

5.1 Given the level of change that is planned to take place within the Council over the medium term to improve outcomes and deliver significant savings delivery of services is likely to fundamentally change with new models of delivery being explored where appropriate. It is important that in implementing these changes the risks are managed, support is provided and assurance is gained.

5.2 At present, both the internal audit and the corporate risk management teams provide support in these areas. It is however recognised that it is likely that the demand for this support will increase and some of the developments will be particularly complex and use innovative and new delivery models. In order to ensure that the right support can be provided proposals are being developed to introduce a more flexible model of internal audit and risk provision to enable us to respond to these demands. This will include the development of a corporate integrated assurance framework, whereby all of the sources of assurance, in relation to managing risk within the Council, are better co-ordinated. Although there has been an annual review of corporate governance in the past it is considered that these arrangements can be developed to consider assurance not currently included and ensure that the assurance obtained is in relation to the areas that are important to the Council. This will lead to the provision of a single, comprehensive opinion to the Committee on the adequacy of the arrangements in place to manage risk.

5.3 Given the importance of these emerging proposals it is proposed to hold a separate meeting of the Committee in January 2012 to discuss the detailed proposals and consult with the Committee on the potential areas of work for 2012/2013.

6. Conclusions

6.1 This report provides information regarding progress against the planned audit work for the year and performance targets.

6.2 Results of the work undertaken so far during the year have not highlighted any issues which affect the opinion that overall throughout the Council there continues to be an adequate system of internal control.

7. Recommendations

- 7.1 Members are asked to consider the report and to agree an additional meeting for January as set out in paragraph 5.3

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012			
Efficiency and Effectiveness			
Objectives	KPI's	Targets	Actual Performance
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council	1) All key risk areas covered over a 3 year period	1) Achieved
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%	2) On target - 92% to date
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 80%	3) Behind target - 75% to date
	4) Number of sanctions and prosecutions for housing benefit investigations	4) 155 / annum	4) Ahead of target – 112 to date
	5) Value of overpayments identified during housing benefit investigations	5) £600k / annum	5) Ahead of target - £532,592 to date

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012

Quality			
Objectives	KPI's	Targets	Actual Performance
1) To maintain an effective system of Quality Assurance 2) To ensure recommendations made by the service are agreed and implemented	1) Opinion of External Auditor 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	1) Satisfactory opinion 2) 100% for high and significant. 90% for medium risk	1) Achieved 2) On target – significant 100% Below target - Medium 79% (excluding schools)
Client Satisfaction			
Objectives	KPI's	Targets	Actual Performance
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) On target - 1.1 to date 2) Non undertaken as yet 3) 14 compliments 1 complaint (not upheld but improvements identified)

Appendix 2

Audit Coverage

Key Risk Area	Planned Audits	Conclusion (audits undertaken 2011/12)	Overall Opinion
Corporate Governance	Annual Corporate Governance Review	Good	Good
Service / Business Planning	Responsive Local Services Facilities Management Reablement at Home - Adults Business Support		Satisfactory
Partnerships	Non Planned	N/A	Satisfactory
Financial Management	Corporate Budget Setting and Management Adoption Allowances Social Care Resource Agency Personal Budgets - Adults Port Governance Arrangements Treasury Management 1 Leisure Centre Accounts Payable Accounts Receivable - Collection Periodic Income - Recovery and Enforcement Cash Receipting - Central System Council Tax - Setting Council Tax - Billing Council Tax - Valuation Council Tax - Recovery Business Rates – Recovery & Enforcement BACS Arrangements Charging for Services - HHA Stroke Care Grant Future Jobs Fund Grant Deprived Areas Fund Grant Unplanned Audit – SIB and Community Chest Grants Unplanned Audit – SWITCH Modelling	Unsatisfactory Good Good Good Satisfactory Cancelled Satisfactory Satisfactory Good Satisfactory	Good

Key Risk Area	Planned Audits	Conclusion (audits undertaken 2011/12)	Overall Opinion
Risk Management	Port Governance Arrangements 1 Leisure Centre Insurance Policies	Good Good	Good
Programme and Project Management	Project Management Information Governance (Project Server)	Good	Good
Local Taxation	Council Tax - Setting Council Tax - Billing Council Tax Valuation Council Tax - Recovery Business Rates - Recovery and Enforcement	Satisfactory	Good
Procurement and Contract Management	Procurement of ICT Equipment Purchasing Card Arrangements Capital Procurement Revenue Procurement	Satisfactory Good	Satisfactory
Human Resource Management	Corporate Training and Development Arrangements Personnel Administration Arrangements Management of Employees in SWITCH	Satisfactory Unsatisfactory	Satisfactory
Asset Management	Asset Management (including Property Asset Database) Asset Register/Capital Accounting	Good	Satisfactory
ICT Strategy and Delivery	Implementation of the ICT Strategy ICT Remote Access Threats Information Technology Infrastructure Library		Satisfactory
Fraud and Corruption	Counter Fraud Testing (including in schools) Access to IT systems - with movement of employees Social Care Resource Agency 1 Leisure Centre Asset Management - ICT Equipment Unplanned Audit – SIB and Community Chest Grants	Unsatisfactory Good Unsatisfactory Good	Satisfactory

Key Risk Area	Planned Audits	Conclusion (audits undertaken 2011/12)	Overall Opinion
Information Governance	Corporate Information Governance (including procedures for remote working) Email Security Smarter Working - Employees Working Remotely within Children's Services Document Management Unplanned Audit – Corporate Data Protection Arrangements	Satisfactory Good Satisfactory Satisfactory Satisfactory (except re Subject Access Requests and Caldicott Guardian)	Satisfactory
Business Continuity and Emergency Planning	Major Incident Planning Business Continuity Planning - Children's Services	Good Satisfactory	Satisfactory
Performance Management	Responsive Local Services Corporate Performance Management Facilities Management Port Governance Arrangements Customer Services Network Reablement at Home - Adults Social Care Resource Agency Follow up – Sunderland Compact	Satisfactory Satisfactory	Satisfactory
Payroll	Payroll Processing and Payment		Good
Housing Benefits	Housing Benefit Administration	Satisfactory	Satisfactory
Schools	38 schools 27 schools audits completed – 24 good, 3 satisfactory	Good	Good

AUDIT AND GOVERNANCE COMMITTEE

25 NOVEMBER 2011

AUDIT COMMISSION ANNUAL AUDIT LETTER 2010/11

Report of the Executive Director of Commercial & Corporate Services

1.0 Purpose of the report

1.1 This report details the Audit Commission's (AC) Annual Audit Letter (AAL) covering the year 2010/2011. A copy is attached.

2.0 Description of Decision

2.1 The Audit and Governance Committee is recommended to:

- Note and comment on the contents of this report, and
- Refer the report to Cabinet and Council for their consideration

3.0 Introduction / Background

3.1 The Audit Commission's Code of Audit Practice requires auditors to prepare an AAL and issue it to each audited body. The purpose of preparing and issuing AALs is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from the auditors' work, which auditors consider should be brought to the attention of the audited body.

3.2 The AAL summarises the findings of the 2010/11 audit, which comprises two elements:

- An audit of the Council's financial statements
- An assessment of the Council's arrangements to achieve value for money in the use of resources

3.3 The AAL also provides an update on the position relating to the objections to the Accounts for 2007/08, 2008/09 and 2009/10.

4.0 Overall Position

4.1 The AAL is extremely positive overall providing a strong endorsement of the financial management and planning and governance arrangements in place across the Council.

4.2 The report provides an unqualified opinion on the financial statements and an unqualified VFM conclusion. The report confirms that the Council:

- Has robust arrangements in place to ensure its financial resilience.
- Has a history of good financial management, robust systems of corporate governance and internal control, and a strong record in the delivery of budgets.
- Had prepared for the economic challenges facing public services through the Sunderland Way of Working.
- Is committed to improvements in service delivery and outcomes, and has also identified significant savings.

4.3 Financial Statements and Annual Governance Statement

4.3.1 The District Auditor (DA) issued an unqualified opinion on the Council's financial statements on 30 September 2011.

4.3.2 The DA commented that *"the financial statements presented for audit were of good quality, they complied with the new requirements of International Financial Reporting Standards (IFRS) and officers have once again been helpful in dealing with the audit and with our queries. This is a considerable achievement, as compliance with IFRS created significant problems across the country and some authorities were unable to meet the statutory deadlines."*

4.3.3 The DA also reported that financial statements have been streamlined where possible, key controls within the Council's main financial systems were operating as designed and there were no significant issues to raise with the Council. The DA will work with the Council over the next year to help address the small number of areas for improvement that were identified during the audit.

Resolution of Objections from Earlier Years

4.3.4 Previously, the DA was unable to issue a final certificate for the 2009/10 accounts as outstanding objections to the Council's accounts for 2007/08 and 2008/09 had yet to be decided, and a legal issue had arisen which had led to further delays in issuing the final certificates for the three accounting years.

4.3.5 Following the conclusion of legal issues the DA has determined that no further action is required in response to the objections raised to the 2007/08 and 2008/09 accounts. As a result, he issued final certificates on 30 September 2011 to formally close the audits for 2007/08, 2008/09 and 2009/10, as well as that for 2010/11.

4.4 Value for Money

4.4.1 The DA issued an unqualified conclusion stating that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources on 30 September 2011.

4.4.2 The DA reported that *"the Council has robust arrangements in place to ensure its financial resilience. The Council has a history of good financial management, robust systems of corporate governance and internal control, and a strong record in the delivery of budgets. The Council had prepared for the economic challenges facing public services through the Sunderland Way of Working. The Council is committed*

to improvements in service delivery and outcomes, and has also identified significant savings.”

4.4.3 In undertaking the value for money conclusion the DA also gave consideration to areas that had been previously identified as areas for improvement (i.e. asset management and natural resources). The DA commented upon the progress that is being made and the importance of these agendas in supporting the Council to deliver value for money.

Current and Future Challenges

4.4.4 The AAL highlights the challenges the Council faces due to the economic downturn and the subsequent pressure on the public sector; as well as the need to cut costs yet maintain and improve key services. The Letter acknowledges the Council is prioritising its resources within tighter budgets, by achieving cost reductions and by improving efficiency and productivity.

4.4.5 In highlighting the challenges the DA has identified the Council’s service reviews, the “innovative” SWITCH programme, and the consideration of alternative forms of service delivery and new and innovative ways of working as being key mechanisms to help meet the challenges.

4.4.6 The DA has commented that the key challenges for the Council are to:

- Closely monitor the 2011/12 budget and take early action if budget savings are not being delivered
- Monitor service delivery and governance arrangements to ensure that standards are maintained during a period of significant change

5.0 Relevant Considerations / Consultations

5.1 Government regulations require the AAL to be published. In addition to publication as part of the Cabinet, Management Scrutiny Committee and Council Agendas, and its publication on the AC website it is proposed to place the full report on the Council website.

6.0 Recommendations

6.1 The Audit and Governance Committee is recommended to:

- Note and comment on the contents of this report, and
- Refer the report to Cabinet and Council for their consideration

Annual Audit Letter

Sunderland City Council

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit and provides an update on the position relating to objections to the accounts for 2007/08 and 2008/09. My audit for 2010/11 comprised:

- **the audit of the Council's financial statements; and**
- **my assessment of arrangements to achieve value for money in the use of resources.**

	Our findings
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

Audit opinion and financial statements

I issued an unqualified opinion on the financial statements on 30 September 2011.

The financial statements presented for audit were of good quality, they complied with the new requirements of International Financial Reporting Standards (IFRS) and officers have once again been helpful in dealing with the audit and with our queries. This is a considerable achievement, as compliance with IFRS created significant problems across the country and some authorities were unable to meet the statutory deadlines

Value for money

I also issued an unqualified conclusion stating that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources on 30 September 2011.

The Council has robust arrangements in place to ensure its financial resilience. The Council has a history of good financial management, robust systems of corporate governance and internal control, and a strong record in the delivery of budgets. The Council had prepared for the economic challenges facing public services through the Sunderland Way of Working. The Council is committed to improvements in service delivery and outcomes, and has also identified significant savings.

Resolution of objections from earlier years

Following the completion of legal cases in the Courts, I have now determined the objections to the 2007/08 and 2008/09 accounts. I concluded that I did not need to take any formal audit action and I issued final certificates on 30 September 2011 to formally close the audits for 2007/08, 2008/09 and 2009/10 as well as that for 2010/11.

Current and future challenges

Challenges

Economic downturn and pressure on the public sector
Cutting costs but maintaining and improving key services

Key Issues

The 2011/12 budget was one of the most difficult the Council has faced. The outcome of the comprehensive spending review in the autumn of 2010 was that there would be significant cuts in central government funding. In Sunderland's case, this meant an overall reduction of £58m, with further cuts to follow in 2012/13.

The Council is committed to improving service delivery and outcomes, and needs to make savings. Further activity is underway through several tranches of service reviews; recognising that further savings will be required in 2012/13 (estimated at £26.2m) and beyond.

The Council has established its innovative SWITCH programme (Staff Working in Transition and Change). This aims to support the delivery of the Council's business operating model and support the associated restructuring issues by finding displaced workers alternative employment in the Council as part of a wider set of measures in place to manage the position. The Council has made a commitment to seek to avoid mass redundancies.

The key challenges for the Council are to:

- closely monitor the 2011/12 budget, taking early action if budget savings are not being delivered; and
- monitor service delivery and governance arrangements to ensure that standards are maintained during a period of significant change.

The Council is also actively developing a range of alternative forms of service delivery and new and innovative ways of working. As this is a key focus for Community Leadership, decisions on delivery models will be based on grounds of service improvement and value for money. The Council is engaging with key stakeholders about where alternative service delivery models can demonstrate significant community and organisational benefits.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

The financial statements were approved by the Audit and Governance Committee on 30 September 2011. I issued an unqualified audit opinion on that date.

The financial statements presented for audit were of good quality, they complied with the new requirements of International Financial Reporting Standards (IFRS) and officers have once again been helpful in dealing with the audit and with our queries. This is a considerable achievement, as compliance with IFRS created significant problems across the country and some authorities were unable to meet the statutory deadlines.

Some amendments to the draft accounts were agreed with officers as a result of our audit work.

I am pleased to report that despite the significant challenge of implementing IFRS accounts which require more disclosures, the financial statements have been streamlined where possible, meaning that the length of the accounts has reduced overall and the disclosures are more focused than previously.

There is still scope to further improve working papers, and we will work with officers to secure further improvement for next year's audit.

I considered aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. There were no significant issues to raise with the Council.

I concluded that, in general, the key controls within the Council's main financial systems were operating as designed.

Resolution of objections

Objections were made to the Council's accounts for 2007/08 and 2008/09. This meant that I was unable to issue my certificate for those accounts and also that I was unable to issue my final certificate for the 2009/10 accounts until the objection was decided.

I have now reached a decision on the objections, which related to income and expenditure in respect of car parking, sharing my decision and statement of reasons with the Council and the objector on 18 August 2011.

My decision is:

- not to make an application to the court for a declaration that there is an unlawful item of account in the Council's accounts under section 17 of the Audit Commission Act 1998; and
- not to make a report in the public interest under section 8 of the Audit Commission Act 1998.

I issued certificates to close the 2007/08, 2008/09 and 2009/10 audits on 30 September 2011.

Although not requiring formal audit action, there were three areas where Council processes could have been improved. I have suggested the following actions to avoid challenge in the future, which have been agreed by officers:

- the formal novation of contracts should be carried out promptly;
- records need to be kept to demonstrate decisions made under delegated powers; and
- when introducing new car parking regulations and arranging signage, care must be taken to ensure that this is done properly.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

My overall conclusion was that the Council has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources. I issued an unqualified value for money conclusion on 30 September 2011.

I reviewed the two criteria specified by the Audit Commission and undertook follow up work in two other areas where I had previously identified scope for improvement. My key findings and conclusions on each of these areas are set out on the following pages:

- financial resilience;
- securing economy efficiency and effectiveness;
- asset management follow up work; and
- natural resources follow up work.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Criteria met</p> <p>The Council has robust arrangements in place to ensure its financial resilience. The Council has a history of good financial management, robust systems of corporate governance and internal control, and a strong record in the delivery of budgets. During 2008/09 and 2009/10, the Council delivered £22.9m of efficiency savings for reinvestment in service priorities.</p> <p>In 2010, the new Government signalled its intention to address the growing national budget deficit with significant reductions in public spending. An Emergency Budget required savings of over £9m to be made by the Council during 2010/11.</p> <p>The 2010/11 outturn shows that the Council not only made these savings, but only drew on £2.3m of its general reserve, rather than the £7.2m that had been originally planned, without impacting adversely on front line services. The Council was also able to set aside some £8m of resources for future commitments.</p> <p>At 31 March 2011, the Council's general reserve which is available to meet unforeseen circumstances stood at £12m, whereas total usable reserves were £169m. Although the majority of these are earmarked for specific purposes, they do provide the Council with enhanced flexibility to manage its financial position in the current difficult economic environment.</p> <p>The 2011/12 budget was one of the most difficult the Council has faced. The outcome of the comprehensive spending review in the autumn of 2010 was that there would be significant cuts in central government funding. In Sunderland's case, this meant an overall reduction of £58m, with further cuts to follow in 2012/13.</p> <p>The Council had prepared for the challenges it faced through the Sunderland Way of Working (SWOW) and its business transformation programme. This helped the Council balance its 2011/12 budget.</p> <p>Although there has been a focus on the immediate priority of making savings for 2011/12, the Council has already refreshed (in draft form) its medium term financial plan:</p> <p>The key challenges for the Council are to:</p> <ul style="list-style-type: none">■ closely monitor the 2011/12 budget, and take early action if budget savings are not being delivered; and■ monitor service delivery and governance arrangements to ensure that standards are maintained during a period of significant change.

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key messages

Criteria met

The Council had prepared for the economic challenges facing public services through the SWOW. SWOW is the umbrella term covering Authority Improvement Programmes including the areas of Business Transformation, Community Leadership, Economic Regeneration, Reputation and Influencing as well as Directorate Improvement Programmes. This has helped the Council identify the £58m savings required in the 2011/12 budget round:

- £19m area based and specific grant cuts passported to relevant activities; including major cuts, such as £9.9m loss of working neighbourhood funding previously used to strengthen the local economy;
- Business Transformation Programme savings – £26m (£8m from strategic and shared services, £2.5m from customer services, IT and property, £5m from procurement, and the remainder from a programme of service reviews); and
- remainder of savings found from one off use of surpluses and reserves (£5.5m), increased income (£2.8m) and other savings.

The Council is committed to improving service delivery and outcomes, but needs to make savings. Further activity is underway through several tranches of service reviews; recognising that further savings will be required in 2012/13 (estimated at £26.2m) and beyond.

The Council has established its innovative SWITCH programme (Staff Working in Transition and Change). This aims to support the delivery of the Council's business operating model and support the associated restructuring issues by finding displaced workers alternative employment in the Council as part of a wider set of measures in place to manage the position. The Council has made a commitment to seek to avoid mass redundancies.. The Council stopped external recruitment some time ago, created an Internal Jobs Market and has some flexibility in moving from agency staffing in some areas.

A key priority for the Council is to closely monitor the overall implementation of savings plans and impact of SWITCH. Robust monitoring arrangements are in place as reflected in the budget monitoring reports to Cabinet. Officers are closely monitoring the position and taking actions to mitigate any shortfall in order to achieve a positive outcome.

The Council's service assessments approach has delivered a range of new approaches to service provision. The Council is also actively developing a range of alternative forms of service delivery and new and innovative ways of working. As this is a key focus for Community Leadership, decisions on delivery models will be based on grounds of service improvement and value for money. The Council is engaging with Members and other key stakeholders about where alternative service delivery models can demonstrate significant community and organisational benefits.

Asset management follow up

A key area for potential Council efficiencies is property rationalisation.

The Smarter Working project was set up with a focus on space utilisation targets and desk density ratios combined with increased home and mobile working is enabling increased efficiency in building use. Some buildings have already been vacated and a total of 12 buildings are anticipated to have been taken out of use by the end of 2011. The current anticipated savings of the project are £3.3m by the end of 2013/14.

The Council is considering the means by which to increase developments and investment in Sunderland through the use of its own assets.

Natural resources follow up

The Council has adopted a Sustainability Policy and is progressing plans to improve sustainability, however, some momentum has been lost due to restructuring.

The Council had originally intended to develop a Sustainability Board to oversee delivery of the Sustainability Policy. However, the streamlined Council and governance structure has led the Council to reconsider whether this is the most appropriate mechanism to take the agenda forward.

Whilst the creation of a Board is under review, the Council is looking to establish a Communities of Interest Group to promote and drive the sustainability agenda across the Council's directorates, building on the work currently ongoing at a delivery level. This group would then feed into the Council's existing governance arrangements via the Deputy Chief Executive.

It is important that service reviews come up with sustainable solutions, and sustainability should consequently be reflected more prominently in the service review process.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Executive Director of Commercial and Corporate Services. The letter will be presented to a number of key committees and a copy will be provided to all Members. Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Fee Letter	April 2010
Opinion Audit Plan	March 2011
Review of Internal Audit	May 2011
IT Risk Assessment	June 2011
Interim Opinion Report	July 2011
Annual Governance Report	September 2011
Opinion on the financial statements	September 2011
Value for Money conclusion	September 2011
Annual Audit Letter	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council and its staff for their support and co-operation during the audit.

Steve Nicklin
District Auditor

November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Audit fee	339,858 ⁱ	332,522	7,336
Grant claims and returns	43,960 ⁱⁱ	43,960	0
Non-audit work	0	0	0
Total	383,818	376,482	7,336

ⁱ The actual fee includes an additional fee of £7,336, which reflects the cost of additional work undertaken to resolve the objection. These figures do not reflect the fee rebates that have been paid back to the Council, following savings made by the Audit Commission, and rebated to audited bodies on a national basis.

ⁱⁱ This remains our best estimate for grant claims and returns. This work is not likely to be completed until the end of December 2011.

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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- any third party.



AUDIT AND GOVERNANCE COMMITTEE

25 November 2011

LOCAL PUBLIC AUDIT – UPDATE ON PROCUREMENT PROCESS

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 To provide an update on the procurement process regarding the provision of local public audit over the next three to five years.

2. Background

- 2.1 At the last meeting of the Committee, Members were given an update on the arrangements being put in place to provide local public audit in the future. The update explained that interim arrangements would be put in place whereby the Audit Commission would procure and appoint external auditors for public sector bodies for the next three or five years. Following this period public sector bodies would be free to procure their own external auditors.

3. Update on the Procurement Process

- 3.1 The Commission has formally launched the process for outsourcing the work of its Audit Practice. In line with the timetable for the procurements of audit services, shown overleaf, the Audit Commission have issued Contract Notices in the Official Journal of the European Union.
- 3.2 The Audit Commission has confirmed that Invitations to Tender have now been issued to 13 providers who have met the pre qualification requirements. A list of the providers is attached at Appendix 1. Bidders have until 16th December to submit their tender response.

4. Timetable for the Outsourcing Process

- 4.1 The table overleaf provides the key milestones currently planned for the key stages of the procurement. This is intended as a guide and while the Commission does not intend to depart from the timetable it reserves the right to do so at any stage.

Timetable

Key milestone	Principal bodies' procurement
Deadline for submission of tenders	16 December 2011
Approval of contract awards	w/c 20 February 2012
Consultation with audited bodies on appointments	23 April - 13 July 2012
Approval of auditor appointments	w/c 23 July 2012
Appointments for 2012/13 commence	1 September 2012
Staff transfer to firms awarded contracts	31 October 2012

5. Recommendations

5.1 Members are asked to note the report.

Background Papers

Consultation on Local Public Audit – Audit and Governance Committee 30th June 2011

List of firms issued with an Invitation to Tender

BDO LLP

DA Partnership Limited

Deloitte LLP

Ernst & Young LLP

Grant Thornton (UK) LLP

Consortium led by Haines Watts

KPMG LLP

Menzies LLP

Consortium led by MHA Audit LLP

Consortium led by Moore Stephens LLP

PKF (UK) LLP

PWC LLP

RSM Tenon Audit Ltd

OVERSIGHT OF FINANCIAL MANAGEMENT IN LA MAINTAINED SCHOOLS

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 To provide an update on a report issued by the National Audit Office (NAO) with regard to the Department for Education's (the Department) oversight of financial management in Local Authority maintained schools.

2. Background

- 2.1 The NAO has recently issued a report providing the findings of its review of the oversight of financial management in schools by the Department for Education. During 2011/12, £34.1bn of funding will have been provided to Local Authority maintained schools in England. Over £160m is received by schools in Sunderland. The report also explores how assurance is gained on the financial management capacity and capability in maintained schools through local authority oversight and intervention. The NAO report covers:
- the information available to the Department about schools' financial management and local authorities' monitoring systems and intervention.
 - how the Department helps improve schools' financial management expertise.
 - the Department's and local authorities' arrangements to support good financial management and cost reductions in schools.

3. Key Findings

- 3.1 The overall conclusion of the report is as follows:

The Department is accountable to Parliament and the public for the proper management of the money given to schools. In the current financial environment, more schools are having to manage with reduced funding. Strong financial management in schools is more important than ever. The Department has set standards for financial management in maintained schools, and has a framework in place for gaining assurance which relies on local authority oversight of schools.

The Department needs to know that this framework is meeting the intended objectives, and is capable of alerting it to systemic issues with schools' financial management that require action or intervention as they emerge.

4. Recommendations

- 4.1 Following the review, the NAO has made a number of recommendations to the Department which are designed to help meet the challenges of assuring effective financial management in the schools' system. The recommendations are as follows:
- a) The production of the accountability systems statement provides an opportunity for the Department to communicate its approach to securing a coherent and effective system. It should set out in the statement how it intends to review how the system is working, and whether any changes are needed as the financial risks to schools change over time.
 - b) Greater use of the information the Department receives on schools' finances would improve its oversight of financial management in the schools' sector. Without adding to the information burden on schools and local authorities or challenging their autonomy, the Department should:
 - further analyse the financial information it already collects, for example, on surpluses, deficits and schools' spend, to better understand the actions local authorities and schools are taking and their consequences; and
 - use this analysis to inform the development of support for good financial management in local authorities and schools.
 - c) The Department has limited knowledge of how schools are using its financial benchmarking website. Benchmarking is potentially a powerful tool for helping schools improve their financial management and make savings. The Department should:
 - systematically monitor the website's usage to identify those local authorities and schools that are not using it, and promote its use; and
 - promote the website as a tool to help the Department and local authorities to identify efficient schools which could serve as examples of good practice.
 - d) The Department accepts that it needs to strengthen its response where it has evidence that local authorities are not fulfilling some functions in relation to schools as well as they should. The Department should:

- establish what its response will be if any of a local authority's schools fail to meet the Schools Financial Value Standard by the set deadlines; and
- develop contingency plans, and criteria for implementation, in case a local authority is ineffective in dealing with serious financial difficulties in its schools.

4.2 Internal Audit coverage of Local Authority maintained schools in Sunderland continues to be undertaken on a cyclical basis with every school being visited every three years. Since the abolition of the Financial Management Standard in Schools the audit programme has been streamlined to concentrate on key governance issues and specifically financial management. In addition, audits are also undertaken on the central financial support services provided to schools and the allocation of funding arrangements. The current internal audit opinion of these arrangements in relation to schools is 'good'.

4.3 The Council will monitor developments in this area and respond accordingly.

5. Recommendations

5.1 Members are asked to note the report.

Background Papers

None