

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on
Friday 22 March 2013 at 1.30pm

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1.	Receipt of Declarations of Interest (if any)	
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ELAINE WAUGH
Head of Law and Governance

Civic Centre
SUNDERLAND

14 March 2013

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on Friday 8 February 2013

Present:

Mr G N Cook

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

In Attendance:

Malcolm Page (Executive Director of Commercial and Corporate Services), Dennis Napier (Assistant Head of Financial Resources), Gavin Barker and Cathy Eddows (Mazars) and Gillian Warnes (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

30. RESOLVED that the minutes of the meeting of the Committee held on 14 December 2012 be confirmed and signed by the Chair as a correct record.

Treasury Management Policy and Strategy 2013/2014, including Prudential 'Treasury Management' Indicators for 2013/2014 and 2015/2016

The Executive Director of Commercial and Corporate Services presented a report informing the Committee of the Treasury Management Policy and Strategy proposed for 2013/2014 and the Prudential 'Treasury Management' Indicators for 2013/2014 to 2015/2016. The Committee were asked to provide comments to the Council on the proposed policy and indicators where appropriate.

The Council is required by the Local Government Act 2003, to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Management Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act also requires the Council to adopt a Treasury Management Policy statement and to set out its Treasury Management Strategy comprising: the Council's strategy for borrowing and the Council's policies for managing its investments and giving priority to the security and liquidity of those investments.

There were no major changes being proposed to the overall Treasury Management Strategy in 2013/2014 and it would maintain the careful and prudent approach adopted by the Council in previous years. The strategy would be subject to regular review to ensure compliance to the agreed treasury management strategy and that the strategy adapted to the changing financial markets as appropriate.

Members' attention was drawn to the performance of the Council's investments both in 2011/2012 and the current year to date. A return of 1.62% had been achieved on investments in 2011/2012 against a benchmark of 0.49% and in the current year 1.89% had been achieved to date against the benchmark of 0.41%. The Council compared well with the other local authorities and was in the top quartile for performance, however, it was highlighted that market rates had dropped recently and therefore the rates of return of investments would also fall as a result and that this position was not expected to improve over the coming financial year.

Councillor Wright noted that the borrowing limit was to be raised over the medium term. The Executive Director stated that historically the level of Council borrowing was prudent and comparatively low (and would remain so) and it was an approach that was sensible, given the low base position and the importance of supporting capital investment across the City in the current economic climate. It was also anticipated that there would be some financial return on some of the borrowing to be used for the Capital Programme (mainly in respect of invest to save schemes) and that the Council's prudent approach would be balanced with the need for investment.

The Chair made reference to the Council's average rate of borrowing being 3.51% and asked if this rate would be affected by changing financial markets. The Assistant Head of Financial Resources explained that this rate was based on existing borrowing and would only be affected by new borrowing.

Councillor Farthing asked about the process of debt rescheduling and the Assistant Head of Financial Resources stated that the debt the Council holds could be replaced or repaid early depending on markets. If rescheduling was carried out correctly, the overall rate would be reduced. Any potential rescheduling opportunities would be discussed with the Executive Director of Commercial and Corporate Services, the Council's Treasury Advisors and

external auditors before a decision was taken. The timing of such debt rescheduling however was dependent on the level and rate of debt held compared to market conditions, these have not been sufficiently favourable for the past few years, consequently there have been no opportunities to support any debt rescheduling in the past year. The position however is continuously monitored for any opportunity that may arise.

It was noted that the Economic Background set out in Appendix 5 painted a very gloomy picture and the Committee commented on the relative debt of the UK and other countries in relation to their GDP.

Having considered the report, the Committee were pleased to note that there were no major changes proposed to the overall strategy and that the careful and prudent approach adopted by the Council in recent years would continue.

Accordingly, it was: -

31. RESOLVED that the Council be advised that, having considered the report on the Treasury Management Policy and Strategy for 2013/2014, the Audit and Governance Committee had concluded that the arrangements for Treasury Management were in an excellent position for future years.

External Auditor – Audit Progress Report at 29 January 2013

The Executive Director of Commercial and Corporate Services introduced the first Audit Progress Report from the external auditors which covered the period up to 29 January 2013.

Gavin Barker informed the Committee that it was the intention of Mazars to bring a progress report to each meeting of the Committee to highlight progress and any topical issues. Gavin also introduced Cathy Eddowes to the Members of the Committee and advised that she was the Assistant Manager for the Sunderland team.

The auditors were on track with the audit plan and had issued the fee letter to the Executive Director, confirming that the fee had been reduced by 40% from previous years and was to be retained at this level. The Audit Strategy Memorandum had also been drafted and would be presented to the Committee at its meeting in March.

The report outlined a number of emerging issues as follows: -

- Localisation of business rates
- Localising Council Tax support
- Tough Times 2012 report
- Reducing the costs of assessments and reviews
- Protecting the public purse 2012
- Striking a balance, Improving Council's decision making on reserves

- Auditing the Accounts 2011/2012: Quality and timeliness of local public bodies' financial reporting
- Consultation on 2013/2014 audit fees and work programme
- Consultation on the Local Government Financial Settlement
- Final accounts workshops for finance staff

Councillor Wright referred to the matter of reserves and asked if the Council received recommendations on what levels were required and how to use these. The Executive Director of Commercial and Corporate Services advised that there were some broad guidelines from CIPFA within which the Council operated for General Fund Balances. It was acknowledged that the Council's reserves were robust with a significant amount was earmarked for specific purposes such as single status and the new Wear Bridge. Reserves were reviewed as part of the budget setting process and currently £7.5million was classified as unearmarked reserves within the General Fund.

Councillor Forbes queried how it could be determined what value to earmark for single status claims and the Executive Director responded that this had to be done using judgement rather than precise calculations, but the external auditors have the opportunity to give a view on the approach. It was also confirmed that the Council was currently settling a tranche of equal pay claims, while a further tranche would be subject to discussion and negotiation.

With regard to the report of the Audit Commission on reducing the costs of assessments and reviews, it was queried if comparing similar geographic areas was a useful benchmark. Gavin stated that the benchmarking tool was intended to be used alongside many other indicators but were useful in that they could highlight specific areas which may need to be investigated further.

The Audit Commission had also highlighted new frauds emerging in areas such as business rates in their report, 'Protecting the Public Purse' and the Executive Director confirmed that this type of fraud was increasing and that there were a number of scams being identified.

The Council had always had good collection levels for both business rates and council tax, but now that the business rates had been localised, the risks of non collection and successful appeals was being passed on to the Council. Business rates could fluctuate over time but the biggest challenge was likely to be backdated appeals, as any successful appeals would have to be funded equally by the Council and the Government through the new system, when previously the Government had picked up the full costs involved.

Members having thanked the external auditor for the comprehensive progress report, it was: -

32. RESOLVED that the report be noted.

(Signed) G N COOK
Chair

AUDIT AND GOVERNANCE COMMITTEE

22 March 2013

CORPORATE ASSURANCE MAP - UPDATE

Report of the Head of Corporate Assurance and Procurement

1. Purpose of Report

- 1.1 To enable the Audit and Governance Committee to consider the updated Corporate Assurance Map based on 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.
- 1.2 For completeness, the report covers Internal Audit's key performance measures. The report does not set out the work undertaken for associated bodies for which the Council has a lead responsibility, this is a matter for the bodies concerned.

2. Description of Decision

- 2.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map (the Map).

3. Background

- 3.1 In March 2012 the Committee approved the proposed Corporate Assurance Map for 2012/13 and the plans of work for Internal Audit and Risk & Assurance.
- 3.2 At that time, the Map was prepared based on knowledge of the assurance position from Internal Audit work, a risk assessment covering all of the corporate risk areas and consultation with the Chief Executive, all Executive Directors and key offers across the Council.
- 3.3 A key feature of the new integrated assurance framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources and consider if there are any gaps or duplication in the assurance provided.

4. Updated Corporate Assurance Map

- 4.1 The updated Corporate Assurance Map, as at 1st March 2013, is shown overleaf. It has been updated based on the work to date of the Internal Audit, and Risk and Assurance Teams and assurance from other sources within the Council and external sources.

Corporate Assurance Map

Assurance Position (as at 1 st March 2013) (Cumulative)	2012/2013								
	Management Assurance	Other Internal Assurance Activity					Risk and Assurance	Internal Audit	External Assurance
		Legal Services	Financial Resources	Transformation Programmes and Projects	Strategy, Policy and Performance	HR &OD			
Strategic Risk Areas									
Economy	X				X			X	
Resources (external and internal)	X		X					X	X
Unable to meet needs of the community	X				X			X	
Reputation	X							X	
Social breakdown	X							X	
Lack of effective strategic partnerships	X				X			X	
Planning and responsiveness to national agenda	X				X			X	
Corporate Risk Areas									
Customer Focus / Service	X				X			X	X
Legality		X						X	
Service / Business Planning	X				X			X	X
Programme and Project Management				X				X	X
Change Management	X			X		X		X	
Partnerships	X							X	
Business Continuity Planning	X						X		
Procurement	X								X
Relationship and Contract Management	X	X	X					X	X
Financial Management	X		X					X	X
Human Resource Management						X		X	X
Information Governance	X	X						X	X
Performance Management	X				X			X	X
Asset Management	X							X	
ICT Strategy and Delivery	X			X				X	
Fraud and Corruption	X								X
Risk Management (Service Delivery)	X							X	
Housing Benefits	X								X
Schools	X		X					X	X

Key: X=activity planned, White=no coverage, **Green**=full / substantial assurance, **Amber**=moderate assurance, **Red**=limited / no assurance
Previously described as: **Good** **Satisfactory** **Unsatisfactory**

Strategic Risk Areas

- 4.2 The top section of the Map relates to the strategic risks identified in the Corporate Risk Profile. A summary of the action areas that have been agreed are shown in Appendix 1, along with key actions taken to date. Progress against each of the actions has been assessed with the lead officers and assurance levels determined for all areas. The overall rating of the strategic risk areas has not changed.

Assurance from Internal Audit

- 4.3 The detailed results of Internal Audit work are shown at Appendix 2, with the summary outcomes shown on the Map. The Map shows the ongoing opinion of Internal Audit from work undertaken within the last two years plus work completed in the current year.

Assurance from Risk and Assurance Team

- 4.4 Areas that the Risk and Assurance Team are currently involved in are shown at Appendix 3. Much of their work is ongoing over a period of time due to the nature of their role, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work within the third quarter has included:

- Continuing with support on the preparation for the procurement stage of the new Wear Bridge Crossing and issuing regular assurance reports to the Project Board.
- Support to the development of alternative service delivery vehicles such as the Local Asset Backed Vehicle, Care and Support Project, Events Project and the future of ICT delivery.
- Work has also been undertaken regarding Equal Pay Claims.

- 4.5 The Risk and Assurance Team have also provided support to 28 schools to help them manage their risks. This takes into account assessments undertaken by other departments in the Council. Considering the work done by the Safeguarding, Asbestos, Internal Audit and the Risk and Assurance Team, the overall assessment for schools is considered to be substantial.

Assurance from others within the Council

- 4.6 Assurance provided from others within the Council is shown in the Corporate Assurance Map above. Given the number of staff who left the Council last October under the severance scheme the Business Continuity Officer has changed the assurance level for business continuity to amber and highlighted that the risk in this area has increased due to service continuity plans not all being updated. This process is ongoing but not completed.

Assurance from Management

- 4.7 Arrangements have now been developed to obtain assurance from service Management in a number of areas. Members will note that the majority of risk areas are shown as having substantial assurance. Actions / improvements currently being progressed should improve the position in relation to Service / Business Planning and Performance Management.

Assurance from External Sources

- 4.8 The Map shows five areas where Full or Substantial assurance has been received from external sources. This relates to the results of the recent OFSTED inspection into safeguarding children and services for children looked after, and the value for money opinion of the Audit Commission. The results of the OFSTED inspection gave an overall rating of 'Good' and specific ratings in relation to the relevant Corporate Risk areas are shown.

Overall

- 4.9 The overall level of assurance for Fraud and Corruption has improved to Full/Substantial since the last update report, due to the results of internal audit work. The overall level of assurance for Customer Focus has also improved due to the work of the Risk and Assurance Team and positive comments from management.
- 4.10 The overall level of assurance for Business Continuity Planning has changed to amber as set out above (paragraph 4.6).

Appointment of Partner

- 4.11 At the end of October a Partner organisation, PricewaterhouseCoopers, was appointed to support the Council with the Integrated Assurance Framework and governance arrangements. A review of the implementation of the Integrated Assurance Framework is being finalised. The report shall be included on the next Committee Agenda.

5. Internal Audit Performance

- 5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 4. Performance is on target for all KPI's.

It is pleasing to report that the current percentage of medium risk recommendations implemented (excluding schools) now stands at 90% - meeting the target.

A summary of the performance by directorate for medium risk recommendations is shown below:

Directorate / Body	Implementation Rate
Children's Services (non schools)	79%
City Services	92%
Office of the Chief Executive	88%
Commercial and Corporate Services	94%
Health, Housing & Adult Services	94%
Implementation Rate (exc. Schools)	90%
Schools	84%
Total Implementation Rate	88%

7. Conclusions

- 7.1 This report provides an update on the assurance provided in the Corporate Assurance Map, work ongoing in relation to the Internal Audit and Risk & Assurance Teams and performance targets for Internal Audit.
- 7.2 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.

8. Recommendations

- 8.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map.

Corporate Risk Profile 2012/13 – Update

RISK 1

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
ECONOMY	Adverse market conditions may delay progress and reduce momentum in achieving the benefits of the Economic Masterplan	Janet Johnson, Deputy Chief Executive				<ul style="list-style-type: none"> Developing the Enterprise Zone Capital and Revenue Financial Incentives Policies Development of the Port Development of regeneration sites, e.g. Vaux site, Magistrates' Square and Stadium Village. Inward Investment Marketing Strategy Enterprise and Innovation Strategy Zero Carbon Futures and low carbon vehicle sector Investment corridors Implementation of the Sunderland Employment Strategy and Sunderland Skills Strategy
Context						
Further decline in the national economy and reduction in public sector budgets will adversely impact the ability to grow the local economy and impact on employment						
			3 Likely	4 Critical	12 High	<p>Progress</p> <ul style="list-style-type: none"> Procurement of consultants to deliver feasibility study for the Enterprise Zone is expected to commence in March 2013. Risk register in place for the development of the Port. Procurement for Magistrates Square and St Mary's Boulevard has started, and planning permission has been approved. The ICT Service provider contract for the Sunderland Software Centre was awarded to IBM Procurement ongoing for preparatory works for Vaux Site (St Mary's Way) with a site start expected in May 2013. A new marketing strategy MAKE it Sunderland was launched in May with a new website "Sunderland is open for Business, Open to Business" Superfast broadband installed in large areas of the City with work ongoing

RISK 2

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
<p>REDUCED RESOURCES</p>	<p>Further significant budget cuts</p>	<p>Malcolm Page, ED of Commercial and Corporate Services</p>				<ul style="list-style-type: none"> • Delivery of key transformation projects • Delivery of Directorate based efficiency projects • Employee engagement regarding turnover and workforce reduction • Procurement of a Local Asset Backed Vehicle • Assessment of the savings requirements through update of the Medium Term Financial Plan
<p>Context</p>						
<p>The budget settlements, Local Government Resource Review and localisation of business rates may significantly impact on the council's financial position.</p>			<p>3 Likely</p>	<p>4 Critical</p>	<p>12 High</p>	<p>Progress</p> <ul style="list-style-type: none"> • Procurement phase for the Local Asset Backed Vehicle progressing well. • Staff survey undertaken, results being analysed. • Severance project completed, 561 people have left the employment of the Council • New approach to transformation developed and work has been undertaken to identify savings across the Council for the medium term • High level budget planning guidance has also been issued • Settlement received December 2012, MTFS updated and approved February 2013. • New Local Council Tax Benefit Scheme being implemented • Work is ongoing to settle the equal pay claims in relation to single status • New project initiated regarding workforce transformation • Commercial opportunities for use of the Council's Cloud technology being considered

RISK 3

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
COMMUNITY NEEDS	The scale of the compound change in the short/medium term within the City is such that the Council is unable to effectively respond to the needs of people and communities	Keith Moore, ED of Children's Services & Neil Revely, ED of Health Housing & Adult Services				<ul style="list-style-type: none"> • Analysis of the Joint Strategic Needs Assessment • Customer Insight group to develop engagement and participation strategies • Phase two of Responsive Local Services • Establish Area Children Boards • Establish Area People Boards • Deliver priorities set out in the Sunderland Child and Family Poverty Strategy, Health and Well-Being Strategy • Safeguarding of most vulnerable groups through responding to the findings of the Serious Case Review • Transfer of Public Health • Strengthening Families agenda
Context		Janet Johnson, Deputy Chief Executive				
	The Council has a community leadership role to identify and respond to changing community needs such as unemployment, health and housing.		<p>2 Possible</p>	<p>4 Critical</p>	<p>8 Medium</p>	<p>Progress</p> <ul style="list-style-type: none"> • Joint Strategic Needs Assessment used to develop the Health and Wellbeing Strategy • Work ongoing by the Customer Insight Group with reports produced for area committees • Work ongoing regarding phase two of Responsive Local Services completed around locality working in Children's Services and Health, Housing and Adults Services • Risk register in place for the Transfer of Public Health with the high level risks reducing through co-operative working. Discussion being held regarding quality assurance and transfer of assets • Family Focus project - Strengthening families agenda being reviewed by Government for its relationship with Childrens' Trusts • Target achieved in terms of the number of people with a personal budget but work still ongoing to deliver for all with ongoing care needs supporting themselves in the community

RISK 4

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
COMMUNITY NEEDS	The Council may not identify effective ways of influencing the school improvement agenda so that all children achieve their full potential	Keith Moore, ED of Children's Services				<ul style="list-style-type: none"> • Partnership between the Local Authority, schools and academies • Establish an excellence centre (Teaching School) • New Education Leadership Board to establish a city-wide education strategy, Chair now appointed • Traded services to schools • Young people who are a risk of becoming NEET • Raising Participation Age • Implementation of the Sunderland Employment Strategy • Implement Sunderland Skills Strategy
Context						2 Possible
Government policy changes have resulted in Local Authorities having reduced influence over schools. A reduction in Government grants has reduced funding for services such as school improvement.						

RISK 5

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
REPUTATIONAL AND INFLUENCING	The reputation of the council may be seriously damaged through negative media coverage on a particularly sensitive issue	Deborah Lewin, Director of Communications	2 Possible	3 Significant	6 Medium	<ul style="list-style-type: none"> • Sensitive media issues • Court cases and serious case reviews • Good relationship with Sunderland Safeguarding Children Board • Positive media <p>Progress</p> <ul style="list-style-type: none"> • Training provided for Key managers in the Council • Arrangements are in place for dealing with sensitive media issues • Good relationships are in place with the Sunderland Safeguarding Board
Context	Council actions are under an increased level of publicity scrutiny and there has been a huge growth in online and digital media allowing media stories to be spread very quickly.					

RISK 6

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
SOCIAL BREAKDOWN	Communities may be unable to positively respond to and cope with changes brought about by the Welfare Reforms and economic climate	Ron Odunaiya, ED of City Services Malcolm Page ED of Commercial and Corporate Services	2 Possible	3 Significant	6 Medium	<ul style="list-style-type: none"> • Community resilience plan and the various areas of impact • Programme of work in relation to Welfare Reforms <p>Progress</p> <ul style="list-style-type: none"> • Action plan for the implementation of the Community resilience plan developed and being reviewed • Local Scheme for Council Tax benefit and Social Fund/crisis loans being implemented • Range of engagement events undertaken with groups affected by the reforms, e.g. landlords • Website created to provide information on the changes and potential impacts on individuals
Context	Welfare reforms may adversely impact upon the quality of life within communities. There could be a lack of resilience and ability to maintain and/or improve standards of living.					

RISK 7

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
<p>SOCIAL BREAKDOWN</p>	<p>If the City becomes unattractive to residents, businesses and visitors, this would adversely impact upon the ability to build lasting neighbourhoods</p>	<p>Ron Odunaiya, ED of City Services</p>				<ul style="list-style-type: none"> • Housing Development Strategy • Availability of Superfast Broadband • Seaburn Masterplan • Sunderland Strategic Transport Corridor • Local Transport Plan • Network Management Plan • Community Safety Plan • City Villages approach • Community Leadership Programme • Schools investment plan
	<p>Context Economic conditions make it more difficult to attract investors and developers. Reduction in public sector budgets will adversely impact on investment.</p>			<p>2 Possible</p>	<p>3 Significant</p>	<p>6 Medium</p>

RISK 8

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
<p style="text-align: center;">PARTNERSHIPS</p>	<p>Inadequate engagement with partners may lead to missed opportunities to co-design services and to share or transfer responsibilities for delivering successful outcomes</p>	<p>Sarah Reed, Assistant Chief Executive</p>	<p>2 Possible</p>	<p>3 Significant</p>	<p>6 Medium</p>	<ul style="list-style-type: none"> • Voluntary and Community Sector • Collaborative Leadership across the city • Health and Wellbeing Board • Promote the involvement of Partners with the proposed Place and People Boards • Review public sector finances across the City • Integrate family focus approach with Partners <p>Progress</p> <ul style="list-style-type: none"> • Health and Wellbeing Board and Family Focus project are considering how public sector funds in the city can be used more effectively to deliver outcomes • Family Focus project developed and will develop the Strengthening Families agenda
	<p>Context</p> <p>Financial pressures on Council and partners affecting local provision – varying standards of quality. Other organisations may develop joint working whilst the Council is developing its own business operating model.</p>					

RISK 9

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
PLANNING AND RESPONSIVENESS	Unable to be responsive to changes in government policy direction and broader external environment in a timely way	Janet Johnson, Deputy Chief Executive	2 Possible	2 Moderate	4 Medium	<ul style="list-style-type: none"> Horizon scanning Simplify and join up the major Council strategies Peer review <p>Progress</p> <ul style="list-style-type: none"> Horizon scanning ongoing supported by a policy briefing service Work is ongoing regarding the review of Council Strategies Peer Review scheduled to take place in the summer 2013
Context						
New government introducing a number of different policies in a short period of time.						

Detailed Internal Audit Coverage

Corporate Risk Area	Audits Planned 2012/13	Assurance Provided (audits in 2012/13)	IA Overall Opinion (Assurance)
Customer Focus	Children's Services Admissions Area Arrangements for Children's Centres Children's Services – Safeguarding Personal Budgets	Limited Limited	None (insufficient work to provide view)
Legality	Traffic Management and Road Safety Equality Impact Assessments Corporate Legality	Substantial Full	Substantial
Service / Business Planning	Corporate Service/Business Planning Children's Services Admissions Area Arrangements for Children's Centres Children's Services – Safeguarding Traffic Management and Road Safety	Limited	Moderate
Programme and Project Management	Implementation of the Economic Master Plan Landscape and Reclamation Service Programme and Project Management - support to major projects Operating Model – realisation of benefits	Moderate Moderate Substantial	Moderate
Change Management	Non Planned – to be covered by the Risk and Assurance Team		None (new risk area)
Partnerships	Non Planned – to be covered by the Risk and Assurance Team		Moderate
Business Continuity and Emergency Planning	Non Planned		Moderate
Procurement	Capital Procurement Unplanned Audit – Revenue Procurement	Substantial Substantial	Substantial

Corporate Risk Area	Audits Planned 2012/13	Assurance Provided (audits in 2012/13)	IA Overall Opinion (Assurance)
Relationship and Contract Management	Developments in relation provision of Events Care and Support Sunderland Ltd – contract management Corporate Contract Management Framework Unplanned Audit - Supporting People	Limited	None (insufficient work to provide view)
Financial Management	YPLA Schools Sixth Form Grant YPLA Young Apprenticeships Cohort 6 Grant YPLA Young Apprenticeships Cohort 7 Grant Department for Business Innovation & Skills – LEP Start Up Fund Department for Business Innovation & Skills – LEP Capacity Fund Deprived Areas Fund Grant Single Investment Programme Grant Local Transport Capital Block Funding Grant Growing Places Funds 2, 3 and 7 1 Leisure Centre 35 Schools Home Improvement Agency – Loans and Mortgages Personal Budgets Direct Payments Care and Support Sunderland Ltd – compliance Landscape and Reclamation Service BACS Payments Cash Receipting checks Capital Procurement Payroll transactions checks Council transactions Tax checks Business Rates transactions checks Accounts Payable transactions checks Accounts Receivable transactions checks Unplanned Audit - Supporting People	Substantial Substantial Substantial Substantial Substantial Full Full Substantial Full Substantial Substantial Substantial Limited Limited Substantial Moderate Substantial Substantial Substantial Substantial Limited	Substantial
Human Resource Management	Corporate Attendance Management Arrangements Management of SWITCH	Limited Substantial	Moderate
Information	Vulnerable Adults Protection Arrangements		Moderate

Corporate Risk Area	Audits Planned 2012/13	Assurance Provided (audits in 2012/13)	IA Overall Opinion (Assurance)
Governance	Information Governance checks		
Performance Management	Corporate Performance Management Arrangements (design of new arrangements)	Substantial	Moderate
Asset Management	Unplanned Audit – Asset Management	Moderate	Moderate
ICT Strategy and Delivery	Non Planned – to be covered by the Risk and Assurance Team		Moderate
Fraud and Corruption	Counter Fraud Checks National Fraud Initiative checks Counter Fraud Checks – schools Home Improvement Agency – Loans and Mortgages Direct Payments Cash Receipting transactions checks Payroll transactions checks Council Tax transactions checks Business Rates transactions checks Housing Benefits transactions checks Accounts Payable transactions checks Accounts Receivable transactions checks	Substantial Limited Substantial Substantial Substantial	Substantial
Risk Management (service delivery)	Non Planned – to be covered by the Risk and Assurance Team		Substantial
Housing Benefits	Housing Benefit transactions checks	Substantial	Substantial
Schools	29 school audits completed	7 - Full 20 - Substantial 1 - Moderate 1 - Limited 0 - No assurance	Substantial

Risk and Assurance Activity

Area of activity	Work ongoing
Corporate Risk Profile	<p>Mitigating actions agreed.</p> <p>Many of the mitigating actions are large and complex in nature and will be implemented over a period of time, or are part of work already ongoing within the Council such as projects and service reviews. Discussions have been held to obtain progress in relation to all mitigating actions in the Corporate Risk profile and detailed assurance plans have been developed to enable evidence to be obtained on the implementation of actions to address risks, for example, in relation to the procurement of the New Wear Crossing, settlement of equal pay claims, ICT developments such as the Corporate Computing Model and cloud infrastructure technology and the re-build of Washington Leisure Centre. Work is ongoing in all of these areas as well as others mentioned below.</p> <p>Although there is a significant amount of work being undertaken it is not possible to give a view of the assurance level against all mitigating actions, however, where assurance can be provided this is included in the overall position reported in the Corporate Assurance Map.</p> <p>An update of progress in all risk areas has been provided in Appendix 1.</p>
Supporting Executive Directors and Heads of Service to manage risks	<p>Activity is ongoing in all Directorates to aid the managing of risks through service planning, programmes and key projects and partnerships. This is being linked to mitigating actions in the Corporate Risk Profile where appropriate. Assurance plans mentioned above are being developed based on the risks identified and actions agreed.</p>

Area of activity	Work ongoing
Service Reviews (including alternative service delivery models), Programmes and Projects (including ICT)	<p>Major projects / service reviews being supported include:</p> <ul style="list-style-type: none"> • SSTC - New Wear Crossing • Local Asset Backed Vehicle • Care and Support Services – Adults • Events Management • New arrangements for Design and Print • Transfer of Public Health • Smarter Working Phase 2 • St Mary’s Boulevard/Magistrates Square • Customer Service Network • Transport and Fleet Management • Family Focus – Supporting Families Agenda • ICT – Corporate Computing Model • ICT – Cloud development and strategic direction • Economic Master Plan • Workforce Development • Activities to reduce the size of the workforce • Welfare Reform • Customer Relationship Management system replacement • Safeguarding – Childrens • Personalisation – Adults • Settlement of Equal pay claims
Support to Schools	Support has been provided to 28 schools to date in relation to managing their risks Full – 3, Substantial – 20, Moderate – 5, Overall - Substantial
Partnerships	<p>Support is being provided to the following specific Partnerships:</p> <ul style="list-style-type: none"> • Sunderland Economic Leadership Board • Waste Management Partnership • Health and Wellbeing Board • Sunderland Safeguarding Adults Board
Governance Review	The results from Risk and Assurance activity feed into the Annual Governance Review and the Annual Governance Statement
Investigations	Three investigations are currently ongoing

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2012/13

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) On target
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%	2) Ahead of target - 91%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 70%	3) Ahead of target - 88%

Quality

Objectives	KPI's	Targets	Actual Performance
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion	1) Achieved
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant 90% for medium risk	2) On target – significant 100% On target - Medium 90% (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	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)	1) On target - 1.0 to date
	2) Results of other Questionnaires	2) Results classed as 'Good'	2) Non undertaken
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	3) 14 compliments 0 complaints

AUDIT AND GOVERNANCE COMMITTEE

22 March 2013

**EXTERNAL AUDITOR – AUDIT STRATEGY MEMORANDUM FOR THE YEAR
ENDED 31ST MARCH 2013**

Report of the Executive Director of Commercial and Corporate Services

1.0 Purpose of the report

1.1 This report details the new external auditors (Mazars) Audit Plan which notifies the Authority of the work that they are proposing to undertake in respect of the audit of the financial statements and the value for money conclusion for 2012/2013.

2.0 Audit Plan 2012/2013

2.1 The attached document advises on the nature of this work together with the scale of fee for the 2012/2013 audit and the assumptions that inform this charge to the Authority.

2.2 It is welcomed that Mazars, after successfully winning the North East area audit work, has introduced significantly reduced audit fees it is intending to charge the Authority for its audit services by 40% and these are detailed on page 12 of the document where the scale fees for 2011/2012 are £179,562 (and Grant certification work of £16,050) as compared to the 2011/2012 fees total of £299,270 (and grant certification work of £36,945) under the previous Audit Commission arrangements. The cost of audit work in total has thus reduced from £336,215 for 2011/2012 to £195,612 in 2012/2013, a saving of £140,603.

2.3 In addition, a further fee of £3,500, will be incurred for 2012/13 as the council has commissioned a Review of Internal Audit which will be financed from some of the above saving.

2.4 The Audit Plan also identifies the specific areas for the planned audit work based upon a risk assessment process. These areas of work are set out in the attached document on Pages 5 to 10 of the document and have been discussed with officers.

2.5 The document also sets out the protocol the auditors will follow in completing their planned work by providing an audit timeline of key phases of their work and also sets out their proposed methods of communication at each stage.

2.6 Gavin Barker the Council's Engagement Manager, from Mazars, will be in attendance to outline the content of the Plan and to answer any questions that may arise.

3.0 Description of Decision

3.1 The Committee is recommended to:

- Note the contents of this report
- Note and welcome the 40% reduced audit fees for the work to be undertaken in 2012/2013, as compared to the previous auditing regime, based on the risk-based approach to audit planning and also to note that the fees for 2013/2014 have recently been announced and these are to be maintained at the 2012/2013 price level.

Background Papers

Mazars : Audit Strategy Memorandum for the Year ended 31st March 2013
(attached)

Sunderland City Council

Audit Strategy Memorandum Year ended 31 March 2013

February 2013

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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. Purpose of this document

This document sets out our audit plan in respect of the external audit of Sunderland City Council for the year ending 31 March 2013. This document forms the basis for discussion at the Audit and Governance Committee meeting on 22 March 2013.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

Our communication with you is important in:

- Reaching a mutual understanding of the scope of the audit and the responsibilities of the auditor and those charged with governance;
- Sharing information to assist both the auditor and those charged with governance to fulfil their respective responsibilities;
- Providing to those charged with governance constructive observations arising from the audit process; and
- Ensuring as part of the two-way communication process that we, as external auditors, gain an understanding of the attitude and views of those charged with governance of the internal and external operational, financial, compliance and other risks facing the Council which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

2. Scope of engagement

We are appointed to perform the external audit of Sunderland City Council for the year to 31 March 2013. The scope of our engagement is laid out in the Audit Commission's Code of Audit Practice for Local Government bodies.

3. Respective responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out our respective responsibilities as the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and we undertake our audit work to meet these responsibilities.

We comply with the statutory requirements governing audit work, in particular the:

- Audit Commission Act 1998; and
- Code of Audit Practice for Local Government bodies.

We, as auditors to Sunderland City Council, are responsible for forming and expressing an opinion on the financial statements and reaching a conclusion on the arrangements you have put in place to secure economy, efficiency and effectiveness in the use of your resources (the Value for Money conclusion).

We are also required to report on the consistency of your Whole Government Accounts L-Pack with the audited financial statements.

Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

4. Independence

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. If at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with the engagement lead.

We are required by the Audit and Assurance Council (previously the Auditing Practices Board - APB), which has issued ethical standards for auditors, to confirm we have complied with relevant ethical standards requirements regarding independence. This is to ensure our objectivity and independence is maintained.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors. However, Members may wish to note that a member of my staff is married to a relatively junior member of the Council's staff and that arrangements are in place to ensure that independence is maintained.

We include in Appendix 1 our analysis of the principal threats to our objectivity and independence and the safeguards we have put in place.

5. Our audit approach

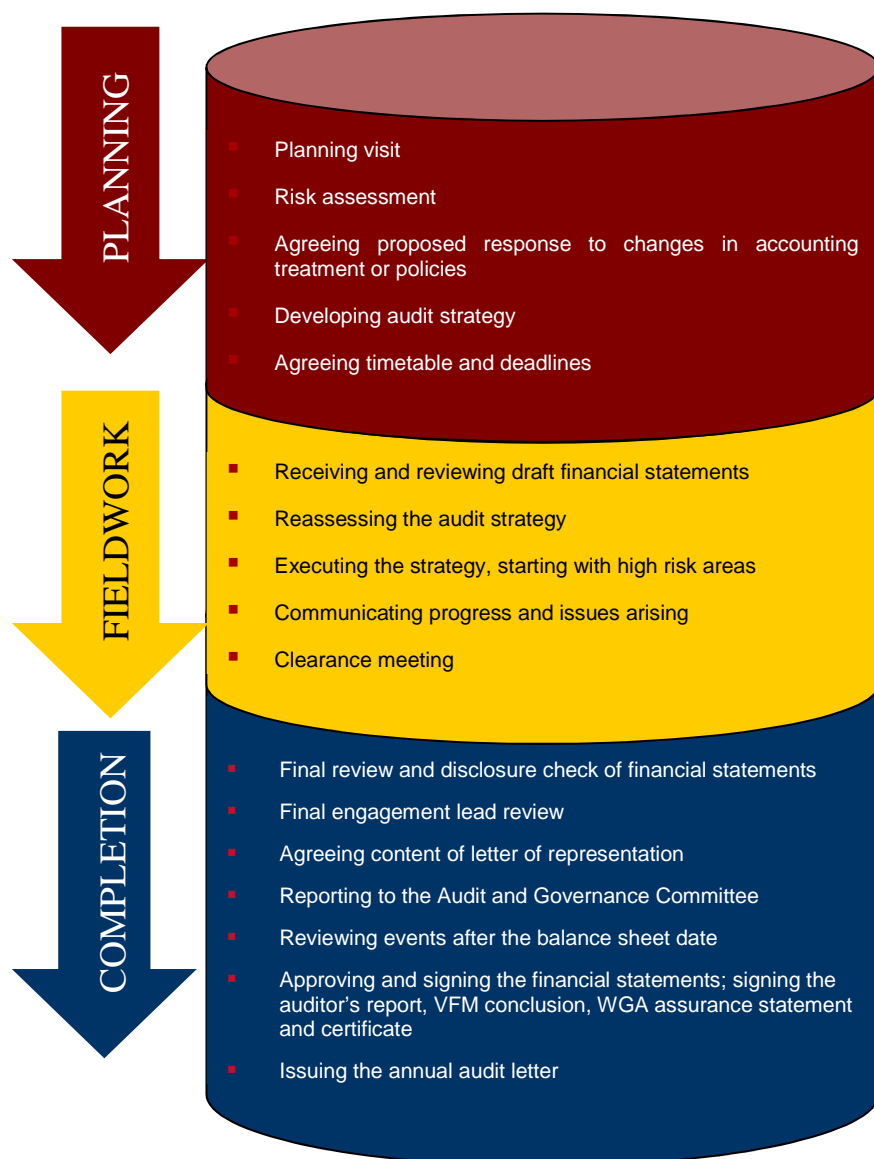
Our audit approach is designed to provide you with an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards of Auditing (UK and Ireland) issued by the Audit and Assurance Council (previously the APB). Our work is focussed on those aspects of your business which we consider to have a higher risk of material misstatement such as judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past. We raise and discuss these with you on a regular basis, not just at the time of the audit fieldwork. We expect to obtain appropriate evidence that we consider sufficient to enable us to draw reasonable conclusions therefrom and will use a combination of controls and substantive testing procedures as appropriate.

We plan our audit to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements. We will consider the control procedures in place to prevent and detect fraud, whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our procedures accordingly. We also plan our audit to negate the risk of management over-riding controls by testing year-end journal entries and the major judgements and estimates that management make.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view.

The key stages of the audit are set out on the following page:



6. Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

7. Reliance on experts

We plan to place reliance on the following work of experts.

Area	Expert engaged by:	
	You	Ourselves
Asset valuation	Your in-house valuer	Central valuation trends report provided by the Audit Commission
Pension Fund liability and IAS 19 disclosures	AON Hewitt (the actuary of the Tyne and Wear Pension Fund)	Central assurance provided by Audit Commission, supplemented by in-house actuarial specialist where needed
Fair value disclosures	Sector	Central assurance provided by Audit Commission

8. Service organisations

We have not identified material entries in your financial statements where the Council is dependent on an external service organisation.

9. Group accounts

The Council currently does not produce group accounts and remains of the view that its group interests are not material. We will review these assumptions during the audit.

10. Significant events during the year impacting the audit

There have been some significant events during 2012/13, including the implementation of a severance scheme and the participation in an exercise to refinance Newcastle International Airport. The Council is also considering its position in relation to equal pay claims made against it.

These events and any further developments will be taken into account in our audit strategy for 2012/13.

The Council is also continuing to review services and is preparing for changes to council tax benefits and NNDR, as well as taking on public health responsibilities, in 2013/14.

11. Significant risks and key judgement areas

We met with the Director of Commercial and Corporate Services on 7 December 2012 and with the Chief Executive on 12 December 2012 as part of the audit planning process. We have also met with other key officers. During these meetings we discussed the risks that, in management’s opinion, you face. We have considered the impact on our audit risk. Set out below are the audit risks and the areas of management judgement to which we will pay particular attention in order to reduce the risk of material misstatement in the financial statements.

Significant audit risks	How we will address this risk
<p>Property, Plant and Equipment (PPE) PPE is subject to significant estimation uncertainty and is based on valuations provided by your in-house valuer.</p> <p>There is a risk that the valuation reported in the financial statements will be materially misstated due to:</p> <ul style="list-style-type: none"> • basis of valuation not in line with IFRS requirements; • incorrect assessments of the assets’ estimated useful lives; • incorrect asset classifications; • failure to recognise impairments or other significant changes in asset values; and • incorrect distinction between revenue and capital expenditure. <p>There is also a risk that the Council will fail to meet:</p> <ul style="list-style-type: none"> • IFRS and Code requirements; and • Statutory requirements for capital accounting and financing. 	<p>We will review the arrangements in place for:</p> <ul style="list-style-type: none"> • instructing the valuer and relying on their work; • maintaining an accurate fixed asset register; • establishing estimates of asset lives; and • identifying impairments. <p>We will also carry out tests of detail on capital transactions, balances and disclosures in the accounts.</p>

Significant audit risks	How we will address this risk
<p>Pension assets and liabilities</p> <p>There is considerable uncertainty on the estimate of the local government pension scheme liability. These are material and highly complex transactions, reliant to a large extent on information provided by third parties. Therefore there is an inherent risk that the financial statements may be materially misstated.</p>	<p>We will assess the work of the actuary and assess whether the disclosures in the financial statements properly reflect the actuary's report.</p> <p>We will liaise with the pension scheme auditor, in line with Audit Commission requirements.</p>
<p>Newcastle International Airport</p> <p>Together with its partners, the Council participated in a major refinancing of the debt of Newcastle International Airport during 2012/13. This will have a material impact on the disclosures in the financial statements. It is important to include an appropriate valuation for the airport in the 2012/13 accounts and reflect the loan refinancing transactions appropriately.</p>	<p>We will discuss the appropriate accounting treatment with officers to ensure that the financial statements present a true and fair view of these transactions.</p>
<p>Potential equal pay liabilities</p> <p>The Council has previously disclosed a contingent liability in relation to equal pay. Following the outcome of a number of employment tribunals, the Council is now exploring settlement of a number of equal pay cases. It is important to ensure that appropriate disclosures are made in the financial statements. There could be significant implications for the accounts if the Council needs to make specific provision for its potential liabilities.</p>	<p>We will continue to discuss with officers the accounting implications in relation to equal pay, including any post balance sheet events that may occur between the certification of the draft accounts in June 2013 and their approval in September 2013.</p>

Significant audit risks	How we will address this risk
<p>Group accounts</p> <p>The Council established Care and Support Sunderland Ltd following the collapse of Choices Care Ltd, and 2012/13 is its first full year of trading. The Council is also exploring a number of other options for alternative service delivery which include the potential for company formation. The Council is still of the view that it does not need to produce group accounts for 2012/13 on the grounds of quantitative and qualitative materiality.</p>	<p>We will review the Council’s assessment that it does not need to produce group accounts and keep this under review if any further alternative models for service delivery come to fruition.</p>
<p>Management override of controls</p> <p>In any organisation, management may be in a position to override the financial controls that it has in place. In the current economic climate, the Council may face pressure to deliver financial performance levels it has previously forecast.</p> <p>A breach of the controls over journal entries, accounting estimates and other accounts preparation processes may result in a material misstatement. I therefore consider management override of controls as a significant risk and adapt my audit procedures accordingly.</p>	<p>We have updated our understanding and evaluation of internal control processes and procedures as part of our audit planning, including completion of a fraud risk assessment. As part of this process we will be obtaining information from the Audit and Governance Committee and management on processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud.</p> <p>We will complete audit testing of accounting estimates and journal entries in order to any material issues that I need to take into account in planning our audit and/or bring to your attention.</p>

Significant audit risks	How we will address this risk
<p>Risk of fraud in revenue and expenditure recognition</p> <p>There is a presumption under the ISAs that there is a significant risk of fraud in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when the full risk and reward of the ownership of an asset has passed. For local authorities, the same risk applies to the recognition of expenditure.</p>	<p>We will test cut off to assess whether income and expenditure are included in the appropriate year. We will also carry out analytical review procedures.</p>

Areas of management judgement	How we will address this judgement
Property, plant and equipment Pension liabilities as assessed by the actuary Valuation of Newcastle International Airport Estimates in relation to potential equal pay liabilities	We will carry out the work identified in the significant risks table above.
Provisions are made for various known liabilities of uncertain timing, such as claims against the Council which will not be met from insurance	We will test material provisions against accounting requirements. We will assess whether the Council has provided for known liabilities.

12. Value for money

We are required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of your resources.

Our conclusion on your arrangements is based on two criteria, specified by the Audit Commission:

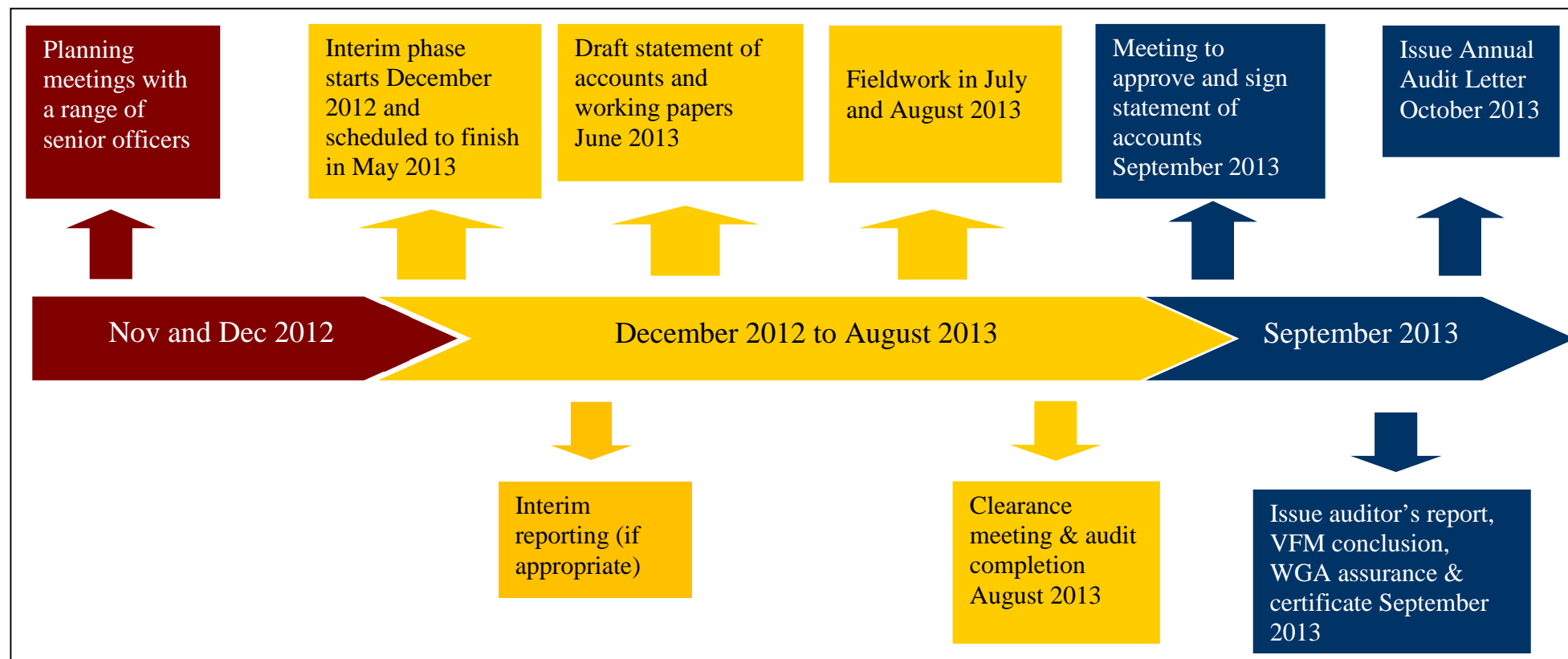
- securing financial resilience – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- challenging how you secure economy, efficiency and effectiveness – focusing on whether you are prioritising your resources within tighter budgets and the need to improve productivity and efficiency.

We have considered the risks that are relevant to our value for money conclusion and have identified the following significant risk that we will address through our work.

Risk identified	How we will address this risk
The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.	We will review budget monitoring and reporting, focusing on areas where action plans are in place to make savings and seek to minimise any adverse impact on service delivery. We will review the plans that are developed to deliver future savings.

13. Audit timeline

The table below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process to facilitate a two way process of updates and identifying issues. We will continue to communicate outside of these dates to ensure that all parties understand developments and issues as they arise and to help in providing timely and appropriate solutions.



14. Fees for audit and other services

Audit fees

As communicated to you in our letter dated 15 November 2012 the Audit Commission has set a scale fee of £179,562.

Our audit fees, excluding VAT, for the audit are set out below:

Sunderland City Council	2012/13 fees (£)	2011/12 fees (£)
Audit	179,562	299,270
Certification work	16,050	36,945

Non-audit services

The Executive Director of Commercial and Corporate Services has commissioned a Review of Internal Audit for an additional fee of £3,500. There are no threats to our independence arising from this work.

Services provided by Mazars LLP associated entities

No audit or non-audit services have been provided by other entities associated with Mazars LLP to Sunderland City Council.

15. Proposed team

We know that you value a team who understands the environment you operate in and understands your systems, controls and has a good working relationship with your staff and internal auditors. Your team meets all these criteria.

Name and contact	Role	Experience and responsibilities
Steve Nicklin Tel: 0191 383 6300 Email: steve.nicklin@mazars.co.uk	Engagement Lead	Steve has over 30 years of external auditing experience of local government and has worked with you for a number of years. He is responsible for the overall delivery of the audit, including the quality of audit reports. Steve will sign the auditor's report and liaise with chief officers.
Gavin Barker Tel: 0191 383 6321 Email: gavin.barker@mazars.co.uk	Engagement Manager	Gavin will manage and coordinate the different parts of the audit and be the key point of contact for the officers producing the financial statements and those involved with the value for money assessment.
Cathie Eddowes Tel: 0191 383 6310 Email: catherine.eddowes@mazars.co.uk	Team Leader	Cathie has a number of years post qualification experience and will lead the onsite delivery of the audit of the financial statements and grant claims work.
Suresh Patel Tel: 020 7063 4609 Email: suresh.patel@mazars.co.uk	Independent Partner	Suresh is Mazars' public sector lead within the standards and risk management team.

Appendices

Appendix 1 – Independence

Independence is an ongoing consideration and as such we monitor it throughout the audit process. The principal types of threats to the auditor's objectivity and independence are:

- self-interest threat - exists when the auditor has financial or other interests which might cause the auditor to be reluctant to take actions that would be adverse to the interests of the audit firm or any individual in a position to influence the conduct or outcome of the audit;
- self-review threat - exists when the results of a non-audit service performed by the engagement team or by others within the audit firm are reflected in the amounts included or disclosed in the financial statements;
- management threat - exists when the audit firm undertakes work that involves making judgments and taking decisions that are properly the responsibility of management;
- advocacy threat - exists when the audit firm undertakes work that involves acting as an advocate for an audited entity and supporting a position taken by management in an adversarial context;
- familiarity (or trust) threat – exists when the auditors are predisposed to accept or are insufficiently questioning of the client's point of view (for example, where they develop close personal relationships with client personnel through long association with the client); and
- intimidation threat – exists when the auditor's conduct is influenced by fear or threats (for example, when they encounter an aggressive and dominating individual).

Prior to the provision of any non-audit services the engagement partner will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

We have not identified any threats to our independence which require identification of safeguards.

However, Members may wish to note that a member of my staff is married to a relatively junior member of the Council's staff and that arrangements are in place to ensure that independence is maintained.

Appendix 2 – Materiality

'Materiality' is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. It is reasonable for us to assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We will consider materiality whilst planning and performing our audit.

Whilst planning, we will make judgements about the size of misstatements which we will consider to be material and which will provide a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We will revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We will include in our Audit Completion Report all unadjusted errors we have identified above those which are clearly trivial.

Appendix 3 – Required communication

ISA 260 ‘Communication With Those Charged With Governance’ and ISA 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ require the auditor to communicate a number of matters with those charged with governance. These matters are set out below along with our proposed approach. You are required to ensure that all points listed below are communicated to those charged with governance.

Required communication	When and how we will communicate
<p>Respective responsibilities of auditor and those charged with governance. Our responsibility for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>	<p>Section 3 of this report and the Audit Commission’s Statement of Responsibilities of Auditors and of Audited Bodies.</p>
<p>Communication of the planned scope and timing of the audit.</p> <p>Matters communicated include:</p> <ul style="list-style-type: none"> ▪ Significant audit risks and how we will address them; ▪ Our approach to internal control relevant to the audit; ▪ The application of the concept of materiality in the context of an audit; ▪ Our use of the work of internal audit; ▪ Your approach to internal control and how you oversee the effectiveness of internal control procedures; ▪ The attitude, awareness and action of those charged with governance concerning the detection or possibility of fraud; and ▪ Your response to new accounting standards, corporate governance practices and related matters. 	<p>Included in this document.</p> <p>These matters were discussed at the planning meeting and responses incorporated into this document as appropriate.</p>

Required communication	When and how we will communicate
<p>Our views on significant qualitative aspect of accounting practices including accounting policies, accounting estimates and financial statement disclosures.</p> <p>When applicable, why we consider a significant accounting practice not to be appropriate to the entity.</p>	<p>We will communicate these in our Audit Completion Report, orally as they arise, and at the final Audit and Governance Committee meeting.</p> <p>Depending on the extent of the issue, either orally at the final Audit and Governance Committee, in our Audit Completion Report or immediately we become aware of the issue.</p>
<p>Significant difficulties, if any, encountered during the audit.</p> <p>Significant difficulties encountered during the audit may include such matters as:</p> <ul style="list-style-type: none"> ▪ Significant delays in management providing required information; ▪ An unnecessarily brief time within which to complete the audit; ▪ Extensive unexpected effort required to obtain sufficient appropriate audit evidence; ▪ The unavailability of expected information; ▪ Restrictions imposed on the auditor by management; and ▪ Management’s unwillingness to make or extend its assessment of the entity’s ability to continue as a going concern. ▪ 	<p>We will communicate these in our Audit Completion Report, orally as they arise, and at the final Audit and Governance Committee meeting.</p>
<p>Details of significant matters discussed with, or subject to correspondence with management.</p>	<p>We will communicate these in our Audit Completion Report, orally as they arise, and at the final Audit and Governance Committee meeting.</p>
<p>Details of written representations we require for our audit.</p>	<p>We will communicate this in our Audit Completion Report.</p>

Required communication	When and how we will communicate
<p>Any other matters which we consider to be significant to the oversight of the financial reporting process.</p> <p>Other significant matters arising from the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of fact or material inconsistencies in information accompanying the audited financial statements that have been corrected.</p>	<p>As any matters arise which we consider should be communicated to you and within the Audit Completion Report.</p>
<p>Statement that the engagement team and the firm have complied with relevant ethical requirements regarding independence.</p> <p>Written disclosure of relationships which have a bearing on our independence and safeguards we have put in place, details of non audit services provided and written confirmation of our independence.</p>	<p>Section 4 and Appendix 1 of this document and as any new matters arise.</p>
<p>Form, timing and general content of communications.</p>	<p>We will issue our Audit Completion Report which will conclude upon our audit and the issues presented in this document. Should you require us to communicate in a different way please inform us of your preferred method.</p>

Required communication	When and how we will communicate
<p>Our evaluation of the adequacy of the communication process between ourselves and those charged with governance. This may include observations on appropriateness and timing of action taken by you in response to matters we have raised, the openness of your communication with us, your willingness and capacity to meet with us without management being present, your opportunity to fully comprehend matters we have raised, the extent to which you probe issues raised and our recommendations, any communications we have had in establishing with you the form, timing and general content of communications, your awareness of how our discussions impact on your governance and management responsibilities and whether your communication with us meets legal and regulatory requirements.</p>	<p>Should we consider it necessary to raise any of these issues, we will consider the most appropriate method and the most appropriate person. The nature of our observation will determine the method and timing of our communication.</p> <p>We may consider that any inadequacy in the communication process is indicative of an unsatisfactory control environment and increase our assessment of audit risk. We will also consider whether we need to reassess our audit strategy. We will discuss with you any additional procedures we consider necessary as a result of these observations.</p> <p>If we consider the communication between you and us to be inadequate and we are unable to agree additional procedures which we consider necessary, we may modify our audit opinion, obtain legal advice, discuss with other third parties as we consider appropriate or may, if permitted under applicable law or regulation, withdraw from the engagement.</p>

Required communication	When and how we will communicate
<p>Any significant deficiencies in internal control that we have identified during the audit.</p>	<p>We will communicate these to you in our Audit Completion Report. Should it be appropriate, we will discuss significant deficiencies with management as they arise.</p> <p>Our written communication will include a description of the deficiencies with sufficient explanation for you to understand the context of the deficiency and an explanation of the potential effects.</p> <p>We are required to communicate all significant deficiencies to you, irrespective of whether you are already aware of them or have chosen not to take remedial action for cost or other reasons. We will continue to communicate deficiencies previously communicated to you until remedial action has been taken. We will consider whether failure to act, or lack of rational explanation itself represents a significant deficiency.</p>
<p>Other deficiencies in internal control that we have identified during the audit.</p>	<p>We will consider whether other deficiencies should be reported to you, taking into account the likelihood and potential magnitude of misstatements that may arise. We will also determine whether we report these to you orally or in writing.</p>

AUDIT AND GOVERNANCE COMMITTEE

22nd March 2013

CORPORATE ASSURANCE MAP 2013/14

Report of the Head of Corporate Assurance and Procurement

1. Purpose of Report

- 1.1 To enable the Audit and Governance Committee to consider and comment on the proposed Corporate Assurance Map and the supporting plans for the Internal Audit and Risk and Assurance teams for 2013/14.

2. Background

- 2.1 In January 2012 the Committee ratified the introduction of a new Integrated Assurance Framework (IAF) which aims to co-ordinate the key sources of assurance within the Council in relation to strategic and corporate risk areas and make the process for gathering the assurance more efficient and effective. Quarterly update reports in relation to the Integrated Assurance Framework have been provided to Members throughout 2012/13. This report presents the Corporate Assurance Map for 2013/14 and sets out where assurance will be obtained from, including the plans of work for Internal Audit and the Risk and Assurance team.
- 2.2 For completeness, the Plan covers Internal Audit's key performance measures. The report does not set out the work to be undertaken for associated bodies for which the Council has a lead responsibility, this is a matter for the bodies concerned.

3. Recommendation

- 3.1 The Audit and Governance Committee is invited to consider and, if appropriate, make comment on the proposed Corporate Assurance Map and the plans of work for the Internal Audit and Risk and Assurance teams.

Corporate Assurance Map 2013/14

1. Introduction

- 1.1 In order for the Council to ensure that it has robust arrangements for managing its affairs and completing its Annual Governance Statement with some certainty, it must have in place three key elements: Governance, Risk Management and Assurance. All of these elements are interrelated and are crucial to the success of the Council.
- 1.2 These three elements are inter-dependent and an environment of good internal control within the Council will support the three elements but internal control is not just about policies and procedures, it is also the actions taken by employees at all levels to achieve objectives that sets the culture of the organisation.
- 1.3 In 2012/13 an Integrated Assurance Framework was introduced to bring the three elements together and provide comprehensive assurance on the arrangements in place within the Council. The Framework brings together assurance from service management, specialist functions which have a corporate role within the Council, the Risk and Assurance Team, Internal Audit and External Bodies.

2. Corporate Assurance Map

- 2.1 The proposed Corporate Assurance Map for 2013/14 is shown overleaf. This highlights those areas that assurance will be provided on, where the assurance is expected to be obtained from and the current assurance level based on work undertaken previously.
- 2.2 As previously, the Map is split into two parts, Strategic Risk Areas which come from the Strategic Risk Profile and Corporate Risk Areas which represent the risk areas that need to be managed for the Council to maintain a strong system of internal control.
- 2.3 Where assurance is expected to be provided from a particular source this is marked with an X. As in 2012/13 the level of assurance provided will be updated based on the results of the work undertaken during 2013/14.

Corporate Assurance Map

Assurance Position (as at 1 st March 2013) (Cumulative)	2013/14								
	Management Assurance	Other Internal Assurance Activity					Risk and Assurance	Internal Audit	External Assurance
		Legal Services	Financial Resources	Transformation Programmes and Projects	Strategy, Policy and Performance	HR &OD			
Strategic Risk Areas									
Economy							X		
Resources (external and internal)		X					X		X
Unable to meet needs of the community							X		
Reputation							X		
Social breakdown							X		
Lack of effective strategic partnerships							X		
Planning and responsiveness to national agenda							X		
Corporate Risk Areas									
Customer Focus / Service	X			X			X	X	X
Legality		X					X		
Service / Business Planning	X			X			X	X	
Programme and Project Management	X		X				X		
Change Management			X		X		X		
Partnerships	X						X	X	X
Business Continuity Planning	X					X	X	X	
Procurement	X						X	X	
Relationship and Contract Management							X	X	
Financial Management	X		X				X	X	X
Human Resource Management	X				X		X	X	
Information Governance	X	X					X	X	
Performance Management	X			X			X	X	X
Asset Management	X						X	X	
ICT Strategy and Delivery							X	X	
Fraud and Corruption	X						X	X	
Risk Management (Service Delivery)	X						X	X	X
Housing Benefits							X	X	
Schools	X		X				X	X	

Key: X=activity planned, White=no coverage, Green=full / substantial assurance, Amber=moderate assurance, Red=limited / no assurance

- 2.2 The Strategic Risk Areas are being reviewed by the Executive Management Team and any changes shall be reflected in future update reports on the Corporate Assurance Map.
- 2.3 The current assurance position in relation to the corporate risk areas is either Amber or Green in all cases. This is a positive position given the significant amount of change ongoing within the Council, with a significant movement of experienced staff and changes to procedures and ways of working.
- 2.4 The Map has been prepared based on the work undertaken and reported previously and the planned activity has been developed in consultation with the Chief Executive, all Executive Directors and key offers across the Council.
- 2.5 The work to be undertaken by Internal Audit in support of the Map is shown at Appendix 1. The appendix shows all of the audits that contribute to providing assurance against each risk area (some audits provide assurance to more than one risk area).
- 2.6 The plan of activity for the Risk and Assurance team is shown at Appendix 2. This is a high level plan as much of the work of the team cannot be planned in detail. The team will be involved in providing support, challenge and assurance to all of the major projects ongoing, especially those considering alternative service delivery models, transformation, migration of services to the Customer Services Network and other key projects such as the construction phase of the new Wear Crossing.
- 2.7 The Risk and Assurance team has recently taken over responsibility for reporting on the progress of the Transformation Programme. This work will verify whether or not projects are progressing as expected and whether the outcomes will be achieved on time, including the expected efficiency savings.
- 2.8 Performance measures for the Internal Audit team are shown at Appendix 3.

3. Developments for the coming year

- 3.1 A review of the implementation of the Integrated Assurance Framework is currently being finalised. The report shall be included on the next Committee Agenda. The findings of this review shall be used to further develop the arrangements.

4. Reporting Protocols

- 4.1 A quarterly progress report will be presented to the Committee. The update reports will indicate the level of assurance provided and any major findings arising from the work undertaken. Any areas requiring improvement will be highlighted to Members for them to consider, and highlighted to the relevant Executive Director.

- 4.2 An Annual Report (including the year end Corporate Assurance Map) will be prepared for the Audit and Governance Committee in order to provide assurance or otherwise, and enable the Annual Governance Statement to be completed.

Detailed Audit Coverage

Corporate Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Audits Planned 2013/14
Customer Focus	33%	Risk and Assurance Team to provide support to managers through major projects. Specific work by Internal Audit	Early Intervention and Locality Based Services Children's Services Out of Area Placements Web Content Development Crisis Loans / Social Fund
Legality	25%	Risk and Assurance Team working on Alternative Service Delivery Models	None planned
Service / Business Planning	36%	Risk and assurance team to cover in risk registers (links to business plans), limited Internal Audit work	Early Intervention And Locality Based Services Derwent Hill Children's Services Out of Area Placements Building Management
Programme and Project Management	52%	Risk and Assurance Team provide support and challenge during projects. Internal Audit have recently completed audit work in this area therefore no specific audit work required.	None planned
Change Management	59%	Risk and Assurance team to provide support and challenge to the change management arrangements through the Project Assurance role	None planned
Partnerships	48%	Risk and Assurance team to consider developing partnership arrangements through support and challenge provided to project boards. Internal Audit to review Health and Wellbeing Partnership Board (including Public Health)	Health and Wellbeing Partnership Board

Corporate Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Audits Planned 2013/14
Business Continuity and Emergency Planning	32%	Assurance to be sought from the Business Continuity Officer regarding the arrangements in place in critical service areas. Specific area to be reviewed by Internal Audit.	Health, Housing and Adult Services Business Continuity Planning
Procurement	30%	Internal Audit to continue to review a sample of procurements for compliance with the revised Procurement Procedure Rules. Risk and Assurance team to provide assurance on major procurements through projects	Derwent Hill Children's Services Out of Area Placements Building Management Revenue Procurement Transactions Events Company Contract Management
Relationship and Contract Management	54%	Internal Audit to review the corporate framework and relationships with new external bodies as they are developed.	Corporate Contract Management Arrangements
Financial Management	46%	Strong controls in place regarding corporate arrangements, however, financial pressures are still significant and there will be significant change in service delivery models so Internal Audit will continue to carry out a proportionate amount of work on financial systems and transactions	Various grants Derwent Hill Foster Care Allowances Children's Services Out of Area Placements Direct Payments Charging for Non Residential Adult Care Services Personal Budgets Transactions Aquatic Centre Events Company Contract Management SAP Organisation Structures Building Management Asset Register / Capital Accounting Capital Programme Funding and Monitoring BACS Transactions Treasury Management Cash Receipting Transactions External Funding Insurance Claims Handling Payroll Transactions

Corporate Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Audits Planned 2013/14
			Council Tax Support Scheme Council Tax Transactions Local Business Rates Scheme Business Rates Transactions Benefits Transactions Crisis Loans / Social Fund Accounts Payable Transactions Accounts Receivable and Periodic Income Accounts Receivable and Periodic Income Transactions
Human Resource Management	63%	Risk and Assurance Team to consider through supporting projects and regular reporting on the Workforce Transformation Project. Internal Audit to review compliance with new HR policies and structures in SAP following during the Workforce Development Project	SAP Organisation Structures Corporate HR Management
Information Governance	50%	Security of information is still a key risk given the level of change in the organisation and the move to remote/home working. Internal Audit to continue to monitor the implementation of recommendations, carry out security checks and cover in relevant audits	Corporate Information Governance Arrangements
Performance Management	47%	Review of arrangements currently ongoing. Internal Audit to review in specific service areas	Building Management Early Intervention and Locality Based Services
Asset Management	40%	Risk and Assurance team to be involved in the development of the Local Asset Based Vehicle. Internal Audit to review the accuracy of the asset registers, including ICT assets.	Derwent Hill Technology Forge ICT Asset Manager Asset Register / Capital Accounting

Corporate Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Audits Planned 2013/14
ICT Strategy and Delivery	49%	Risk and Assurance team to be heavily involved in the major projects ongoing to support the Council and the strategic priorities. Internal Audit to review appropriateness of the ICT Strategy	ICT Asset Management ICT Strategy
Fraud and Corruption	34%	Increased risk due to the economic position and the level of ongoing change within the Council. Specific counter fraud testing and increased checks on financial transactions to be undertaken by Internal Audit	Counter Fraud Checks National Fraud Initiative Case Investigations Schools Counter Fraud Checks Direct Payments Personal Budgets Transactions BACS Transactions Cash Receipting Transactions Payroll Transactions Council Tax Transactions Business Rates Transactions Benefits Transactions Accounts Payable Transactions Accounts Receivable and Periodic Income Transactions
Risk Management (service delivery)	24%	Risk and Assurance team to support managers to identify, assess and monitor risks to the achievement of outcomes. Increased focus on providing assurance that mitigating actions are implemented and are being effective	None planned
Housing Benefits	32%	Internal Audit to carry out regular transactions testing. Risk and Assurance team to be involved in developments in relation to welfare reform	Housing Benefit Transactions
Schools	30%	There will be financial challenges for schools given the new funding formula. High level review to be undertaken by Internal Audit to provide assurance over financial management. Risk and Assurance team to provide support in relation managing the wider risks in schools	34 school audits plus specific counter fraud work

Risk and Assurance Plan

Area of activity	Estimated Days
Strategic Risk Profile	100
Supporting Alternative Service Delivery Models	110
ICT Cloud development and Corporate Computing Model Roll Out	50
SSTC Wear Crossing – construction phase	50
Workforce Development Project	65
Supporting Key Transformation and Other Programmes and Projects	430
Performance regarding delivery of Transformation Programme and Efficiencies	380
Supporting Executive Directors and Heads of Service to manage risks	120
Supporting Schools	12
Financial Appraisals	60
General Advice, Guidance and Support regarding service developments	65
Investigations	335
Contingency (for unforeseen work/requests)	133
Total	1910

Appendix 3

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2013/14		
Efficiency and Effectiveness		
Objectives	KPI's	Targets
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the corporate risk areas 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	1) All corporate risk areas covered over a 3 year period 2) 90% 3) 70%
Quality		
Objectives	KPI's	Targets
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
Client Satisfaction		
Objectives	KPI's	Targets
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

AUDIT AND GOVERNANCE COMMITTEE

22 March 2013

PROPOSED FORWARD PLAN OF REPORTS FOR 2013/2014

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 To enable the Committee to consider and comment on the proposed Forward Plan of reports for 2013/2014.
- 1.2 As during 2012/13 there will be 4 quarterly meetings – at which the Committee will consider the Corporate Assurance Map alongside other reports. An additional meeting is scheduled for February in order to consider the Treasury Management Policy and Strategy in order that it can be agreed by Cabinet in February and then by Council in March of each year in line with good practice.

2. Recommendations

- 2.1 Members are asked to consider and agree to the attached proposed Forward Plan of reports.

**Forward Plan of Reports
Audit and Governance Committee 2013/2014**

Month	Brief Description	Report of
June 2013	Annual Review of Governance Arrangements / Annual Governance Statement (including Annual Report covering work of Internal Audit and Risk and Assurance teams)	Executive Director of Commercial and Corporate Services
	Corporate Assurance Map - update	Head of Corporate Assurance and Procurement
	Review of the Implementation of the Integrated Assurance Framework by PricewaterhouseCoopers	Executive Director of Commercial and Corporate Services
	Strategic Risk Profile Update	Executive Director of Commercial and Corporate Services
	Interim Opinion Report 2012/13	External Auditor
	Audit Progress Report	External Auditor
	Annual Report on the Work of the Committee	Executive Director of Commercial and Corporate Services
	Unaudited Statement of Accounts 2012/2013	Executive Director of Commercial and Corporate Services
	Treasury Management Annual Review 2012/2013	Executive Director of Commercial and Corporate Services
September 2013	Treasury Management 2013/14 - First Quarterly Review	Executive Director of Commercial and Corporate Services
	Corporate Assurance Map - update	Head of Corporate Assurance and Procurement
	Treasury Management 2013/14 – Second Quarterly Review	Executive Director of Commercial and Corporate Services
	Audit Completion Report 2012/13	External Auditor
	Audited Statement of Accounts 2012/13	Executive Director of Commercial and Corporate Services

**Forward Plan of Reports
Audit and Governance Committee 2013/2014**

Month	Brief Description	Report of
December 2013	Treasury Management 2013/14 – Third Quarterly Review	Executive Director of Commercial and Corporate Services
	Corporate Assurance Map - update	Head of Corporate Assurance and Procurement
	Corporate Assurance Map Consultation 2014/2015	Head of Corporate Assurance and Procurement
	Annual Audit Letter 2012/13	External Auditor
	Audit Progress Report	External Auditor
	Annual Grants Report 2012/13	External Auditor
February 2014	Treasury Management Strategy and Policy for 2014/2015 including Treasury Management Prudential Indicators for 2014/2015 to 2016/2017	Executive Director of Commercial and Corporate Services
	Audit Progress Report	External Auditor
March 2014	Corporate Assurance Map - update	Head of Corporate Assurance and Procurement
	Strategic Risk Profile	Executive Director of Commercial and Corporate Services
	Corporate Assurance Map – 2014/15 (including Internal Audit Plan, and Risk and Assurance team plan)	Head of Corporate Assurance and Procurement
	Proposed Forward Plan of Reports 2014/2015	Executive Director of Commercial and Corporate Services
	Member Training and Development	Executive Director of Commercial and Corporate Services
	Audit Strategy Memorandum 2013/14	External Auditor
	Audit Progress Report	External Auditor

Note: Other ad-hoc reports/items shall be added to the Agenda where considered necessary

AUDIT AND GOVERNANCE COMMITTEE

22nd March 2013

Member Training and Development

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 The purpose of this report is to provide members of the Committee with the opportunity to identify areas for which they require any further training / refresher / awareness sessions to be arranged.

2. Training / Development Requirements

- 2.1 The agreed forward plan of reports that are to be presented to the Committee throughout the year is included on the agenda for this meeting. This may provide members with a reference for any areas for which they would like to receive further training / awareness sessions. Due to the significant changes that are currently ongoing and being considered across the Council it is proposed that a verbal update session be provided at the beginning of the next committee meeting.

3. Recommendations

- 3.1 Members are asked to consider the areas for which they would like to receive training or awareness sessions, and:
- Agree the proposed session highlighted in paragraph 2.1.
 - Suggest further areas for training sessions required.

AUDIT AND GOVERNANCE COMMITTEE

22 March 2013

External Auditor - Audit Progress Report to March 2013

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 To enable the Committee to consider and comment upon the external auditors' (Mazars) regular Audit Progress Report covering the period up to March 2013.
- 1.2 The report will be presented by Gavin Barker, the council's Senior Engagement Manager.
- 1.3 The reports are now a regular feature on this agenda and are aimed at providing updates of the progress made by our external auditor in meeting and fulfilling their role and responsibilities.
- 1.4 The reports also aim to highlight emerging issues and developments that may be of interest to members in their role on the Audit and Governance Committee.

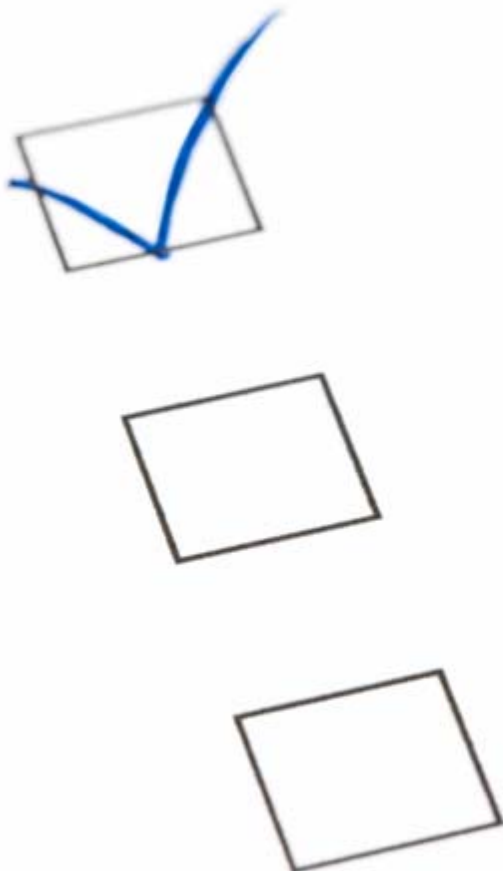
2. Recommendations

- 2.1 Members are asked to note the attached report.

Sunderland City Council

Audit Progress Report

March 2013



Contents

- 01 Purpose of this paper
- 02 Summary of audit progress
- 03 Emerging issues and developments
- 04 Contact details

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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01



Purpose of this paper

This paper updates the Audit and Governance Committee on our progress in meeting our responsibilities as your external auditor. It also highlights key emerging national issues and developments which may be of interest to you.

If you require any further information please contact your Engagement Lead or Senior Manager using the contact details at the end of this update.

Finally, please note the website address www.mazars.co.uk which sets out the range of work Mazars carries out across the UK public sector. It also details the wider services provided within the UK and abroad.

02

Summary of audit progress



Good progress on the 2012/13 audit has continued:

- We have agreed our Audit Strategy Memorandum with officers. This will be presented to the Audit and Governance Committee and is elsewhere on the March agenda papers.
- Work is now well underway on each of the key financial systems to confirm our understanding of the systems, including reviewing documentation on the design and operation of the systems and walking through transactions to test our understanding of how the systems work in practice.
- We are also reviewing general ICT controls and making arrangements for early substantive testing of income and expenditure.
- Work has also progressed on the VFM conclusion and we are currently analysing the latest VFM profiles and financial ratio analysis.

Advisory work

In addition to our prescribed audit work we are able to offer a wide range of additional assistance. Members should note that we intend to fully comply with ethical standards and we will ensure that there is no conflict with our role as your external auditor.

To date, the Executive Director of Commercial and Corporate Services has commissioned a Review of Internal Audit from us and we have discussed some other potential areas for review with officers. The reviews that other councils have found particularly useful are:

- Fees and charges – we have helped councils to maximise income from fees and charges
- Outdoor advertising – we have helped councils maximise income from outdoor advertising
- Lean reviews – we have identified opportunities to improve efficiency
- Performance management – we help councils to improve their focus on outcomes, with the aim of better targeting resources and measuring their effectiveness.

03

Emerging issues and developments



The following pages outline some significant emerging issues and developments that Members and officers will be considering over the coming months. As the Audit and Governance Committee only met last month, there are fewer issues to raise in this month's report:

- The Local Government Financial Settlement 2013/14, including the impacts of localisation of business rates and localising council tax support
- Public health changes from April 2013
- VFM profiles and financial ratio tools
- Final accounts workshops for finance staff

Emerging issues and developments

Issue / development

Local Government Financial Settlement 2013/14 (February 2013)

The Government announced that spending power by English local authorities reduced by 1.7 per cent in 2013/14 compared to 2012/13. This has not impacted all local authorities equally. The provisional settlement for 2014/15 shows an overall reduction in spending power of 3.8 per cent for English local authorities, but again with variations between authorities.

As well as the direct cuts in funding, this year's settlement has also been accompanied by significant changes in business rates and localisation of council tax support, which in effect transfer some risks (and some opportunities) from central government to local government.

Authorities will be able to keep a proportion of any growth in business rates, but must also share any reductions. This means that a local authority's income may change if the amount of business rates that they collect goes up or down.

Councils have agreed their own local schemes for council tax support. Central government has reduced the level of overall subsidy by an average of 10% nationally. Councils have been free to design their own schemes but have been required to protect pensioners. Councils have faced difficult choices about whether to reduce the support to working age claimants or make savings in other budgets.

Emerging issues and developments

Issue / development

Public health changes from April 2013

From April 2013, single tier and county councils take on new responsibilities for public health in three areas: health improvement, health protection and supporting the commissioning of quality healthcare.

The new responsibilities are significant and councils have been planning for the transfer. The new responsibilities will be accompanied by funding, although this is expected to diminish in future years.

VFM profiles and financial ratio tools (February 2013)

The Audit Commission has updated its VFM profile and financial ratios tools for 2011/12 outturn data. The profiles are available by following the links at www.audit-commission.gov.uk. They enable key indicators for Sunderland City Council to be compared with all English councils, geographical neighbours and regions, single tier councils, metropolitan councils, or nearest neighbour groupings.

Final accounts workshops for finance staff (February 2013)

Mazars has provided a workshop for finance staff on accounting and auditing issues relating to the closedown and preparation of the 2012/13 statement of accounts. The workshop was free for our clients, including Sunderland City Council, and your officers attended the event in February 2013. We understand that the workshop was well received and thought to be beneficial.

04

Contact details



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AUDIT AND GOVERNANCE COMMITTEE

22 March 2013

TREASURY MANAGEMENT UPDATE

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 To report on a downgrade in UK Sovereign Credit Rating by Moody's Investors Service credit rating agency on 22nd February 2013 and implications of this change to the Council.

2. Description of Decision

- 2.1 To endorse the record of decision made under delegated powers and associated amendments to the Lending List Criteria and Approved Lending List set out in Appendix A.

3. Introduction

- 3.1 This report sets out details of the recent downgrade in the UK Sovereign Credit Rating by Moody's Investors Service, the implications of this change to the Council and steps that have been taken to update the Council's Lending List Criteria and Approved Lending List following this downgrade.

4. UK Sovereign Credit Rating

- 4.1 On 22nd February 2013 Moody's Investors Service downgraded the Sovereign Rating of the United Kingdom by one notch from Aaa to Aa1 due to
- The continuing weakness in the UK's medium-term growth outlook with a period of low growth that Moody's now expects will extend into the second half of the decade
 - The challenge this weakness poses to the government's fiscal consolidation programme, which will now extend well into the next parliament term
 - And, as a consequence of the UK's high and rising debt burden, a deterioration in the capacity of the government's balance sheet to withstand financial shocks that is unlikely to reverse before 2016.

Moody's also placed the UK Government on stable outlook which means that no further movement in the rating is anticipated over the next 12 to 18 months and reflects the expectation that political will and medium-term fundamental economic strengths will, in time, allow the Government to implement its fiscal

consolidation plan. Moody's noted that the UK's creditworthiness remains extremely high and that the UK has significant credit strengths.

Including

- A highly competitive, well-diversified economy
- A strong track record of fiscal consolidation and a robust international structure, and
- A favourable debt structure, with supportive domestic demand for government debt, the longest average maturity structure of debt (15 years) amongst all highly rated sovereign countries globally and the resulting reduced interest rate on UK debt

The stable Aa1 rating is still very good, reflecting that whilst the UK's debt-servicing capacity remains very strong and very capable of withstanding further adverse economic and financial shocks, it does not at present possess the extraordinary resilience common to other AAA rated sovereign bodies. Following the financial downturn over the last few years only 11 countries globally still hold an AAA rating with all of the three main ratings agencies.

The other two credit ratings agencies, Fitch and Standard and Poors, still currently rate the UK at AAA, although their ratings are expected to be reviewed within the next few months.

5. Implications

- 5.1 The investment limits that Sunderland City Council hold with UK financial institutions has been reliant on the UK sovereign credit rating remaining at AAA. Whilst this rating has reduced to an AA+ level it is felt that investments made with UK financial institutions remain low risk and should be maintained at current levels.

This can be highlighted by the minimal reaction shown by the financial markets to the downgrade. Usually a rate cut would add upside pressure to money market yields with investors demanding a higher return for investing in a lower rated country's currency. However with the cut in the rating broadly expected there has been little impact on money market yields. In fact PWLB borrowing rates had reduced from the date of the announcement to 8th March 2013 with 10 year maturity rates falling from 3.21% to 3.09% and 50 year maturity rates falling from 4.51% to 4.45%. This reflects further political uncertainties in Europe following the recent Italian election but also highlights that the UK is still seen as a safe haven for foreign investment.

Critically, Moody's themselves stated that it did not consider that the one notch downgrade would have an effect on the UK entities and financial institutions that it individually rates, so we do not expect to see UK financial institutions subject to individual downgrades as a result of the sovereign credit rating downgrade.

- 5.2 It is felt that there has been little increase in the risk of investing with UK institutions following the downgrade by Moody's and a delegated decision was

made on 12th March 2013 to amend the Lending List Criteria. The delegated decision increases the maximum deposit that can be placed with AAA rated counterparties from £90m to £110m and with AA+ counterparties from £50m to £90m and it applies the UK Government sovereign credit rating of AA+ when determining the limit on investments that can be placed with counterparties that have been nationalised or part nationalised and to group limits where counterparty institutions are part of a group of companies. The fact the AA+ criteria limit has been increased to £90m reflects the continued strength of the UK as a safe haven for foreign investment (which has not been affected by the downgrading) and also the fact that the financial markets had already factored in this possibility and remain unconcerned.

The effect of these changes to the Lending List Criteria will be to allow the Council to maintain its pre downgrade investment limits of £90 million with both Lloyds TSB and Royal Bank of Scotland banking groups. It is felt that as the UK Government holds a significant financial stake in these institutions that they would be very unlikely to be allowed to fail should the financial situation substantially deteriorate. On this basis the delegated decision is set out at Appendix A and is reflected in amendments to the Counterparty Criteria and Approved Lending List.

- 5.3 The Council's investment policy and lending criteria is regularly monitored and reviewed to ensure it takes changes in market or regulatory conditions into account. Any changes will be reported to future committee meetings as necessary.

6 Recommendation

- 6.1 Members are requested to note the change in the UK Sovereign Credit Rating and to endorse the record of decision made under delegated powers and associated amendments to the Lending List Criteria and Approved Lending List set out in Appendix A.

RECORD OF DECISION MADE UNDER DELEGATED POWERS

Appendix 1

Department:	Directorate of Commercial and Corporate Services - Financial Resources
Officer making Decision:	Executive Director of Commercial and Corporate Services
Date of decision:	12/03/2013

Nature of decision made:

Variation to the Council's Lending List Criteria

- To increase the maximum deposit that can be placed with individual institutions
- Institutions that are AAA rated from £90m to £110m
- Institutions that are AA+ rated from £50m to £90m

To apply the UK Government's sovereign credit rating of AA+ when determining the limit on investments that can be placed with counterparties that have been nationalised or part nationalised and to group limits where counterparty institutions are part of a group of companies.

Reason for decision:

On 22nd February 2013 Moody's Investors Service downgraded the Sovereign Rating of the United Kingdom by one notch from Aaa to Aa1 due to

- The continuing weakness in the UK's medium-term growth outlook
- The challenges this weakness poses to the government's fiscal consolidation programme, and
- As a consequence of the UK's high and rising debt burden, a deterioration in the capacity of the government's balance sheet to withstand financial shocks

Moody's also placed the UK Government on stable outlook which means that no further movement in the rating is anticipated over the next 12-18 months and reflects the expectation that political will and medium-term fundamental economic strengths will, in time, allow the Government to implement its fiscal consolidation plan.

The stable Aa1 rating is still very good, reflecting that whilst the UK's debt-servicing capacity remains very strong and very capable of withstanding further adverse economic and financial shocks, it does not at present possess the extraordinary resilience common to other AAA rated sovereign bodies. Following the financial downturn over the last few years only a small number of economies still hold a AAA rating with all ratings agencies.

Fitch and Standard and Poors ratings for the UK however remain at AAA currently.

The investment limits that Sunderland City Council hold with UK financial institutions has been reliant on the UK sovereign rating remaining at AAA. Whilst this rating has reduced to a AA+ level it is felt that investments made with UK financial institutions are low risk and should be maintained at current levels.

This can be highlighted by the minimal reaction shown by the financial markets to the downgrade. Usually a rate cut would add upside pressure to money market yields with investors demanding a higher return for investing in a lower rated country's currency. However with the cut broadly expected there has been little impact on money market yields. Critically, Moody's themselves stated that it did not consider that the one notch downgrade would have an effect on UK entities that it rates, so we do

not expect to see UK financial institutions subject to individual downgrades as a result.

Members/Officers consulted (attach their views as appropriate)	Cllr Speding
File/background papers used:	Treasury Management Strategy Statement and Lending List Criteria
Is this a confidential matter as referred to in paragraph 7 of the Guidance?	No
Paragraph of Delegation Scheme relied upon:	Council approved on 7 th March 2012 that "delegated authority continues for the Executive Deirector of Commercial and Corporate Services, in consultation with the Cabinet Portfolio holder for resources (Cabinet Secretary), to vary the Lending List Criteria and the Lending List should circumstances dictate, on the basis that changes be reported to Cabinet retrospectively".

Signature:..... *MD Speding* **Date:** 12th March 2013

Counter Signature:..... *Stonewall* **Date:** 12th March 2013

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisors.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	110	2 Years
AA+	F1+	A1+	Aa1	P-1	90	2 Years
AA	F1+	A1+	Aa2	P-1	40	364 days
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	20	364 days
A+	F1	A-1	A1	P-1	10	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	10	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	5	6 months
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					90	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £80 million with a maximum of £40 million in any one fund.					80	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					20	# 20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of **AA+** will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

Where any banks / building societies have been a part of the UK Government's Credit Guarantee scheme (marked with * in the Approved Lending List), these counterparties will have an AA rating applied to them thus giving them a credit limit of £40 million for a maximum period of 364 days

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above, these new limits are as follows:

Country Limit

It is proposed that only countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £40 million which can be invested in other countries provided they meet the above criteria. A separate limit of £350 million will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	350
Non UK	40

Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	350
Local Government	350
UK Banks	350
UK Building Societies	150
Money Market Funds	80
Foreign Banks	40

Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the government's guarantee scheme is still in place;
- the UK continues to have a sovereign credit rating of **AA+**; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Annex A

Approved Lending List

ANNEX A

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term		
UK	AAA				Aa1			AAA		350	2 years
Lloyds Banking Group (see Note 1)										Group Limit 90	
Lloyds Banking Group plc	A	F1	bbb	1	A3	-	-	A-	A-2	90	2 years
Lloyds TSB Bank Plc	A	F1	bbb	1	A2	P-1	C-	A	A-1	90	2 years
Bank of Scotland Plc	A	F1	-	1	A2	P-1	D+	A	A-1	90	2 years
Royal Bank of Scotland Group (See Note 1)										Group Limit 90	
Royal Bank of Scotland Group plc	A	F1	bbb	1	Baa1	P-2	-	A-	A-2	90	2 years
The Royal Bank of Scotland Plc	A	F1	bbb	1	A3	P-2	D+	A	A-1	90	2 years
National Westminster Bank Plc	A	F1	-	1	A3	P-2	D+	A	A-1	90	2 years
Ulster Bank Ltd	A-	F1	ccc	1	Baa2	P-2	D-	BBB+	A-2	90	2 years
Santander Group *										Group Limit 40	
Santander UK plc	A	F1	a	1	A2	P-1	C-	A	A-1	40	364 days
Cater Allen	-	-	-	-	-	-	-	-	-	40	364 days
Barclays Bank plc *	A	F1	a	1	A2	P-1	C-	A+	A-1	40	364 days
HSBC Bank plc *	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+	40	364 days

ANNEX A (continued)

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term		
Nationwide BS *	A+	F1	a+	1	A2	P-1	C	A+	A-1	40	364 days
Standard Chartered Bank *	AA-	F1+	aa-	1	A1	P-1	B-	AA-	A-1+	40	364 days
Clydesdale Bank / Yorkshire Bank **/**	A	F1	bbb	1	A2	P-1	C-	BBB+	A-2	0	
Co-Operative Bank Plc	BBB+	F2	bbb+	3	A3	P-2	C-	-	-	0	
Virgin Money ***	BBB	F3	bbb	5	-	-	-	BBB+	A-2	0	
Top Building Societies (by asset value)											
Nationwide BS (see above)											
Yorkshire BS ***	BBB+	F2	bbb+	5	Baa2	P-2	C-	A-	A-2	0	
Coventry BS	A	F1	a	5	A3	P-2	C	-	-	5	6 Months
Skipton BS ***	BBB-	F3	bbb-	5	Ba1	NP	D+	-	-	0	
Leeds BS	A-	F2	a-	5	A3	P-2	C	-	-	5	6 Months
West Bromwich BS ***	-	-	-	-	B2	NP	E+	-	-	0	
Principality BS ***	BBB+	F2	bbb+	5	Ba1	NP	D+	-	-	0	
Newcastle BS ***	BB+	B	bb+	5	-	-	-	-	-	0	
Nottingham BS ***	-	-	-	-	Baa2	P-2	C-	-	-	0	
Foreign Banks have a combined total limit of £40m											
Australia	AAA	-	-	-	Aaa	-	-	AAA		40	364 Days
National Australia Bank	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Australia and New Zealand Banking Group Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Commonwealth Bank of Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days

ANNEX A (continued)

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term		
Canada	AAA				Aaa			AAA		40	364 Days
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa2	P-1	B-	A+	A-1	20	364 Days
Royal Bank of Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	20	364 Days
Money Market Funds										80	Liquid
Prime Rate Stirling Liquidity	AAA							AAA		40	Liquid
Insight Liquidity Fund					AAA			AAA		40	Liquid
Ignis Sterling Liquidity	AAA							AAA		40	Liquid

Notes

Note 1

Nationalised / Part Nationalised

The counterparties in this section will have the UK Government's **AA+** rating applied to them thus giving them a credit limit of £90 million

* Banks / Building Societies which are part of the UK Government's Credit Guarantee scheme. The counterparties in this section will have an AA rating applied to them thus giving them a credit limit of £40 million

** The Clydesdale Bank (under the UK section) is owned by National Australia Bank

*** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the FSA is classed as a UK bank for the purposes of the Approved Lending List.