Sunderland City Council

Item No. 3

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on FRIDAY 27 MAY 2011

Present: -

Mr G N Cook in the Chair

Councillors M Forbes, Trueman and Mr J P Paterson.

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillor Rolph, Tate and T Wright.

Minutes

1. RESOLVED that the minutes of the meeting of the Committee held on 25 March 2011 be confirmed and signed as a correct record.

Audit Commission Annual Audit Letter 2009/2010

The Executive Director of Commercial and Corporate Services presented a report detailing the Audit Commission's Annual Audit Letter 2009/2010. He was pleased to inform the Committee that the letter was positive and gave firm and strong assurances about the performance of core systems and value for money arrangements. The Council was also well placed to meet the big challenges ahead.

Gavin Barker, Audit Manager, was in attendance at the meeting to present a summary of the Audit Commission's findings and to answer members' questions.

Gavin made reference to the technical delay in the audit as a result of a local elector requesting information regarding PFI contracts. He also commented that the objections which had been made over the last three years remained unresolved and the relevant audits had not been closed for this reason. There were similar objections in other parts of the country and ongoing legal proceedings, the outcome of which, would direct how the Audit Commission would move forward with this.

Gavin highlighted that the forthcoming consultation on the future of local audits stated that the right to make objections was outdated and whilst it would still be possible for the public to approach the auditor with comments, it was recommended that the ‘right’ to object be removed.

Gavin stated that the outcome of the audit and the tone of the letter was very positive and the findings regarding the opinion on financial statements were very good. He drew attention to some recommendations for the future regarding the streamlining of the financial statements. The Audit Manager had also issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources and the areas identified for improvement were already known to the Council.

The Council had faced significant mid year budget cuts in 2010/2011 and 2011/2012 budget rounds and the next Value for Money assessment would focus on securing financial resilience and prioritising resources within tighter budgets.

Having considered the Annual Audit Letter, it was: -

2. RESOLVED that the report be noted.

Annual Audit Fee 2011/2012

Gavin Barker, Audit Manager, introduced a letter from the Audit Commission informing the Council of the work they proposed to undertake for the 2011/2012 financial year and the fee which would be charged for the work undertaken.

The scale fee was £299,270 for 2011/2012, a reduction from the 2010/2011 planned fee of £332,522.

In response to a question from Mr Paterson, Gavin advised that scale fees were based on a formula but fees were determined locally due to historical charges being lower and it was intended that they would move closer to the scale fee over time.

The Chairman asked if there was an update on the future of the Audit Commission and Gavin advised that Councils were currently considering the consultation on the future of local authority audit arrangements and the main thrust was that local authorities would appoint their own auditors.

Employees of the Audit Commission had been told that the organisation would be privatised but it was not clear whether this would involve a TUPE transfer or if they would be able to establish an employee owned mutual organisation. DCLG had employed consultants to look at business plans for internal audit practice and it was hoped that the results of this would be available by the end of June 2011.

Following discussion it was: -

3. RESOLVED that the reduced audit fees for 2011/2012 be noted.

Internal Audit Annual Report 2010/2011

The Head of Audit, Risk and Procurement presented the Annual Report of the Internal Audit service and the Committee were requested to consider the performance of Internal Audit during 2010/2011 and consider the audit opinion on the adequacy of the overall system of internal control within the Council.

98 out of the planned 102 audits were completed which represented 96.1% of the planned work. A further seven unplanned audits were also completed during the year and the Head of Audit, Risk and Procurement outlined the reasons for the non-completion of four audits.

The Council had an audit cost per £m of gross turnover of £998 which had reduced from the previous year's figure of £1,071. However, this was still higher than the CIPFA comparator group figure of £941. A review of the service would reduce the costs by £90,000 in 2011/2012.

The target for the implementation of medium risk recommendations was 90%, but the figure achieved currently stands at 85%. Reporting arrangements had been developed which include a quarterly report to each Executive Director on internal audit work, implementation rates and an analysis of follow up work. This would allow implementation to be monitored more closely and action taken in a more timely way.

Members of the Committee were reminded that the audit risk assessment process had been changed and that assurance was to be provided on 18 key risk areas. The overall opinion for all of these was either 'good' or 'satisfactory' apart from Information Governance which had been found to be 'unsatisfactory'. It was found that further work needed to be done in relation to awareness and compliance with Information Governance rules.

The report outlined the number of audit recommendations made throughout the year to improve internal control. There had been no high risk recommendations, but there were three which had been classified as 'significant'. Two recommendations were in relation to Vulnerable Adults Protection Arrangements and the other was with regard to the HR Management and Financial Management System consolidation.

The Internal Audit service continued to receive good feedback from clients and good scores in the user satisfaction survey run by the CIPFA benchmarking club. The Head of Audit, Risk and Procurement concluded that a high level of the audit plan had been achieved and the service continued to meet the required professional standards.

The Chair emphasised the need to resolve the issues relating to information governance quickly and requested that an update be provided at the next meeting on the significant recommendations relating to vulnerable adults and ICT systems. He added that he expected to see significant progress had been made in these areas.

Councillor Forbes enquired if there was a date set for the delayed audit of corporate performance management. The Head of Audit, Risk and Procurement advised that the restructure of the strategy and performance function had delayed the audit. Mike Lowe, Head of Performance Improvement explained that the changes in the national performance management framework had impacted on development of the Council's own framework but the service was now in a position to embed the ICT system and the audit was to take place later in the year.

Councillor Forbes was pleased to note the improvement in the implementation rate for medium risk recommendations in Children's Services but was also concerned about the significant recommendations to which the Chairman had already made reference. Mr Paterson asked why training in new processes around safeguarding had yet to be implemented and was informed that this was due to a number of new software packages being brought in at the same time and training being pursued in those areas initially. The Executive Director of Commercial and Corporate Services assured the Committee that every effort would be made to deal with the significant recommendations as a matter of urgency.

Having considered the report, it was: -

4. RESOLVED that the Internal Audit Annual Report 2010/2011 be noted.

Risk Management Annual Report 2010/2011

The Executive Director of Commercial and Corporate Services presented a report setting out the arrangements for the management of risk during 2010/2011, proposing an updated Policy and Strategy and setting out future planned improvements.

The report confirms that the Council has a strong risk management system in place but also highlights that one area for refinement in achieving more active engagement from members of the Council's Executive Management Team.

The Head of Audit, Risk and Procurement stated that the report outlined the risk management work being carried out at all levels of the authority, but recognised that there was still more which could be done.

The stated objectives within the Risk Management Policy had been reduced from six to three and had also been streamlined to avoid duplication. The objectives were: -

Objective 1
Ensure there is an effective corporate risk profiling process in place to identify, assess, manage, review and report on strategic and corporate risks and opportunities.

Objective 2
Enable the Council to successfully identify, assess, manage, review and report on risks and opportunities at a service/operational, programme, project and partnership level.

Objective 3
Embed the effective management of risk into the culture, ethos, policies and practices of the Council.

The Audit and Governance Committee had agreed the first formal Risk Management Annual Plan for 2011/2012 in March 2011 which set out how the Corporate Risk Management team would fulfil its role and meet the three new agreed objectives during the year.

Having welcomed the increased clarity of the risk management documents, the Committee: -

5. RESOLVED that: -

   (i) the arrangements set out in the Risk Management Policy and Strategy and undertaken throughout the year be noted;

   (ii) the updated Risk Management Policy and Strategy be agreed; and

   (iii) it be noted that the Corporate Risk Management team would continue to develop the service to meet the changing needs and pressures that the Council faces.

Internal Audit Progress Report

The Head of Audit, Risk and Procurement presented a report outlining the progress of Internal Audit from April to 6 May 2011, the areas of work undertaken and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

The report only covered a small portion of the plan but set out for Members the format for future reports and detailed the progress against Key Performance Indicators. Members' attention was drawn to current rate of implementation of medium risk recommendations which stood at 86% against a target of 90%.

The Committee were also informed that the target set for the value of housing and council tax overpayments was £1m for the financial year and the target had been based on a report which queried the benefits system. However, the report had later been found to be inaccurate and it was suggested that the target be amended to £600,000 to represent a more realistic situation. £44,407 of overpayments had been identified during April 2011.

The Head of Audit, Risk and Procurement explained that appendix 2 of the report listed the audits in the plan for 2011/2012 and as an overall opinion was sought, the conclusion column would be populated. He drew attention to two typographical errors which had resulted in the Information Governance and Payroll risk areas showing the wrong overall opinion in that column. There were no issues of concern to report but since the report had been prepared, there had been three attempted frauds against the Council.

In response to a query from Councillor Forbes, the Head of Audit, Risk and Procurement clarified that it was not a flaw in the benefits system which had led to the target for overpayments being over estimated and there were no concerns about the operation of that system.

Having considered the report, it was: -

6. RESOLVED that the revised council tax and housing benefit fraud target be agreed and the report be noted.

Member Training and Development

The Executive Director of Commercial and Corporate Services presented a report which provided Members of the Committee with the opportunity to identify any areas for which they required further training, awareness or refresher sessions.

As part of this, it was proposed that the following briefings were provided in June 2011:

- Statement of Accounts Update – International Financial Reporting Standards.
- Changes resulting from the Council's improvement programmes.

The Chairman stated the importance of the Committee being kept up to speed on issues affecting the Council and how the Committee could make a difference. He encouraged Members to think about any areas of work where they felt that they would benefit from a greater understanding.

7. RESOLVED that the proposed training sessions in June be agreed and Members consider further areas for future training.

(Signed) G N COOK
Chairman

Sunderland City Council

Item No. 4

AUDIT AND GOVERNANCE COMMITTEE **30 June 2011**

INTERNAL AUDIT SERVICES – PROGRESS REPORT

Report of the Head of Audit, Risk and Procurement

1. Purpose of Report

1.1 To consider the performance of Internal Audit up to 10th June 2011, areas of work undertaken, and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

2. Description of Decision

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

3. Key Performance Indicators

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

3.2 All KPI's are on target with the following exception:

- The percentage of medium risk recommendations implemented currently stands at 83% (excluding schools) against a target of 90%. The reduction in the overall implementation rate is due to two follow ups undertaken in Health Housing and Adults Services, Personal Budgets and Direct Payments. From a total of 41 recommendations (which were past their implementation date) 19 were found to be implemented (46%). Revised implementation dates have been agreed for the outstanding actions. A summary of the performance by directorate for medium risk recommendations is shown in the table below:

Directorate / Body	Implementation Rate May 2011	Implementation Rate June 2011
Children's Services (non schools)	90%	90%
City Services	87%	97%
Office of the Chief Executive	88%	88%
Commercial and Corporate Services	89%	89%
Health, Housing & Adult Services	76%	64%

Total Council Implementation Rate Excluding Schools	**86%**	**83%**
Children's Services – Schools	88%	88%
Total Council Implementation Rate	**86%**	**85%**

4. Summary of Internal Audit Work

4.1 The audit opinion for the audits carried out so far during the year is shown in Appendix 2 along with the current overall opinion based on the current and 2 previous years audit work. Of the 100 planned audits, 17 have been completed to date (2 of which relate to associated bodies). The following planned audits are currently ongoing:

- Purchasing Card arrangements
- Payroll Processing and Payment (will be ongoing throughout the year)
- Accounts Payable (will be ongoing throughout the year)
- ICT Asset Management
- Children's Services Business Continuity Planning
- Adoption Service
- Access to IT Systems
- SWITCH Management
- Houghton Sports Complex
- Emergency Planning/Major Incident Plan

4.2 A planned audit in relation to the Stroke Care Grant, which required an independent verification by the internal audit service now no longer requires this verification to be undertaken. The audit is therefore shown in Appendix 2 as cancelled.

4.3 One unplanned audit has been completed and a further another 3 unplanned audits are also ongoing.

4.4 The Internal Audit Annual Report, presented to the Committee in May highlighted a small number of areas of concern where either significant recommendations had been made or the opinion had been reported as unsatisfactory. Internal audit will continue to monitor progress in relation to these areas and keep the Committee updated. An update on these issues is as follows:

- Vulnerable Adults Protection Arrangements

  The Head of Strategic Commissioning within Health, Housing and Adult Services has provided the following update.

  "Throughout last year and early this year process, documentation, Information Systems, staff guidance and training plans were made ready. There was some delay in progressing the final training schedule as the identified priority at the time was the implementation of Personal Plans. It

was not prudent to develop, agree and train staff on both activities simultaneously. Since that postponement, the Sunderland Safeguarding Adults Board (SSAB) and the overall management of the safeguarding team has developed and changed. This has led to a fresh look at the model of adult safeguarding delivery in Sunderland and further examination of the comments within the CQC report, where it was noted there was a need to 'address the risks and challenges of the widely devolved safeguarding arrangements'. The confirmation that there were significant weaknesses in relation to the current safeguarding model led to proposals going to the SSAB in May 2011 proposing a radical revision of how the business is conducted."

The Head of Strategic Commissioning will be attending the Committee to provide an update.

- HR Management / Financial Management System Consolidation

  It has been clarified with the ICT unit that they have a project plan for developing and testing the Disaster Recovery arrangements for this system, which details tasks, timescales, and responsibilities. The planned completion date for updating and producing standard documentation for all SAP systems is 4th July 2011, with other work and hardware testing in relation to the Finance modules by the end of August 2011. Further, all SAP modules will be tested separately by 19th January 2012 in readiness for a full system wide test at a date to be agreed. Further audit work will be required before the opinion on this key risk area can be updated, however it is pleasing to note that progress is now being made to address the issue.

- Information Governance – The opinion given for 2010/2011 for this key risk area was unsatisfactory, resulting from a number of audits in this area. Audit work undertaken so far during the year has confirmed that a proactive approach has been taken to implement the agreed recommendations in relation to the corporate arrangements and raising awareness, the Customer Contact Centre and Assessments for Personal Care. Although the implementation in all of these areas is not yet complete there is evidence of detailed actions being taken and plans to address the outstanding points. Although further detailed audit work will be required before the opinion on this key risk area can be updated, the Committee can be assured that good progress is being made to address the issues.

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

- A review of the implementation of the actions plans in response to the Safeguarding Serious Case Review in Children Services has been completed. The Executive Director of Children's Services wrote to pass on his thanks for the "robust" and "helpful" work.

- Ongoing advice and guidance is being given through workshops in relation to the implementation of the Strategic and Shared Services Project. This work is covering the design of new procedures for transactional finance, strategic finance, and strategy, policy and performance.

- Advice is also being provided in relation to the new procedures being implemented in relation to the new cashiers service.

- Advice is continuing to be provided in relation to the migration of a range of services to the Customer Services Network.

- Procedures are currently being developed to manage employees who are or will be working in the SWITCH team, feedback is being provided on the procedures at a draft stage.

- A review of the accuracy of the reporting function in relation to the benefits system IBS is ongoing.

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

- Follow up of the National Fraud Initiative (NFI) 2010, particularly in relation to Housing Benefit potential matches and duplicate creditor payments.

- The Council's arrangements to respond to the Bribery Act 2010 which comes into force in July 2011.

- Control and payment of agency workers.

- Management of temporary arrangements through the personnel and payroll systems such as maternity cover, acting up or honoraria.

5. Conclusions

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

5.2 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.

6. Recommendations

6.1 Members are asked to consider the report.

Background Papers

Internal Audit Operational Plan 2011/2012 - Audit and Governance Committee, 25th March 2011.

Appendix 1

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012			
Efficiency and Effectiveness			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council	1) All key risk areas covered over a 3 year period	1) Achieved
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%	2) On target - 100% to date
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 80%	3) On target - 100% to date
	4) Number of sanctions and prosecutions for housing benefit investigations	4) 155	4) Ahead of target – 35 to date
	5) Value of overpayments identified during housing benefit investigations	5) £600k	5) Ahead of target - £103,608 to end of May

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012			
Quality			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To maintain an effective system of Quality Assurance	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% Below target - Medium 83% (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 - 1.1 to date
	2) Results of other Questionnaires	2) Results classed as 'Good'	2) Non undertaken as yet
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	3) 4 compliments 1 complaint (not upheld but improvements identified)

Appendix 2

Audit Coverage

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

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

Key Risk Area	Planned Audits	Conclusion (audits undertaken 2011/12)	Overall Opinion
Information Governance	Corporate Information Governance (including procedures for remote working) Email Security Smarter Working - Employees Working Remotely within Children's Services Document Management		Unsatisfactory
Business Continuity and Emergency Planning	Major Incident Planning Business Continuity Planning - Children's Services		Satisfactory
Performance Management	Responsive Local Services Corporate Performance Management Facilities Management Port Governance Arrangements Customer Services Network Reablement at Home - Adults Social Care Resource Agency		Satisfactory
Payroll	Payroll Processing and Payment		Good
Housing Benefits	Housing Benefit Administration		Satisfactory
Schools	38 schools 11 schools audits completed – all opinions good	Good	Good

Sunderland City Council

Item No. 5

AUDIT AND GOVERNANCE COMMITTEE **30 June 2011**

ANNUAL REPORT ON THE WORK OF THE COMMITTEE 2010/2011

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

1.1 This report provides a summary of the work undertaken by the Audit and Governance Committee during 2010/2011 and the outcome of this work. The purpose of this report is to demonstrate how the Committee has fulfilled its role and will be presented to Council once agreed by this committee.

2. Role of the Committee

2.1 The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its role is to:

- approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be);
- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- receive, consider and monitor reports on treasury management policy, strategy and practices.

2.2 To enable the Committee to fulfil its role effectively awareness / update sessions have been held to provide members of the Committee with information on relevant issues. Sessions provided include the following:

- The Council's Economic Masterplan.
- Statement of Accounts and International Financial Reporting Standards.
- Treasury Management.

3. Matters Considered

3.1 The Committee has met six times during the course of the year to consider a range of issues. Appropriate officers of the Council have been in attendance at the meetings to present reports and provide additional information in order to clarify issues and respond to questions from members of the Committee. Regular attendees at the meetings are the Executive Director of Commercial and Corporate Services, Head of Audit, Risk and Procurement, Head of Law and Governance and the Council's External Auditors.

3.2 To enable the Committee to fulfil its role as set out in paragraph 2.1, a range of reports were considered, as follows:

a) The Committee endorsed the Internal Audit Strategy and Operational Plan, which sets out the arrangements for providing internal audit within the Council and to associated bodies, the plan of audit work for the year and the performance indicators that internal audit will be measured against. The Committee was also given the opportunity to identify any areas of work to be considered for the Internal Audit Plan for 2011/2012.

b) An interim progress report and the Internal Audit Annual Report 2009/2010 were presented to provide details of Internal Audit's performance in relation to the agreed performance indicators and to provide members of the Committee with an opinion on the overall internal control environment within the Council. Specific key issues were highlighted within the reports for members to consider further, specifically in relation to Information Security Management. It is pleasing to note that the Internal Audit Plan was delivered with the majority of the Key Performance Indictors being met. The head of internal audit's opinion on the Council's internal control environment was positive.

c) An annual review of the effectiveness of Internal Audit is carried out and the results of this review were reported to members to provide assurance that the arrangements in place are sound. The review, undertaken by the Audit Commission, concluded that the internal audit function continues to meet all relevant professional standards.

d) External Auditors provided reports detailing their Annual Opinion Audit Plan, their fees, the Annual Audit Letter, Annual Governance Report, and the Annual Grants report. These reports provided a very positive opinion regarding the Council's performance, governance and value for money arrangements.

e) Reports were presented in relation to the Corporate Risk Profile and the risk management arrangements within the Council, to provide assurance to members that key risks are being identified, assessed and effectively managed. An effective risk management framework is in place and good progress made in relation to actions identified to mitigate strategic and corporate risks.

f) The results of the Annual Governance Review for 2009/2010 were presented, which summarises the overall governance arrangements in place within the Council, and makes recommendations for further improvement. The resultant draft Annual Governance Statement highlighted the good corporate governance arrangements in place and was approved by the Committee and included within the Council's Statement of Accounts.

g) The annual Statement of Accounts 2009/2010 (subject to audit) was presented for members to challenge and approve before they were made available for public inspection and to the external auditors. Once the external auditor had completed the audit, any amendments were submitted back to the Committee for approval. The Committee also received information regarding progress toward implementing the new International Financial Reporting Standards. The External Auditor commented positively on the arrangements the Council has in place with regard to the production of the Accounts.

h) The Committee received reports in relation to the Council's Treasury Management arrangements to receive assurance that they are appropriate and approved amendments to the Treasury Management Policy and Strategy. The Committee noted the good performance in this area, specifically with regard to security and level of return.

3.3 From the reports presented the Committee has been proactively monitoring activity in a number of important areas, as follows:

- *Implementation of Agreed Internal Audit Recommendations* – The Internal Audit Annual Report for 2009/2010 reported that the rate of implementation of agreed medium risk recommendations stood at 84% against a target of 90%. A breakdown of performance by directorate was provided. The Committee noted that the performance in some areas of the Council should be improved and this was monitored throughout the year by the Committee. Members were made aware of additional arrangements being put in place to seek improvement.

- *Abolition of the Audit Commission* – During a number of meetings throughout the year the Committee enquired about the position of the Audit Commission and the potential impact on the Council and the internal audit service.

- *Treasury Management* – The committee has taken a keen interest in the policies applied in relation to Treasury Management activities, asking detailed questions about the ongoing arrangements and proposed changes before providing their approval.

- *Corporate Risk Profile* – The Committee have received updates regarding the Council's Corporate Risk Profile and have challenged the scoring of specific risks and queried the relationships between risks.

3.4 It can be seen that the work of the committee is wide ranging with members monitoring performance more closely in those areas where it was deemed appropriate.

4. Recommendation

4.1 The Committee is asked to consider the report and provide any comments for inclusion prior to the report being presented to Council.

Sunderland City Council

Item No. 6

AUDIT AND GOVERNANCE COMMITTEE **30 June 2011**

Corporate Risk Profile

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of the Report

1.1 This report outlines the findings of the last review of the Corporate Risk Profile, undertaken by the Corporate Risk and Governance Group (Group) in April 2011.

1.2 This report aims to provide sufficient information to allow the Committee to assure itself that the major strategic and corporate risks have been identified and are understood. The report therefore provides information in relation to:

- the identified risks for 2011-12
- details of the risk score, target score and brief commentary
- a summary of actions identified to mitigate the risks contained within the Profile for 2010-11.

1.3 The Corporate Risk Profile review process will be reviewed by the Executive Director of Commercial and Corporate Services to ensure it remains fit for purpose and aligned with the strategic direction of the Authority and its operating environment. The Executive Director will update Members at the meeting.

2. Background

2.1 The review took place at a time when the Council is seeking to exploit opportunities created by the “Localism” agenda and Public Sector reform and is also going through a period of transformational change. It was considered to be an appropriate time to ensure that the Profile accurately reflected the challenges faced by the City and the Council as Community Leader.

3 Changes to Corporate Risk Profile

3.1 The starting point in carrying out the review was to realign the existing Profile against the agreed Strategic Objectives of People, Place and Economy and the Corporate Improvement Objectives.

3.2 New risk areas were then identified through discussions with a range of Directors and Heads of Service that reflected the change in context in which the Council operates.

3.3 Taking into account the old profile risks and new risk areas, the group identified the current key risks that could have a positive or negative effect upon the Council achieving its objectives.

3.4 The new identified risks were then discussed and assessed/scored by the Group, with target scores being set (this represents the anticipated score by April 2012).

3.5 The Profile is now being developed to include the specific mitigating actions. Outstanding actions from the last years profile will be included within the profile where appropriate or otherwise included in Directorate or Programme Risk Registers.

3.6 The proposed risks (identified from the review) and proposed Risk Owners are set out in Appendix 1.

4 Progress re 2010/2011 Corporate Risk Profile

4.1 The table below sets out the progress in relation to the actions included within the Corporate Risk Profile 2010/2011.

Corporate Risk Profile – Analysis of Actions as at 31/03/11

Actions as at 1/4/2010		**164**	
Actions added since 1/4/2010	22		
Less: Not due by 31/3/2011	(12)		
Less: Removed (no longer valid)	(32)	(22)	
Actions due to be completed within the year		**142**	
Breakdown			**%Age**
Completed		115	81%
Delayed		27	19%
		142	**100%**

Note: The above is based upon feedback received from the responsible officers.

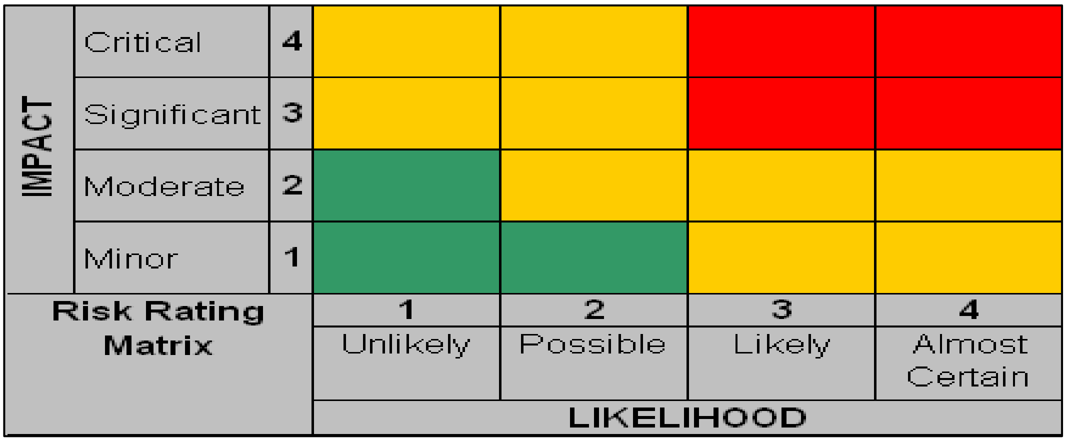
5 Recommendations

5.1 The Committee is requested to consider the report and the updated Profile.

Sunderland City Council

Corporate Risk Profile 2011/2012

Risk Matrix



Risk Impact:	**Risk Likelihood:**
1 = Minor	**1 = Unlikely**
2 = Moderate	**2 = Possible**
3 = Significant	**3 = Likely**
4 = Critical	**4 = Almost Certain**

STRATEGIC & CORPORATE RISKS

STRATEGIC PRIORITY: PEOPLE

Risk PE1: Sunderland Council does not effectively lead the City in responding to the needs of residents and communities

Risk Owner: Janet Johnson (Deputy Chief Executive)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	4 Critical	2 Possible	**8 Medium**
Current Risk Score	4 Critical	2 Possible	**8 Medium**

Risk Commentary:
Sunderland Council will need to be prepared to lead the City's Partners through a period of significant changes including spending reductions and those brought about by the introduction of the Localism Bill. The Bill marks the beginning of a potential power shift away from central government to the people, families and communities of Britain. The aim of the Bill is to strip away any top-down bureaucracy which stands in the way of frontline public services and civil society. It aims to give local people the powers and funding to deliver what they want for their communities with a particular determination to help those who need it most. The Localism Bill will provide the legislative foundation for change.

In addition, engagement with residents and communities will be required to drive forward the City's priorities and improvement agenda. Sufficient capacity to respond to residents and communities needs will be paramount to effective leadership, especially during times of change. Partners may become more reliant upon the Council to lead them through such change. Joint working will be essential to discover new and innovative methods of consulting and listening to residents and communities whilst avoiding duplication of effort/data collection. The Council will need to be clear about its core values whilst delivering its community leadership role within the City.

Risk PE2: Unable to accelerate quality of life improvements for residents of Sunderland

Risk Owners: Keith Moore (Executive Director of Children's Services) and Neil Revely (Executive Director of Health, Housing & Adult Services)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	4 Critical	3 Likely	**12 High**
Current Risk Score	4 Critical	3 Likely	**12 High**

Risk Commentary:
There are considerable health inequalities within the City. There are currently insufficient programmes in place to deliver significant health improvements. Opportunities for further developments and early intervention strategies need to be expanded.

The ability to respond to resident's needs and aspirations in relation to social care has become more challenging as the Council responds to the personalisation agenda. Workforce development is required to support increased commissioning activities. There are still concerns around the Council's ability to manage the market, e.g. supply chain risks.

There is a significant risk to the reputation of the Council, Partners and the City if a high profile or widespread failure occurred in relation to safeguarding. A death or serious incident of abuse against a child, young person or vulnerable adult would instigate a serious case review.

Reducing poverty levels in Sunderland is challenging, especially given the current economic climate. Providing the right level of social housing and affordable home initiatives to meet the needs of residents is also more challenging given the economic climate.

STRATEGIC PRIORITY: PLACE

Risk PL1: Unable to accelerate physical regeneration in the City

Risk Owner: Janet Johnson (Deputy Chief Executive)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	4 Critical	3 Likely	**12** **High**
Current Risk Score	4 Critical	3 Likely	**12** **High**

Risk Commentary:
Alternative approaches are needed to lever and/or release funding to kick-start and drive progress on regeneration projects across the City in a timely manner, e.g. maximising the assets and resources we have in our portfolio, working with organisations that have access to other funding.

Visibility of progress will address any negative perceptions, e.g. Vaux site development. The Economic Masterplan and the transport infrastructure to support it, need to be aligned.

Additional housing developments would support regeneration across the City and could attract more residents and developers. The lack of capital investment in schools also needs to be considered.

The financial restrictions relating to regeneration programme could lead to difficult choices in relation to the extent to which communities will benefit. Effective communication relating to the benefits and opportunities offered to residents as a result of regeneration activity needs to be sufficiently planned.

Risk PL2: Opportunities are not taken to create a more attractive and inclusive City

Risk Owner: Ron Odunaiya (Executive Director of City Services)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	3 Significant	2 Possible	**6** **Medium**
Current Risk Score	3 Significant	2 Possible	**6** **Medium**

Risk Commentary:
Sunderland is not fully promoting and exploiting its prime offerings/attributes, e.g. heritage, green space, coastline etc. and therefore failing to make the best use of them to attract more people to the City, i.e. businesses, new residents and tourists.

Good progress has been made in relation to waste management and recycling.

Opportunities can be gained from working with Partners' to better utilise land and property across the City (including vacant premises).

Creating a low carbon economy and sustainable energy sources could create opportunities for the City and may attract investors and residents.

Future housing developments need to be attractive to current and potential residents, and in line with future workforce mix (e.g. given potential low carbon economy businesses).

There remains a perception amongst residents that fear of crime is still an issue.

STRATEGIC PRIORITY: ECONOMY

Risk EC1: Sunderland does not utilise available funding opportunities to accelerate economic growth

Risk Owner: Janet Johnson (Deputy Chief Executive)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	4 Critical	3 Likely	**12 High**
Current Risk Score	4 Critical	3 Likely	**12 High**

Risk Commentary:
Key areas of economic development requiring investment and collaboration include the development of the City Centre, building the City's reputation in the low carbon economy, and developing more home grown businesses to increase the City's economic resilience.

If opportunities are not taken to accelerate growth then the North-South divide could worsen.

Neighbouring Authorities may also attract more investment which would reduce economic wellbeing and growth in Sunderland.

A reduction in public sector budgets will reduce the Council's ability to support development activity at a time when private sector investment is still likely to relatively difficult to access.

Risk EC2: Lack of flexibility and resilience to respond to economic and social changes and exploit opportunities

Risk Owner: Janet Johnson (Deputy Chief Executive)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	3 Significant	3 Likely	**9 High**
Current Risk Score	3 Significant	3 Likely	**9 High**

Risk Commentary:
The Economic Masterplan proposes, that in order to become fundamentally more prosperous, Sunderland must focus on a set of important sectors including the City Centre, to transform its economy into one that is driven by low carbon economic activity.

Potential public sector job cuts could have a detrimental impact on the employment rate within the City, with significantly more people needing support into new employment or enterprise.

There are concerns that more action is required to prepare young people for the world of work and provide them with the mix of skills needed for the future. Residents in Sunderland may not have the necessary skills or the opportunity to develop the skills to switch between careers.

Risk EC3: The City does not promote and maximise its profile and identity, at a regional, national and global level, to attract investment, development and tourism

Risk Owner: Deborah Lewin (Director of Communications & Marketing)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	3 Significant	2 Possible	**6 Medium**
Current Risk Score	3 Significant	3 Likely	**9 High**

Risk Commentary:
The Council has established the Reputation and Influencing programme to support the future development of the City by raising the profile of Sunderland; increasing reach and influence; and encouraging business and investors to “do business” in the City. It is about developing and implementing a strong sense of economic place for the City.

The programme focuses on creating the best possible conditions for continued economic growth, supporting existing businesses to expand and be more successful and developing an ambitious investment marketing strategy to attract further new investment to the City.

CORPORATE OBJECTIVES: CUSTOMER FOCUS/ONE COUNCIL/PARTNERSHIP WORKING

Risk CO1: Unable to maintain a high standard of service delivery during the implementation of a new business operating model

Risk Owner: Helen Paterson (Strategic Director of Transformation)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	3 Significant	2 Possible	**6 Medium**
Current Risk Score	3 Significant	3 Likely	**9 High**

Risk Commentary:
The various elements of the new Business Operating Model will be introduced on a phased basis. There is a potential for a dip in service delivery as employees familiarise themselves with significantly new processes and ways of working.

Risk CO2: Sunderland Council does not exploit new and innovative models of service delivery to achieve required efficiencies

Risk Owner: Malcolm Page (Executive Director of Commercial and Corporate Services)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	3 Significant	3 Likely	**9 High**
Current Risk Score	3 Significant	3 Likely	**9 High**

Risk Commentary:
Various hypotheses are identified through the service assessment process to explore new and innovative models of service delivery. Many hypotheses are being declined as they are unproven and can introduce a high level of uncertainty. Even though efficiencies may still be met, such anxieties can prevent/stifle progress and innovation. In addition the “Localism” agenda suggests that public services should be delivered by alternative providers, e.g. private sector, charities, and social enterprises.

Risk CO3: The Council loses corporate knowledge and information when staff leave the organisation or switch job roles

Risk Owner: Sue Stanhope (Director of HR & OD)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	3 Significant	2 Possible	**6 Medium**
Current Risk Score	3 Significant	3 Likely	**9 High**

Risk Commentary:
There is a risk that when employees leave the organisation or switch job roles their corporate knowledge goes with them. This concern is heightened due to the major restructure of the Council, a large number of retirements and the introduction of SWITCH.

Risk CO4: Inability to match and motivate human resources and skills/abilities to meet the changing organisational requirements

Risk Owner: Sue Stanhope (Director of HR & OD)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	4 Critical	2 Possible	**8 Medium**
Current Risk Score	4 Critical	3 Likely	**12 High**

Risk Commentary:
Given it is untried/untested there are uncertainties regarding the ability of the internal job market, vacancy management and SWITCH processes to meet expectations and deliver the required benefits. Staff morale is likely to be affected by the reduction in staff numbers, the scale and pace of change and uncertainties linked to IJM, SWITCH etc.

The existing high level of employee 'resilience' to deal with unexpected change / problems / incidents may diminish given a combination of factors affecting the workforce's morale / capacity.

Risk CO5: Adverse outcome in relation to Single Status & Equal Pay litigation

Risk Owner: Sue Stanhope (Director of HR & OD)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	4 Critical	3 Likely	**12 High**
Current Risk Score	4 Critical	3 Likely	**12 High**

Risk Commentary:
Judgements from the tribunals and any appeals will run through 2011 into 2012. The Council has deployed external legal specialists. The Council has prudently set aside some reserves, but many scenarios are possible, each carrying a different level of potential financial liability.

Risk CO6: The Council's data is not adequately protected

Risk Owner: Malcolm Page (Executive Director of Commercial & Corporate Services)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	3 Significant	2 Possible	**6 Medium**
Current Risk Score	3 Significant	2 Possible	**6 Medium**

Risk Commentary:
Information and data can be lost, stolen, exposed or corrupted through inadvertent human error, malicious acts, and inherent weaknesses in existing information and data security arrangements. The increased usage of remote devices to support agile working may increase the likelihood of a data loss occurring.

Data security and protection policies are in place and progressing with change, but awareness and compliance remains a concern.

Risk CO7 The Council does not maximise the use of ICT to support the delivery of strategic priorities

Risk Owner: Janet Johnson (Deputy Chief Executive)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	3 Significant	2 Possible	**6 Medium**
Current Risk Score	3 Significant	2 Possible	**6 Medium**

Risk Commentary:
There are opportunities to use technology to support new ways of working. Council ICT services can exploit opportunities to work with Partners including Software City to develop innovative business solutions.

Risk CO8: The Council's Business Continuity arrangements are not resilient to change

Risk Owner: Janet Johnson (Deputy Chief Executive)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	3 Significant	2 Possible	**6 Medium**
Current Risk Score	3 Significant	2 Possible	**6 Medium**

Risk Commentary:
The implementation of the new Business Operating Model and service reviews have brought about significant change to the Council's structure and ways of working. There are concerns that business continuity arrangements have not taken account of such changes and would be ineffective if disruption occurred.

Risk CO9: The effective control and coordination of programmes and projects is not consistently applied across the Council

Risk Owner: Janet Johnson (Deputy Chief Executive)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	3 Significant	1 Unlikely	**3 Low**
Current Risk Score	3 Significant	3 Likely	**9 High**

Risk Commentary:
The corporate methodology for programmes and projects is not totally embedded across the Council. In some areas there is lack of clear objectives scope and outcomes. Processes are seen by some as barriers to progress and delivery, with a level of over processing and over control.

Risk CO10: Opportunities arising out of the changing relationships with schools are not maximised

Risk Owner: Keith Moore (Executive Director of Children's Services)

	Risk Impact (RI)	Risk Likelihood (RL)	Risk Rating (RIxRL)
Projected Risk Score for 01/04/12	3 Significant	1 Unlikely	**3 Low**
Current Risk Score	3 Significant	2 Possible	**6 Medium**

Risk Commentary:
"The Importance of Teaching" the Schools White Paper 2010 presents an opportunity for schools to be more responsible for their own improvement. The role of the Council will shift towards being able to monitor progress, making sure that all schools are continually improving and, where necessary commission additional support, intervene or trigger the intervention of other agencies.

Local Authorities are likely to become champions of choice, securing a wide range of education options for parents and families, ensuring there are sufficient high-quality school places, coordinating fair admissions, supporting vulnerable children and challenging schools that fail to improve. Funding for maintained schools will continue to go through Local Authorities but the Government will consult on introducing a national funding formula. Functions for funding academies and 16-19 education will be transferred to an executive agency. It will have responsibility for passing funding to Local Authorities for maintained schools.

Sunderland City Council

Item No. 7

AUDIT AND GOVERNANCE COMMITTEE **30 June 2011**

Accounts and Audit Regulations 2011

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of the Report

1.1 To update the Committee of the changes made by the Accounts and Audit Regulations 2011 and the implications for the Statement of Accounts 2010/2011 (subject to audit) which, as a result of the changes, do not require the Audit and Governance Committee to approve the Accounts until they have been audited.

1.2 To provide members with a copy of the Statement of Accounts 2010/2011 (subject to audit) which will be tabled at the meeting and also to provide a brief review of the main changes to the Accounts which now comply with International Financial Reporting Standards (IFRS) for the first time.

1.3 The intention is to familiarise the Committee with the new format of the Accounts at this stage, prior to the meeting scheduled for 22nd July. The July meeting will enable members to review the Accounts and raise any questions on the Statement of Accounts 2010/2011 (subject to audit) before the Accounts are formally approved at the Committee meeting in September once the audit has been completed in accordance with the new regulations.

2. Description of Decision

2.1 The Committee is recommended to note the changes arising from the changes to the Accounts and Audit Regulations 2011 and to receive the Statement of Accounts 2010/2011 (subject to audit).

3. Background

3.1 The Accounts and Audit Regulations 2003 provided for the progressive earlier production of the Accounts. From 2005/2006 onwards local authorities had to approve their Accounts subject to audit by 30th June and the audited accounts have to be approved by 30th September of each year. The Council has always complied with these regulations.

3.2 One of the drivers for the earlier closure of accounts was the need to meet central government's Whole of Government Accounts (WGA) requirements, which are intended to enable to publish to proper accounting standards, the Whole of Government Accounts, each year in a timely fashion. The WGA approach was based on UK Generally Accepted Accounting Practices

(GAAP) and from 2006/2007 the Government was able to provide a true and fair view of the Government's financial performance for audit for the first time. The aim of WGA was not only to provide increased transparency and accountability to Parliament but also to provide more consistent and better quality financial information to help underpin funding and investment decisions at both local and national levels.

3.3 The Accounts and Audit Regulations 2003 also provided that all adjustments to the Statement of Accounts can only be made with the permission of the external auditor. This was, in practice, the case in the past. When the external audit has been completed and the external auditor feels that highlighting any adjustments would strengthen internal control these will be reported to this Committee.

3.4 The Regulations also required the Statement of Accounts to be approved and, in the context of this Council's agreed arrangements, the Chairman of this Committee signs the Statement of Accounts on behalf of the Council.

3.5 Minor changes were made to the regulations as amended in 2009 - the main change was that the accounts now presents 'a true and fair view' (rather than 'presents fairly') the financial position as this was more in keeping with UK GAAP which the accounts then reflected.

4. Accounts and Audit Regulations 2011 – Main changes

4.1 The Government consulted on changes to the existing Accounts and Audit Regulations and published in March 2011 the following changes to be applied for the 2010/2011 accounting year:

- Revoked the Accounts and Audit Regulations 2003 as amended and consolidated these into the new Accounts and Audit Regulations 2011;

- Simplified and clarified the requirements of the regulations and also separated out the regulations that apply to larger public bodies from those that apply to smaller public bodies (where gross income or expenditure (whichever is the higher) is lower than the new threshold limit of £6.5m – this limit was previously £1m) and thus brings public sector organisations in line with the limit applied to smaller companies under the Companies Act;

- Current regulations required members to approve the Accounts subject to audit before 30th June but this was considered to be out of step with requirements in the private sector where the Board are made aware of the findings of the audit **before** they approve the Accounts. The change in the regulations means that the Accounts subject to audit do not now need to be approved by the Council although they must still approve the audited Accounts before 30th September of each year;

- There is a new requirement for the Responsible Finance Officer to certify the presentation of the annual Accounts no later than 30th June and must re-certify the Accounts before member approval is given in September;

- Passenger Transport Authorities now fall within the category of larger relevant bodies and must comply with the requirements to prepare a Statement of Accounts in accordance with the Code of Accounting Practice for Local Authorities;

- The penalties under Section 27 (4) of the Audit commission act 1988 which set out that contravention without reasonable excuse of a regulation in the Accounts and Audit Regulations was a criminal offence (as these have never been used) has been removed;

- Clarified the remuneration reporting requirements which also ensure consistency of reporting with other public sector bodies.

5. Statement of Accounts 2010/2011 (Subject to Audit)

5.1 The Statement of Accounts will be tabled at the meeting for information but, as indicated, are still subject to audit. A brief review of the Accounts will be made to show members the main changes to the accounts which are now IFRS compliant, as the previous years audited Accounts were produced under UK GAAP principles.

5.2 In accordance with the amended regulations, the Accounts (subject to audit) do not need to be approved by this Committee, but the Executive Director of Commercial and Corporate Services must certify the Accounts no later than 30th June.

5.3 There is to be an additional meeting of this Committee to be held on 22nd July 2011 to allow members to review and to raise any issues they may have with the Statement of Accounts 2010/2011 (subject to audit) prior to their approval in September. The intention however is to bring this process forward next year so that the Accounts can be made available at this meeting for future years.

5.4 Appendix 1 shows, for information, the key dates for the Statement of Accounts for 2010/2011 in accordance with the amended regulations.

5.5 The final Statement of Accounts will be published following the conclusion of the audit and will include a signed audit certificate. The audited accounts must still be approved by this Committee before 30th September of each year.

6. IFRS - Main Changes to the Financial Statements

6.1 The Code of Practice on Local Authority Accounting in the UK 2010 (based on International Financial Reporting Standards) has replaced the SORP, which required local authority accounts to be UK GAAP compliant. The accounts for 2010/2011 have been produced based on the new accounting requirements of International Financial Reporting Standards (IFRS) which apply from 1st April 2010. Members have been kept informed of progress towards IFRS compliance through reports to this Committee over the past two years since work commenced on this requirement, with the Statement of Accounts 2010/2011 being the end product. The accounts for 2009/2010 have also been re-formatted on an IFRS basis so that there is an appropriate comparison to the 2010/2011 accounts.

6.2 The main changes to the financial statements will be set out in a handout to be provided at the meeting and these will be explained in more detail along with a copy of the Statement of Accounts 2010/2011 (Subject to Audit).

Background Papers
Statement of Recommended Practice (SORP) 2010
Code of Practice on Local Authority Accounting in the United Kingdom – 2010/2011
Accounts and Audit Regulations 2003
Accounts and Audit (Amendment) (England) Regulations 2006
Accounts and Audit (Amendment) (England) Regulations 2009
Accounts and Audit Regulations 2011

Appendix 1

Timetable for the Audit of the Statement of Accounts for 2010/2011

Statement of Accounts (Subject to Audit) – certified by the Responsible Finance Officer on or
before 30th June 2011

Notification of the Audit of Accounts - Advert to be placed in newspaper ('The Sunderland
Echo') - 18th July 2011

Public Inspection Period (20 working days) - 1st August to 26th August 2011

Date for Exercise of Public Right to Inspect the Accounts - 30th August 2011

Audited Statement of Accounts - Approved on or before 30th September 2011

Sunderland City Council

Item No. 8

AUDIT AND GOVERNANCE COMMITTEE **30 June 2011**

Annual Review of Corporate Governance Arrangements

Report of Executive Director of Commercial and Corporate Services

1. Introduction

1.1 This report provides details of the 2010/2011 Annual Governance Review and includes a draft Annual Governance Statement.

1.2 The Committee is asked to:

- consider and agree the Draft Improvement Plan included at Appendix 1 and recommend it to Cabinet, and
- consider and agree the Draft Annual Governance Statement at Appendix 2.

1.3 The Annual Governance Review process will be reviewed in 2011/2012 to ensure it continues to be fit for purpose and aligned with the strategic direction of the Authority and its operating environment.

2. Background

2.1 The Council has a local code of corporate governance (the Code) in place which is based upon guidance jointly issued by the Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA) and recommended as good practice.

2.2 The Code sets out a framework which aims to ensure that the Council is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. The framework comprises the systems, processes, cultures and values through which the Council directs and controls its functions, and through which it accounts to, engages with and, where appropriate, leads communities.

2.3 The framework is based upon the following six core principles:

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;

- Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk;
- Developing the capacity and capability of members and officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

2.4 The Code states that the Council will conduct, at least annually, a review of the effectiveness of the corporate governance framework.

2.5 The Council is also required to publish an Annual Governance Statement (AGS), which must be supported by a comprehensive assurance gathering process.

3. 2010/2011 Annual Governance Review

3.1 The review followed the methodology previously approved by Cabinet and was undertaken by the Corporate Risk and Governance Group, whose membership is as follows:

- Head of Audit, Risk and Procurement (Chair);
- Audit and Counter Fraud Manager;
- Head of Law and Governance;
- Assistant Chief Executive;
- Director of Human Resources and Organisational Development;
- Corporate Risk Manager; and
- Senior Representatives from frontline Directorates.

3.2 The Corporate Risk and Governance Group (CRGG) considered the following sources of assurance:

- Self Assessments by Heads of Service;
- Controls Assurance Statements from each Executive Director;
- Controls Assurance Statement from specialist officers as follows:
    - Section 151 Officer (Executive Director of Commercial and Corporate Services)
    - Monitoring Officer (Head of Law and Governance)
    - Head of Audit, Risk and Procurement;
    - Assistant Chief Executive (in relation to corporate planning and performance arrangements);
    - Director of Human Resources and Organisation Development;
    - Corporate Business Continuity Officer.
- Annual Internal Audit Report;
- Risk Management Annual Report;
- Performance Management Framework;
- Views of the Audit Commission and other external inspectorates;
- Views of Members;
- View of customers;
- Views of employees;

- Review of the Whistleblowing Register;
- Information Governance Arrangements.

3.3 The CRGG reviewed the various sources of assurance and considered whether current governance arrangements are adequate. A small number of improvements were identified which would strengthen the current governance arrangements. These are detailed at Appendix 1. The Improvement Plan also includes a small number of areas that the Council is already addressing but inclusion in the plan will facilitate monitoring to ensure that the planned actions are delivered within a reasonable timeframe bearing in mind the importance / nature of the actions.

3.4 The Code of Corporate Governance was reviewed and it is considered that the core and supporting principles remain appropriate however some updates are needed in relation to the supporting processes and evidence. These minor amendments will be made and the Code updated accordingly.

4. Draft Annual Governance Statement

4.1 The Annual Governance Statement has been drafted taking into account the findings of the annual governance review. The draft Annual Governance Statement is attached at Appendix 2.

5. Review of Progress in relation to the 2009/2010 Corporate Governance Improvement Plan

5.1 The improvement plan agreed following the 2009/2010 Corporate Governance Review included 13 actions. The CRGG reviewed progress on these actions and found that all were either complete or well progressed.

6. Conclusion

6.1 The Council continues to have robust and effective corporate governance arrangements in place. The views elicited during the review from Members, senior managers across the Council, and all Chief Officers, demonstrate that the principles of good governance are embedded Council-wide.

6.2 Whilst an Improvement Plan has been developed the review has not identified any weaknesses that would need to be highlighted in the Council's Annual Governance Statement.

7. Recommendations

7.1 The Committee is asked to:

- consider and agree the Draft Improvement Plan included at Appendix 1 and recommend it to Cabinet, and
- consider and agree the Draft Annual Governance Statement at Appendix 2.

Appendix 1

2010/2011 Annual Review of Corporate Governance arrangements
Improvement Plan for 2011/2012

Ref	Action	Lead / Responsible Officer
1.	Complete the review of the partnership governance framework and Code of Practice, including awareness of current requirements and ensure that formal agreements that are up to date are in place for all partnerships.	Assistant Chief Executive
2.	Given the introduction of the new way of working, the latest expression of our values and the evolving organisational philosophy, these should be reflected in revised versions of the employee Code of Conduct, induction and appraisal processes.	Director of Human Resources and Organisation Development
3.	Business Continuity Plans should be reviewed in line with the new organisational structure.	All Executive Directors
4.	Clear and appropriate Service Level Expectations should be agreed and documented to ensure the success of the new operating model.	All Executive Directors
5.	Following the reduction in external inspection and assessment, development of self regulation framework is needed to support robust performance management arrangements and greater accountability and transparency in service delivery.	Deputy Chief Executive
6.	An awareness raising / training programme should be developed and implemented in relation to Equality Impact Assessments. Corporate monitoring of compliance with impact assessment requirements should be introduced.	Deputy Chief Executive
7.	Review current service level agreements and charging mechanisms with schools (within the context of the existing ‘Relationships with Schools’ project and proposals within the Education Bill to allow schools additional freedoms) to ensure that these continue to be fit for purpose/ provide value for money.	Executive Director of Children’s Services
8.	Review relationships with partner organisations to ensure all funding and charging mechanisms are appropriate and provide value for money to the Council and its customers.	All Executive Directors
9.	Carry out further work with Directorates to ensure that Information Governance requirements are embedded and that the roles of the Senior Information Risk Owners and Information Asset Owners are being delivered as planned.	Head of Law and Governance

2010/2011 Draft Annual Governance Statement

1. SCOPE OF RESPONSIBILITY

Sunderland City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a local Code of Corporate Governance which is consistent with the principles of the SOLACE/CIPFA Framework, Delivering Good Governance in Local Government. The Code is on the Council's website or can be obtained from the Executive Director of Commercial and Corporate Services.

This Statement explains how the Council has complied with the SOLACE/CIPFA Framework and also meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with, and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31st March 2011 and up to the date of approval of the Annual Report and Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

3.1 There is a clear vision of the authority's purpose and intended outcomes for citizens and service users that is clearly communicated, both within the organisation and to external stakeholders:

- The Sunderland Strategy 2008-2025 provides the framework for members of the Sunderland Partnership, organisations, groups of people and individuals, to work together to improve the quality of life in Sunderland by 2025. It sets out a Vision for the city and its people and how everyone will work together to achieve that Vision:

  "Creating a better future for everyone in Sunderland - Sunderland will be a welcoming, internationally recognised city where people have the opportunity to fulfil their aspirations for a healthy, safe and prosperous future."

  Delivery of the Vision is underpinned by the following Strategic Priorities:

  - Prosperous City;
  - Healthy City;
  - Safe City;
  - Learning City;
  - Attractive and Inclusive City

- Underpinning the Sunderland Strategy are a comprehensive needs analysis, Sunderland Strategy Delivery Plans, including the Local Area Agreement and a set of Local Area Plans. The Delivery Plans which have lifespans of three years, identify the short term detailed and focused targets which will help to achieve the longer term key objectives set out in the Sunderland Strategy.

- The Corporate Improvement Plan (CIP) for 2009/10 to 2011/12 is the Council's overarching Service Plan containing the plans of all of the Council's Portfolios, including the estimated Revenue Budgets for the financial year and the Capital Programme for 2009/10 to 2012/13. The CIP gives a broad overview of what the Council is doing in respect of its Corporate Improvement Priorities, what actions it intends to take over the next three years.

- To demonstrate the council's commitment to the continuous improvement of service delivery and the use of resources, Corporate Improvement Objectives (CIOs) have been defined:

  CIO1 Customer focused services
  CIO2 One Council
  CIO3 Efficient and effective council
  CIO4 Improving partnership working

  The Strategic Priorities set out in the Sunderland Strategy and CIOs have been combined to create the council's Corporate Improvement Priorities, to provide an increased focus on improvement activity and to reflect the fact that internal and external improvement activities are inter-related with each resulting from, contributing to and dependant upon the other.

- Communication of objectives to staff and stakeholders takes place through wide distribution of the Corporate Improvement Plan, including on the Council's website and intranet. The Council also issues an Annual Report setting out the Council's priorities, how the Council spent money on achieving these during the last financial year, and how successful the Council has been.

3.2 Arrangements are in place to review the authority's vision and its implications for the authority's governance arrangements:

- Through reviews by the Audit Commission and other external inspectorates the Council constantly seeks ways of securing continuous improvement. The Council has professional and objective relationships with these external inspectorates.

- There are annual reviews of the local Sunderland Code of Corporate Governance to ensure that it is up to date and effective.

3.3 Arrangements exist for measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources:

- There are clear and effective performance management arrangements including staff appraisals for Directors and key staff, which address financial responsibilities.

- There is regular reporting of performance against key targets and priorities to the Council's Executive Management Team, Cabinet and Scrutiny Committees.

- Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions and person specifications.

3.4 The roles and responsibilities of the executive, non-executive, scrutiny and officer functions are clearly defined and documented, with clear delegation arrangements and protocols for effective communication:

- A Constitution has been adopted which sets out how the Council operates and how decisions are made, and incorporates a clear delegation scheme. The Constitution indicates responsibilities for functions and sets out how decisions are made.

- A system of scrutiny is in place which allows Scrutiny Committees to:

  - review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
  - make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;

- consider any matter affecting the area or its inhabitants; and
- exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees; and
- consider Local Petitions and Councillor Calls for Action for matters within their terms of reference.

- Directorates have established delegation schemes, although these will require updating in some areas to reflect recent and ongoing organisational changes.

3.5 Codes of Conduct defining the standards of behaviour for members and staff are in place, conform with appropriate ethical standards, and are communicated and embedded across the organisation:

- The following are in place:

  - Members' Codes of Conduct;
  - Employees' Code of Conduct;
  - Protocol on Member/Employee Relations;
  - Protocol for Members in Relation to Development Control Matters;
  - Whistleblowing Policy;
  - Protocol for the use of Civic Cars;
  - Protocol for Members in Relation to Licensing Matters;
  - Protocol for Members and Voting Co-opted Members – Use of Council Resources and Equipment;
  - Guidance for Members in Relation to the Use of Council ICT Facilities;
  - Protocol for Use of Member Website;
  - Data Protection: Guidance for Councillors;
  - Remote Intranet/Internet Access for Members;
  - Protocol in Relation to Members' Dealings with the Council;
  - Registers of Interests, Gifts and Hospitality;
  - Council Publicity Protocol.

3.6 Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks:

- The Executive Director of Commercial and Corporate Services is the designated Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972 and is responsible for ensuring lawfulness and financial prudence of decision making, and for the proper administration of the Council's financial affairs.

- The Head of Law and Governance is the Council's Monitoring Officer who has maintained an up to date version of the Constitution and has endeavoured to ensure lawfulness and fairness of decision making.

- The Council has in place up to date Procurement Procedure Rules and Financial Procedure Rules, which are subject to regular review.

- Written procedures are in place covering financial and administrative matters, as well as HR policies and procedures. These include:

  - Whistle Blowing Policy;
  - Anti Fraud and Corruption Policy;
  - Codes of Conduct;
  - Corporate Health and Safety Policy;
  - Corporate Complaints Policy;
  - Corporate Procurement Strategy;
  - Procurement Codes of Practice;
  - Code of Practice for Partnerships;
  - Treasury Management Strategy;
  - Directorate / department budget management schemes.

- There are robust and well embedded risk management processes in place, including;

  - Member Risk Champion;
  - Risk Management Policy and Strategy;
  - Nominated Head of Service lead for Risk Management;
  - Corporate Risk Profile;
  - Corporate Risk and Governance Group;
  - Risk Profiles for major projects and significant partnerships;
  - Risk Management Intranet site;

- There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts.

- Business Continuity Plans are in place, which are subject to ongoing review and development.

- There are clearly defined capital expenditure guidelines in place.

- Appropriate project management disciplines are utilised.

- The Council participates in the National Fraud Initiative.

- The Council has adopted and implemented the requirements of the Department for Work and Pensions Security Manual for the administration of Council Tax and Housing Benefit.

- Procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

3.7 The authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Executive Director of Commercial and Corporate Services fulfils this role through the following:

- Attendance at meetings of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
- Alignment of medium term business and financial planning processes;
- Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively;
- Ensuring that the finance function is resourced to be fit for purpose;

3.8 The core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities,* are undertaken by members.

The Council has an Audit and Governance Committee which, as well as approving the Authority's Statement of Accounts, undertakes an assurance and advisory role to:

- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- receive and consider (but not direct) internal audit's strategy, plan and monitor performance;
- receive and consider the external audit plan;
- review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
- receive and consider the annual report of internal audit;

- consider the reports of external audit and inspection agencies, including the Annual Audit and Inspection Letter;

- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;

- review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit; and

- make recommendations to Cabinet or Council as appropriate.

3.9 Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All Cabinet Reports are considered for legal issues before submission to members:

- The Head of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities.

- The Council maintains an internal audit service. An independent annual review of its effectiveness is undertaken which concluded that it operated in accordance with professional standards.

3.10 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are in place and are well publicised:

- The Council is committed to establishing and maintaining effective reporting arrangements to ensure that, where an individual, whether an employee of the Council, a Councillor, or any member of the public, has concerns regarding the conduct of any aspect of the Council's business, they can do so through a variety of avenues, promptly and in a straight forward way.

- The framework in place to ensure the aims of this Policy are met are set out in two 'Whistle Blowing Policy Arrangements' documents, one for Council workers and one for members of the public.

- Monitoring records held by the Head of Law and Governance reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

3.11 Arrangements exist for identifying the development needs of members and senior officers in relation to their strategic roles:

- The Community Leadership Programme has continued to support elected Members to fulfil their community leadership role, including the introduction of Account Managers for all Members.

- The Council has a HR Strategy that identifies that the need to enable and support the organisation in managing the performance of all of its employees through effective policies, procedures and working practices is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation and includes the extent to which an employee understands and supports the values of the Council.

3.12 Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

- The Council has a Community Consultation Strategy which aims to ensure that consultation activity is effectively co-ordinated across the Council and with partner agencies, impacts on service delivery, and is delivered to a high standard.

- The strategy is complemented by the Hard to Reach Framework which outlines the council's approach to consulting with minority and vulnerable sectors of society.

3.13 Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships, and are reflected in the authority's overall governance arrangements:

- The Council has published a Code of Practice for Partnerships which includes a template for Partnership Agreements and a range of checklists to ensure key risk areas are considered and addressed. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and officers to review existing arrangements.

- A Register of Partnerships is maintained. The significance of partnerships is measured using the Partnerships Significance Assessment Scorecard recommended by CIPFA.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by feedback from Members and the work of all senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:

- The role of the Council:
  - Members have participated in the annual review of the Council's Corporate Governance arrangements;
  - The Leader of the Council, the Chief Executive and the Executive Director of Commercial and Corporate Services have overseen the review and signed the Annual Governance Statement.

- The role of the executive:
  - The findings of the Annual Governance Review have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.

- The role of the Audit and Governance Committee:
  - The findings of the Annual Governance Review have been reported to the Audit and Governance Committee. Under their Terms of Reference the Audit and Governance Committee have satisfied themselves that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

- There is a system of scrutiny which allows Review Committees to:
  - review decisions made or actions taken in connection with the discharge of any of the Council's functions;
  - make reports and recommendations to the full Council, the executive, or any joint or area committee in connection with the discharge of any functions;
  - consider any matter affecting the area or its inhabitants; and
  - exercise the right to call-in, for reconsideration, decisions made but not yet implemented.

- The role of the Council's Standards Committee includes the following:

  - promoting and maintaining high standards of conduct by councillors, co-opted members and church and parent governor representatives;
  - monitoring the operation of the Members' Code of Conduct;
  - monitoring the operation of the Council's Anti-Fraud and Corruption Policy so far as it relates to the actions of Members of the Council;
  - considering reports and complaints relating to the conduct of Members of the Council;
  - supporting the Monitoring Officer in his role.

- The Executive Director of Commercial and Corporate Services has directed, co-ordinated and overseen the review.

- All Heads of Service have participated in the annual governance review through carrying out self-assessments relating to their areas of responsibility.

- All Chief Officers have provided Controls Assurance Statements relating to their area of responsibility, having considered the detailed self-assessments from their Heads of Service.

- Controls Assurance Statements have also been provided by senior officers responsible for relevant specialist areas.

- Internal audit planning processes include consultation with all Chief Officers, reviews of the Corporate Improvement Plan and the Corporate Risk Profile. Audit work is risk based and includes risks in relation to the achievement of service objectives. Internal Audit Services carries out regular systematic auditing of key financial and non-financial systems. The Audit Commission have conducted a review of the effectiveness of Internal Audit Services and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.

- In the Audit Commission's Annual Audit Letter the District Auditor issued an unqualified conclusion stating that the council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. The District Auditor also reported that the council continues to demonstrate well established and effective processes for good governance and internal control

- Findings of external inspectorates are collated / monitored by the Performance Improvement Team.

2010/2011 Draft Annual Governance Statement

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an improvement plan has been agreed for the continuous improvement of the Council's corporate governance and internal control arrangements.

We propose over the coming year to take steps to implement the improvement plan to further enhance the Council's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review and will monitor their implementation and operation as part of the next annual review.

Paul Watson Leader of the Council	Dave Smith Chief Executive	Malcolm Page Executive Director of Commercial and Corporate Services

Dated 30th June 2011

Sunderland City Council

Item No. 9

AUDIT AND GOVERNANCE COMMITTEE **30 June 2011**

CONSULTATION ON LOCAL PUBLIC AUDIT

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

1.1 To consider the draft response to the Department for Communities and Local Government's (DCLG) consultation on their vision for the future of local public audit.

2. Background

2.1 On the 13 August 2010 the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, and refocus the audit of local public bodies on helping local people hold those bodies to account for local spending decisions.

2.2 The Secretary of State's aim is to replace the current, centralised audit systems managed by the Audit Commission, with a new decentralised regime, which will support local democratic accountability, and one that will also cut bureaucracy and costs, while ensuring that there continues to be robust local public audit.

2.3 On 30th March 2011 DCLG published a consultation document called "Future of local public audit", which set out proposals on the new audit framework where:

- audit quality is regulated within a statutory framework, overseen by the National Audit Office and the accountancy profession; and
- local public bodies will be free to appoint their own external auditors with stringent safeguards for independence.

2.4 Given the size of the document a copy has not been included with this report but a copy can be viewed at:

http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult

This consultation runs until 30th June 2011.

2.5 The consultation does not cover the following functions, currently provided by the Audit Commission.

- Inspection and research activities will cease. The National Audit Office will be able to examine the impact of policies administered by local bodies.
- The appointed external auditor will be able to undertake value for money studies connected to audit work, with agreement of the audited body.
- Grant verification, operation of the National Fraud Initiative and the auditor function of reporting on Whole of Government Account returns.

3. Key Proposals

3.1 The key proposals are:

- All local public bodies with a turnover of over £6.5m will appoint their own independent external auditor. This appointment would be made on the advice of an independent audit committee.

- External auditors would be regulated under a system which mirrors that of the audit of companies with a role for the Financial Reporting Council and the professional audit bodies. The National Audit Office will set the Code of Audit Practice which prescribes the way in which auditors are to carry out their functions.

- Principal local authorities would appoint their own external auditors, with decisions made by full council, taking into account advice from an independently chaired audit committee.

3.2 The draft response is attached for consideration and comment by the Committee before being submitted to DCLG.

3.3 At the meeting a short presentation will be made to the Committee of the substance of the proposals.

4. Recommendations

4.1 Members are asked to consider and comment on the proposed response to DCLG.

Background Papers

None

<table>
<tr><th>Question</th><th>Response</th></tr>
<tr><td>Q1: Have we identified the correct design principles? If not, what other principles should be considered? Do the proposals in this document meet the design principles?

Design Principles:
Localism and decentralisation – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors from a more competitive and open market, while ensuring a proportionate approach for smaller bodies.
Transparency – ensuring results of audit work are easily accessible to the public, helping local people to hold councils and other local public bodies to account for local spending decisions.
Lower audit fees – achieving a reduction in the overall cost of audit.
High standards of auditing – ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit.</td><td>It is considered that a number of the proposals in this document do not meet the design proposals set out. In particular:
Although many of the proposals may lead to reduced audit fees, additional costs will be borne elsewhere in relation to the potential remuneration of independent members and costs incurred by county/unitary councils if they are to take on responsibilities for administering and regulation of the audit of smaller bodies. This will result in costs not being reduced, but hidden.
There is some concern over whether some of the proposals could put at risk the independence that is central to public audit. The market for public sector audit will be extensive and this may have a negative influence on the judgements made by some auditors where the contract is important to their firm.
Having considered the proposals in this document it seems that having a design principle solely around decentralisation will result in inefficiencies and a potential for variation in standards across the country. Many of the functions carried out by the Audit Commission will, by admission in this document, still need to be carried out but spreading these across a number of organisations would seem to be inefficient and potentially damaging to public confidence in the integrity of the arrangements.</td></tr>
</table>

Question	Response
	Having greater public accountability is seen to be appropriate but this needs to be implemented in a way that would give a real opportunity for the public to challenge public decision making. Many of the proposals, especially in relation to smaller bodies simply remove the overall system of regulation in place and will transfer the costs to other public bodies, albeit on a reduced scale. The new framework needs to have a balance of a proportionate approach with efficiency and real accountability.
Q2: Do you agree that the audit of probation trusts should fall within the Comptroller and Auditor General's Regime? *Probation services, which used to be part of Local Government's remit, have been the responsibility of central government since consolidation into the Home Office in 2000/01. The financial results of probation trusts have been consolidated into the National Offender Management Service accounts, which are audited by the Comptroller and Auditor General.*	Yes
Q3: Do you think that the National Audit Office would be best placed to produce the Code of Audit Practice and the supporting guidance? *Under the current system the Audit Commission sets audit standards through the Codes of audit practice for the local government and health sectors, which are approved by Parliament. These codes build on the ethical, auditing and other standards issued by the Auditing Practices Board. However, the codes contain additional standards to reflect the principles of public audit.*	Yes

Question	Response
Standards for the audit of companies are set by the Auditing Practices Board (part of the Financial Reporting Council). The Auditing Practices Board is also responsible for setting the ethical standards for auditors in the private and public sectors. *It is believed that the national Audit Office, given its role in providing Parliament with assurance on public spending, would be best placed to develop and maintain the audit Codes which would continue to be approved by Parliament.*	
Q4: Do you agree that we should replicate the system for approving and controlling auditors under the Companies Act 2006 for statutory local public auditors? *Currently, the Audit Commission regulates the quality of the work of auditors by setting minimum qualifications a public sector auditor must have in conjunction with standards set by the professional bodies for membership.* *As part of the statutory framework for the audit of companies the Professional Oversight Board (part of the Financial Reporting Council) acts as the main regulator with statutory powers for the recognition and supervision of those professional accountancy bodies responsible for supervising the work of auditors and offering an audit qualification. Recognised supervisory bodies are responsible for putting rules and arrangements in place which their members must fulfil before they can be registered auditors, both as regards eligibility for appointment as a statutory auditor and the conduct of statutory audit work..*	It is not a matter of replicating a current system but ensuring that whatever system is put in place is appropriate in the public arena. It is considered that there is merit in retaining a national process for the independent appointment of auditors to local public bodies, to not only ensure independence but also to keep down the costs of procurement. This could usefully be performed by the National Audit Office working with OGC Buying Solutions.
Q5: Who should be responsible for maintaining and reviewing the register of statutory local public auditors? *The Institute of Chartered Accountants for Scotland maintains the list of registered auditors for the whole of the UK on behalf of the recognised supervisory bodies (for the requirements of the Companies Act).*	A single body should be responsible for maintaining the register.

Question	Response
Q6: How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?	All firms undertaking public sector audit need to be competent in undertaking the audits and understand the accounting requirements in the public sector. It will be for the firms in the market to demonstrate that they can fulfil this requirement during the appointment process. Firms may wish to employ auditors with the relevant experience to widen their chances of success. As the public sector now needs to comply with IFRS as in the private sector it is considered that the impact on firms will be minimal.
Q7: What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?	The most important factor is that they understand and comply with the principles of independence as set out in paragraph 1.19 of the consultation document. This will be more difficult to demonstrate, but it is essential to be incorporated.
Q8: What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of the local audit regulation? *In the private sector some companies that are of public significance because of the nature of their business, their size, or their number of employees can be designated as 'public interests entities'. In the case of these bodies, the Professional Oversight Board has an additional role in monitoring the quality of the auditing function and the Accountancy and Actuarial Board has a role in investigating public interest disciplinary cases and imposing sanctions to those found guilty of misconduct.*	All local Council, pension funds and health bodies, but not including Parish Councils, burial boards and joint committees with a threshold under the value set out below. The role of the Audit Inspection Unit of the Financial Reporting Council should remain in place.

Question	Response
Q9: There is an argument that by their very nature all public bodies could be categorised as 'public interest entities'. Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform or by their income or expenditure? If the latter, what should the threshold be?	Yes, all local Council, pension funds and health bodies, but not including Parish Councils, burial boards and joint committees with a threshold of £6.5m.
Q10: What role should the role of the regulator be in relation to any local bodies treated in a similar manner to the public interest entities?	The regulator should have a role in relation to the scope and execution of the audit provided, the public body's response to the issues raised, but in particular to the appointment process for the auditor. Given the nature of public bodies and in the interests of transparency the process for appointing the auditor and the ongoing relationship should be demonstrated as being fully independent. There should also be a maximum period of contract between the public body and the auditor.
Q11: Do you think the arrangements we set out are sufficiently flexible to allow Councils to co-operate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence? *Under the current system, all auditors of local public bodies are appointed by the Audit commission. Under the Companies Act the annual general meeting must agree a resolution on the appointment of the auditor, based on a recommendation from Directors and input from the audit committee.* *The proposed approach is, for larger public bodies, the appointment is made by full council or equivalent, on the advice of an audit committee with opportunities for the electorate to make an input. It is considered that local public bodies will wish to co-operate to ensure that there is wide competition for external audit contracts and that local public bodies will want to work together to procure an external auditor.*	Although the proposed arrangements regarding appointing auditors are flexible this needs to handled appropriately regarding compliance with the Public Procurement Regulations. In addition, expecting public bodies to work together to procure external auditors may lead to large contracts being let which may restrict the ability of small firms to compete for them. The consultation document also makes one reference to joint audit committees. It is not clear what is intended by this. It could prove difficult for audit committees working for more than one larger public body to be effective due to the different priorities and objectives of each body and

Question	Response
	the culture and environments operating within the bodies. It should be recognised that public sector audit committees have roles which are far wider than just considering external audit issues.
Q12: Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest? ***Structure of audit committees*** *We envisage that in the new system, an audit committee could be structured in the following way:* • *The chair should be independent of the local public body. The vice-chair would also be independent, to allow for the possible absence of the chair.* • *The elected members on the audit committee should be non-executive, non-cabinet members, sourced from the audited body and at least one should have recent and relevant financial experience (it is recommended that a third of members have recent and relevant financial experience where possible).* • *There would be a majority of members of the committee who were independent of the local public body.* ***Independent members of the committee*** *When choosing an independent member of the committee, a person can only be considered for the position if:* • *he or she has not been a member nor an officer of the local authority/public body within five years before the date of the appointment* • *is not a member nor an officer of that or any other relevant authority* • *is not a relative nor a close friend of a member or an officer of the body/authority* • *has applied for the appointment* • *has been approved by a majority of the members of the council* • *the position has been advertised in at least one newspaper distributed in the local area and in other similar publications or websites that the body/local authority considered appropriate.*	• It is agreed that it is good practice for the Chair and Vice Chair to be 'independents' • Apart from the requirement above re the Chair/vice Chair it is not considered necessary to mandate a majority of 'independent' members. This should be left to the discretion of the Authority. • It is recognised good practice to have one member of the Audit Committee from the Executive. This should be considered. • Re 'is not a relative nor a close friend of a member or an officer of the body/authority'. This is considered to be too wide as many larger public bodies may have thousands of employees, many of which will not be in a position to impact on the decision making arrangements of the body. It is considered that any relationship with an officer or member of the body should be disclosed so that a view can be taken in individual circumstances.

Question	Response
Q13: How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?	As long as there is a reasonable level of relevant financial expertise it is not necessary to stipulate which members bring this. The requirements of the International Financial Reporting Standards which public bodies are now required to comply with means the accounting statements are larger and more complex. A simplified statement will therefore be necessary for presentation to members. We must be wary of restricting the pool of independent members to those with financial expertise only recognising the wider role of an Authority's Audit Committee, e.g. corporate governance, risk management.
Q14: Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and if so, at what level?	To attract interest from suitable candidates with relevant financial expertise it is considered that remuneration would be necessary.
Q15: Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach? ***Option 1*** *We could specify only one mandatory duty for the local public body's audit committee, i.e. to provide advice to the local public body on the engagement of the auditor and the resignation or removal of an auditor.* • *It would then be left up to the local public body and the audit committee to decide whether the audit committee should have a wider role in other issues, e.g. setting a policy on the provision of non-audit services by the statutory auditor or reviewing the relationship between the auditor and*	If the appointment of the auditor is not taken on the advice of the Audit Committee then the benefit of the independent members is lost. Therefore, the arrangements in place need to be robust enough to ensure that appointment is made based on the evaluation and the procurement process, not based on subjective judgements. It is not clear how the full Council could lawfully award the contract to a firm that had not 'won' the tender following a tender process in line with the Public Procurement Regulations. It is considered that Option 1 is sufficient, however each

Question	Response
the audited body. • *This option would ensure that the audit committee provided advice to the local public body at crucial moments, but would allow the local public body and the audit committee flexibility to decide on any other functions it may carry out. However, if only the minimum was followed, this may not provide an adequate check on ongoing independence through the auditor's term.* ***Option 2*** *We could specify a much more detailed mandatory role for the audit committee which could include, but may not be restricted to the following:* • *providing advice to the full council on the procurement and selection of their external auditor* • *setting a policy on the provision of non-audit work by the statutory auditor* • *overseeing issues around the possible resignation or removal of the auditor* • *seeking assurances that action is being taken on issues identified at audit* • *considering auditors' reports* • *ensuring that there is an effective relationship between internal and external audit* • *reviewing the financial statements, external auditor's opinions/conclusions and reports to members and monitor management action in response to the issues raised by external audit* • *providing advice to the full council on the quality of service they are receiving* • *reporting annually to the full council on its activities for the previous year* *This option would provide more assurance about the independence of the relationship between the audited body and its auditor, it would also ensure that the audit committee had a wider role in reviewing the financial arrangements of the local public body*	Authority should be able to determine, at its discretion, the full role of the Audit Committee in line with published good practice (e.g. CIPFA Code).
Q16: Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring the independence of the auditor?	See answer to Q15.

Question	Response
Q17: Are these appropriate roles and responsibilities for the Audit Committee/To what extent should the role be specified in legislation?	Roles are appropriate. Responsibilities regarding the appointment, ongoing relationship and removal of the auditor should be specified in legislation or a Code of Practice.
Q18: Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?	Statutory code.
Q19: Is this a proportionate approach to public involvement in the selection and work of auditors? ***Pre - appointment*** *The audited body could ask for expressions of interest from audit firms for the audit contract one month prior to the publication of the invitation to tender. The list of those firms that have expressed an interest would then be published on the audited body's website. The public would then be able to make representations to the audited body's audit committee about any of these firms. The audit committee would consider these representations when providing advice to the full council or equivalent.* ***Post - appointment*** *The public would be able to make representations at any time to the local public body's audit committee. If a representation identified a significant, or potentially significant, issue relating to the auditor, then the audit committee would be able to provide advice to the audited body on that issue and investigate as appropriate. If the issue identified was material to the ongoing work of the auditor (such as an undisclosed material conflict of interest) then the audited body would need to take such steps as appeared necessary, in accordance with the terms of the contract with the auditor, to address that issue. We may also wish to specify in legislation some statutory requirements relating to conflicts of interest.*	It is not clear how the pre-appointment process would add any value to the appointment process. Any valid issues relating to the competence or suitability of the bidders would be tested as part of the procurement process. It is not clear how any representations made by a member of the public separate to the formal tender process could legally make any difference to the outcome. Proposed arrangements for post appointment are considered to be appropriate but it is considered that statutory requirements should be made.

Question	Response
Q20: How can this process be adapted for bodies without elected members? *For Police and Crime Commissioners (and Mayor's Office for Policing and Crime) and Chief Constables (and Commissioner for London) we are considering whether the Police and Crime Panel should have a role similar to that of the audit committee. Arrangements for the audit of these policing bodies will be finalised once the Police Reform and Social Responsibility Bill has completed its passage.*	Ensure there is an independent group which can provide advice to the decision makers of the organisation, as with companies.
Q21: Which option do you consider provides sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty? *Failure to appoint an auditor:* ***Option 1*** *In these circumstances we propose that the Secretary of State would be able to direct the local public body to appoint an auditor.* ***Option 2*** *Alternatively, where a local public body does not fulfil its duty to appoint an auditor the Secretary of State could be provided with the power to make the auditor appointment. In addition to meeting the cost of the appointment the local public body could be subject to a sanction for failing to make the appointment.*	Option 1 is considered sufficient. However, this should be a reserve power and used as a last resort.
Q 22: Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?	Local public bodies should be required to inform a relevant body (e.g. DCLG) when they have appointed an auditor.
Q23: If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?	It is considered that one body should be specified to be notified of the appointment of auditors to ensure that there is a comprehensive and transparent approach (i.e. DCLG for LA's).

Question	Response
Q24: Should any firm's term of appointment be limited to a maximum of two consecutive five year periods? *In the case of listed companies, the audit firm must have policies and procedures so that:* • *no-one shall act as audit engagement partner for more than seven years and* • *anyone who has acted as the audit engagement partner for a particular entity for a period of seven years, shall not subsequently participate in the audit engagement with that entity until a further period of five years has elapsed* *The audit committee of a company assesses the independence and objectivity of the external auditor annually, taking into consideration regulatory and professional requirements. This assessment involves a consideration of all relationships between the company and the audit firm (including the provision of non-audit services) and any safeguards established by the external auditor. The audit committee seeks from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff.* *It is proposed that in relation to the rotation of the firm, an audit firm would be reappointed annually by the full council on the advice of the audit committee (who may want to provide advice on the quality of service received in the previous year) but the audited body could be required to undertake a competitive appointment process within five years. The audited body would be able to re-appoint the same firm for a second consecutive five year period, following competition. A different firm would need to be procured after the second five year period.*	It is considered that a firm being appointed for a maximum of 10 years should be the maximum, with consideration being given to a less period for rotation of lead partner within the firm (e.g. 5 years). Unless the firm is appointed for an annual contract it is not clear how they can then be reappointed annually without going through a procurement process. There could be a requirement for the Audit Committee to confirm to full council on an annual basis there are no issues that would mean the auditor should be dismissed. Arrangements for the dismissal of the auditor would need to be specified in the contract documentation
Q25: Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?	The above should be sufficient to ensure independence.
Q26: Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and the audited body to build a relationship based on trust whilst ensuring the correct degree of independence?	Yes (see above).

Question	Response
Q27: Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place? ***Resignation*** *The audited body and the auditor should discuss and seek to resolve any concerns. If the auditor still wished to resign he should give 28 days written notice of his intention to the audit committee and the audited body, setting out his intention to resign. The audited body should then make a written response, which it should send with the auditor's written notice, to its members and the audit committee. The auditor will then be required to deposit a statement at the audited body's main office and with the audit committee, which should be published on its website. The statement would set out the circumstances connected with the resignation of the office that are relevant to the business of the audited body. The audited body would need to notify the body responsible for maintaining the register of appointed auditors, and the auditor will need to notify the appropriate regulatory supervisory body. We envisage a role for the audit committee and the regulatory supervisory body in investigating the issues that have led to the resignation and considering whether any action is required.* ***Removal*** *Again, we envisage that in the first instance, the audited body and the auditor should discuss and seek to resolve any concerns. If the audited body still wished to remove its auditor, it should give 28 days written notice of its intention to the audit committee and to the auditor. The audited body should put to a public meeting, or full council meeting, a resolution to remove the auditor. The audited body would also send a copy of this notice to the auditor.* *The auditor would then have the right to make a written response, which the body would need to send to its members and the audit committee, and to speak at the meeting where the resolution is to be considered. A representative from the audit committee should also be able to speak at the meeting. The auditor would be required to deposit a statement at the audited body's main office and with the audit committee, which would need to be published on its website. This statement*	It is considered that the auditors should not be removed without consideration and agreement of the Audit Committee.

Question	Response
would set out the circumstances connected with the cessation of their office that are relevant to the business of the audited body. The audited body would need to notify the appropriate regulatory supervisory body. We envisage a role for the audit committee and the regulatory supervisory body in investigating the issues that have led to the removal and considering whether any action is required.	
Q28: Do you think the new framework should put in place similar provision as that in place in the companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way? *In the companies sector, the Companies Act provides that general provisions that protect auditors from liability for negligence, default, breach of duty or breach of trust in relation to the company, or provide an indemnity against liability are void, but:* • *does not prevent a company from indemnifying an auditor against any costs incurred by him in defending proceedings in which judgment is given in his favour or in the granting of relief by the court in the case of honest and reasonable conduct* • *allows for a "liability limitation agreement" to be put in place if it is authorised by the members of the company, provided it complies with the content permitted in the Companies Act* ***Proposals:*** *In the absence of a central body providing indemnity to audit firms, it could be possible for audited bodies and auditors to deal with auditor liability as part of their contractual negotiations. A legislative framework, similar to that in the companies sector, could set out the process for setting and agreeing liability limitation agreements. Without a liability agreement, audit firms may increase their fees to match the increased risk they face in undertaking their work.*	Similar arrangements should be put in place.

Question	Response
Q29: Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provide sufficient assurance and transparency to the electorate? Are there other options? ***Option 1*** *The scope of audit could be reduced to be more in line with that for companies, with no assessment of value for money. The auditor would:* • *give an **opinion** on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure; and* • *review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules* *This option would reduce the information available to local citizens on how local bodies are spending their money or on whether bodies are securing value for money.* ***Option 2*** *As under the current system, the auditor would:* • *give an **opinion** on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure* • *provide a **conclusion** as to whether it has the proper arrangements in place to secure value for money (based on locally defined policy priorities) having regard to specified criteria (including financial resilience and regulatory and propriety); and* • *review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules*	It is considered that option 2 would be the most appropriate option. However, the VFM work should have a tight scope and be proportionate to the body under review, including seeking reliance upon other sources of information, e.g. performance information, satisfaction surveys, benchmarking information, work of other inspectorates and internal audit.

Question	Response
This option would maintain the current scope of audit. However, this option would not provide any additional information to local citizens on how local public bodies are spending their money or on whether bodies are securing value for money. ***Option 3*** *New arrangements could provide stronger assurances on the way local public bodies spend money. Under this option, the auditor would still give an **opinion** on the financial statements, but would provide **conclusions** on:* • *regularity and propriety – a conclusion on compliance with relevant laws and regulations and the audited body's governance and control regime* • *financial resilience – a conclusion about the future financial sustainability of the audited body; and* • *value for money – in addition to proper arrangements in place to secure value for money, a conclusion about the achievement of economy, efficiency and effectiveness within the audited body* *We will need to consider carefully how a stronger value for money element to the audit would fit with other sectors, such as policing, who already have alternative systems for examining and reporting value for money publicly.* ***Option 4*** *Local public spending should be transparent so that citizens can hold bodies to account. Companies are required, by law, to produce and publish an annual report, including the principal activities of the company during the year, and a business review which includes risks and uncertainties. Most public bodies also produce such a report, although local authorities are not currently required to do so.* *Under this option, all local public bodies would be required to produce an annual report and to publish this report on their website. The report would set out the arrangements the audited body*	

Question	Response
had put in place to secure value for money, whether they had achieved economy, efficiency and effectiveness, regularity and propriety and financial resilience. *The auditor would be required to:* • *give an opinion on the financial statements* • *review the audited body's annual report; and* • *provide reasonable assurance on the annual report* *The annual report could be written in an accessible way and would be published. This option could therefore substantially increase the transparency of the local public bodies, compared to options 1 and 2. Citizens' increased knowledge of the local public body's financial performance could help drive greater local accountability. We would need to consider whether producing an annual report in an appropriate format would be a new burden for local authorities that do not currently produce an annual report in an appropriate format.*	
Q30: Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?	Yes, to demonstrate how their plans will improve the lives of local people and how this has been developed in line with the wishes of local people. To provide appropriate and proportionate measuring of how these outcomes have been achieved.
Q31: Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?	If an annual report is to be produced it is essential that it is clear and not overly complex so that it will be useful for local people. Demonstrating financial resilience, regularity and propriety and value for money may be difficult in this context and local people may be sceptical of its accuracy. It may be more appropriate for a separate statement to be published by the external auditor regarding their opinion on these matters.

Question	Response
Q32: Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?	It should be "reasonable". This will be important to ensure that the audit arrangements are credible.
Q33: What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?	The guidance should include the minimum level of information to be provided and the scope. It should be produced by DCLG.
Q34: Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised? *We consider it is important that the duty on an auditor to consider whether to make a report in the public interest should be retained. Public interest reports are a key part of the current audit system and provide a vehicle through which the public are made aware of issues of significant interest to them. This is consistent with the design principles of localism and transparency. All other requirements to be retained.* *It has been suggested that the new direct contractual relationship between the audited bodies and their auditors could have, if unchecked, an impact on the ability or willingness of the auditor to issue a public interest report. However, we believe that if suitable safeguards are put in place for the resignation or removal of auditors, this will mitigate the risk.*	As response to Q27, it is considered that the safeguards will not be sufficient to mitigate the risk of the auditor independence being compromised.
Q35: Do you agree that auditors appointed to a local public body should also be able to provide additional audit related or other services to that body? *We propose that auditors will be able to provide non-audit services to the audited body, but safeguards will be built into the system to prevent any actual or perceived threats to the auditor's independence. We recognise that by adding a number of safeguards into the system we could*	Auditors should be able to provide audit related services but not other services to a local public body for which they are providing external audit services.

Question	Response
reduce the number of auditors eligible for appointment to an audited body, which would in turn affect competition. *We propose that auditors should continue to adhere to the ethical standards produced by the Auditing Practices Board and permission should be sought from the audit committee who would provide advice to the body on whether non-audit work should be undertaken as well as continuing to monitor the relationship between the auditor and the audited body.*	
Q36: Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?	Yes, given comments above.
Q37: Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest disclosure Act? If not, who do you think would be best placed to undertake this role? *The Audit Commission is a 'prescribed person' as set out in the Schedule to the Public Interest Disclosure Act. It exercises this role by:* • *receiving the facts of a disclosure* • *supporting the discloser by referring them to Public Concern at Work for further advice and guidance if subjected to victimisation or harassment* • *acknowledging receipt of the disclosure and stating in general terms what the procedures are* • *forwarding information to the auditor and inform the discloser* *The current role of the appointed auditor includes:* • *evaluating the information provided by the Commission* • *acknowledging receipt to the discloser, and providing an indication of the likely response, with an explanation for the decision*	The scope of issues that could be raised under the Public Interest Disclosure Act are wider than the role of the external auditor and audit committee and therefore we do not consider that independent members would wish to take on this role. It is considered that this role should be taken on by the Monitoring Officer (or equivalent) within an Authority.

Question	Response
• *undertaking appropriate audit work in response to the disclosure* • *reporting the outcome of any work to the discloser and the Commission* *We propose that the Audit Commission's role (receiving, acknowledging receipt of and forwarding the facts of disclosure) should be broadly transferred to the audit committee of the local public body. The audit committee may chose to designate one of its independent members as a point of contact. As this role is an administrative role, which involves no need to consider the issue they are transferring, we do not see this as an additional burden on audit committees.* *We envisage that the statutory auditor of the local public body would continue to be a prescribed person and would continue with his/her role with no change from the current system.*	
Q38: Do you agree that we should modernise the right to object to the accounts, If not, why? *Members of the public currently have rights to question the auditor of an audited body about its accounts and raise objections. Auditors have only limited discretion to refuse to investigate objections, but the costs of investigating objections, which are recovered from the local public body and, therefore, funded by council taxpayers, can be disproportionate to the sums involved in the complaint, or to the normal audit costs of the local public body.* *The public can now raise concerns through a wide variety of appropriate avenues for redress, including the Local Government Ombudsman (in relation to maladministration) and the Information Commissioner (on matters concerning the rights that individuals have under the Freedom of Information and Data Protection Acts). Publication of all expenditure over £500 also makes spending more transparent and more readily available to the public. With this in mind, we consider that the rights for local government electors to object to the accounts are both outdated and over-burdensome on auditors, local public bodies and council tax payers.* *While the right to make formal objections would be removed, the local public body would still be*	Yes, the current arrangements are open to abuse and there are other avenues for the public/interested parties to obtain details of the Authority's finances, e.g. FOI's.

Question	Response
required to advertise that its accounts had been prepared and there will be increased publicity requirements for audited bodies. The auditor would still be open and transparent about the audit, and would consider any relevant representations from the public. The auditor would have discretion to decide whether to follow-up any issues raised by local citizens, having regard to the significance of the issue, the amounts of public money involved and the wider public interest. If the auditor decided not to consider a representation further, the decision would be amenable to judicial review, should the citizen who made the representation be dissatisfied with the decision. *We propose that auditors should also be brought within the remit of the Freedom of Information Act to the extent that they are carrying out their functions as public office holders. Therefore, only information in connection with a public audit would be within the remit of a freedom of information request. However, we recognise that there are costs associated with responding to freedom of information requests which could have an impact on audit fees. We would also need to consider whether this could be detrimental to the auditor and audited body's relationship.*	
Q39: Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?	In the main, yes. It is not desirable to bring the external auditors work under the remit of the FOI Act, as this will lead to increased costs. The public/interested parties can obtain information through other routes, e.g. direct from the Authority.
Q40: Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why not?	See answer to Q39.
Q41: What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?	This would create additional expense and is unnecessary.
Q42: Which Option provides the most proportionate approach for smaller bodies under our proposals?	Something that needs to be considered in relation to this issue is that the fundamental difference between

Question	Response
	companies and charities and public bodies of any size is that the public cannot decide whether or not to give money to the public body. There still needs to be an appropriate level of assurance of the propriety of the funds and therefore the independent examiner should be appropriately experienced to consider propriety issues. Option 1 would be proportionate for the smaller bodies but this could be a significant amount of work for the Unitary/County Council. Some rural Counties have over 100 Parish Councils and small bodies in their areas and this could be a significant piece of work, especially if no charges can be levied to the smaller bodies. There would be procurement costs if an outside provider was procured who would need to be paid. If an officer/s of the authority carried out this piece of work this could mean a significant amount of time required in some areas which would need to be funded by the council. Option 2 of small bodies coming together may be more cost effective but would still need to be managed by one of the bodies to make it work effectively.
Q43: Do you think the county or unitary authority should have the role of the commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to the advice provided by the audit committee? What additional costs could this mean for the county or unitary authorities?	See comments above

Question	Response
Q44: What guidance would be required to enable county/unitary authorities to: a) appoint independent examiners for the smaller bodies in their areas? b) Outline the annual return requirements for the independent examiners? Who should produce and maintain this guidance?	Guidance should include the required experience and qualifications of the independent examiner and the scope of the checks to be carried out. This guidance should be produced by the DCLG, with consultation with CIPFA and practitioners.
Q45: Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?	Only if carried out by an audit committee representing a number of smaller bodies.
Q46: Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?	Another option would be an independent examiner/auditor appointed by the DCLG for all small bodies for a specified period of time, or a central framework of providers, appointed independently who could be approached by each smaller body.
Q47: Is the four level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?	The four level approach is not too complex. The proposed threshold of £6.5m for smaller bodies seems reasonable.
Q48: Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the council is not the precepting authority? *There would be no auditor to receive queries or objections from the public, and there would be no public interest reporting. However, if the examiner identified issues giving cause for concern we propose that these could be raised with the audited body, or the county or unitary authority. The county or unitary authority could be given the power to appoint an auditor to then carry out a public interest report on the matters raised with the audited body. Sanctions could include a power to make the next precept (partly or wholly) conditional on the matters raised being addressed.*	Given the number of smaller bodies affected (9,900) this does not seem to be consistent with the principle of transparency. There should be an identified person or organisation who could receive representations in relation to smaller bodies. Could the local government ombudsman fulfil this role, where there is no lead authority?

Question	Response
Q49: Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose? *For bodies with an income or expenditure greater than £6.5 million we are proposing to modernise the system for dealing with objections to accounts. In the case of smaller bodies, we propose that the independent examiner would be able to consider whether to refer issues raised by citizens to the proper officer (possibly the s151 officer) of the county or unitary authority. That authority would be provided with powers to take action, which might include appointing an auditor to consider those issues and report in public to the examined body. The costs for dealing with the representation would fall to the smaller body.*	As above. The question is how would the public know who the independent examiner is and how to contact them. Unless there is advertising of the examiner and the period of examination this would not be practical. Having the county or unitary authority deal with these issues would lead to additional costs being borne by the council. How would this be dealt with for bodies which straddle local authority boundaries?
Q50: Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated? *Regulatory regime for smaller bodies* *For smaller bodies the more proportionate approach described of independent examination would not give rise to the same level of scrutiny as an external audit. However, if appointing the independent examiner to the smaller body, or if provided with powers to take action, which might include appointing an auditor to carry out a public interest report, the county or unitary council would, essentially, be the regulator for this sector.*	As mentioned in previous responses, this could result in a significant workload for county/unitary councils, especially those who have many small bodies in their areas. A charge for this would need to be considered. If the additional work in relation to this is not recognised this could cause difficulties for the councils at a time when resources are being significantly reduced. Therefore, the ability for this regulation to be carried out effectively could be at risk.

Sunderland City Council

Item No. 10

AUDIT AND GOVERNANCE COMMITTEE **30 June 2011**

TREASURY MANAGEMENT – REVIEW OF PERFORMANCE 2010/2011

Report of the Executive Director of Commercial and Corporate Services

1 Purpose of the Report

1.1 To report on the Treasury Management borrowing and investment performance for 2010/2011.

2 Description of Decision

2.1 The Committee is requested to note the Treasury Management performance for 2010/2011.

3 Introduction

3.1 This report sets out the annual borrowing and investment performance for the financial year 2010/2011 in accordance with the requirements of the Treasury Management Policy and Strategy approved by Council on 3rd March 2010. The Treasury Management Strategy comprises a Borrowing and an Investment Strategy. These set out the Council's policies for managing its borrowing and investments.

3.2 The Strategy complies with best practice and incorporates the recommendations included in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The Code of Practice was revised in November 2009 in the light of increased global turbulence in financial markets and the default on investments in Icelandic banks in 2008.

4 Review of Performance 2010/2011

4.1 Summary

The performance of the Council's Treasury Management function continues to contribute significant financial savings that are used to provide funding to support future years capital programmes and help support the Council's revenue budget. New loans taken out in 2010/2011 to replace borrowing repaid as part of previous debt restructuring exercises has led to an ongoing debt interest saving to the Council of £0.449 million per annum. The rate of return achieved on investments in 2010/2011 has meant a further saving of over £1.5 million compared to the original 2010/2011 budget.

Borrowing Strategy and Performance – 2010/2011

4.2 The basis of the agreed Borrowing Strategy was to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Council's future borrowing requirement when market conditions were favourable;
- use a benchmark financing rate of 4.50% for long term borrowing (i.e. all borrowing for a period of one year or more);
- take advantage of debt rescheduling opportunities as appropriate.

4.3 The Borrowing Strategy was reviewed by this committee in September 2010 and February 2011 and has been updated where necessary to reflect changing circumstances. The Borrowing Strategy for 2010/2011 was based upon the views of the Director of Financial Resources, supplemented with market data, market information and leading economic forecasts provided by the Council's treasury adviser, Sector Treasury Services.

4.4 The view in February 2010, at the time the Treasury Management Policy and Strategy was drafted, was that variable rate borrowing was expected to become more expensive as the Base Rate was forecast to increase by 0.25% to 0.75% by the end of September 2010 and to 1.50% by the end of March 2011. Thereafter variable rate borrowing was expected to steadily increase until it reached an estimated level of 4.5% by the end of March 2013.

The forecast for the long-term PWLB rates was they would rise by between 0.40% and 0.55% in 2010/2011 and continue to gradually rise in 2011/2012 and 2012/2013 (i.e.10 year loans to increase from 4.00% to 5.15% and 50 year loans to increase from 4.60% to 5.45% over the 3 year period).

Actual interest rates did not increase to the levels anticipated as global and national economic growth remained low. This, alongside sovereign debt concerns in the Euro Zone led to a fall in gilt yields despite higher than anticipated levels of inflation. There remains a wide divergence of opinion on the timing of the start of increases in the Bank Rate and economic forecasts will continue to be closely monitored.

Reductions in gilt yields to historic lows should have led to reductions in PWLB borrowing rates during 2010/2011. However, as part of the Government's Spending Review 2010 in October 2010 the PWLB was instructed to increase the average interest rate on all new loans by an average of 1.00% above the Government's cost of borrowing. This unexpected increase across all PWLB rates of 0.87% made borrowing from this source more expensive overnight and also made debt rescheduling opportunities less likely.

4.5 The table below, details the average borrowing rates at the end of each quarter in 2010/2011, and shows that had PWLB rates not been subject to a one off increase in October 2010 they would have remained lower than market forecasts:

		Actual Borrowing Rate				
Borrowing Period	Projected Rates %	Q1 2010 %	Q2 2010 %	Q3 2010 %	Q4 2010 %	Q1 2011 %
Base Rate	0.50 to 1.50	0.50	0.50	0.50	0.50	0.50
1 year	-	0.83	0.67	0.64	1.65	1.89
5 year	3.05 to 3.60	2.89	2.27	1.88	3.33	3.57
10 year	4.00 to 4.45	4.19	3.54	3.14	4.58	4.71
25 year	4.55 to 4.90	4.67	4.27	3.96	5.23	5.31
50 year	4.60 to 5.00	4.70	4.26	4.02	5.16	5.24

4.6 The Council's borrowing requirement for 2010/2011 was assessed at £24.0 million to replace debt rescheduling carried out in January 2010 and £2.5 million to replace 11.75% redeemable stock that matured in November 2008. In addition provision was made for potential unsupported borrowing needs included in the Council's capital programme.

The Council borrowed £30.5 million from the PWLB in 2010/2011 as set out in the table below. The average interest rate payable on the new loans was 3.31% and well below the 4.50% target rate set for long term borrowing, representing a lower cost of borrowing to the Council.

Long Term Borrowing 2010/2011						
Date	**Lender**	**Amount £m**	**Period (Years)**	**Rate %**	**Benchmark Rate %**	**Margin %**
11/05/10*	PWLB	0.5	15	3.65	4.50	0.85
25/05/10	PWLB	10.0	4	1.99	4.50	2.51
25/05/10	PWLB	5.0	50	4.29	4.50	0.21
27/07/10	PWLB	5.0	11	3.75	4.50	1.25
27/07/10	PWLB	5.0	12	3.87	4.50	1.13
01/09/10	PWLB	5.0	50	3.96	4.50	0.54
		30.5		**3.31**		
* This loan relates to Beamish Museum						

4.7 The Treasury Management Strategy included provision for debt rescheduling should appropriate opportunities arise. However, as explained, the October 2010 PWLB borrowing rate increase was not accompanied by an increase in early debt redemption rates. This, and the very low underlying rate of the Council's long term debt (arising from the proactive approach to debt rescheduling and borrowing taken by the Council in recent years), has meant that rates have not been sufficiently favourable to undertake further debt rescheduling in 2010/2011. Market conditions will however continue to be closely monitored to identify and take advantage of any such opportunities should they arise in the future.

4.8 The Council has nine market Lender's Option / Borrower's Option (LOBO) loans totalling £39.5 million, of which £34.5 million are now 'flat rate vanilla' LOBO's which have three year roll-over periods. This essentially means that these loans have become fixed rate loans which are reviewed every 3 years.

The other loan of £5.0 million still has a six monthly roll-over period. The Treasury Management team will continue to monitor this loan for an opportunity to renegotiate the loan on more favourable terms, but this is unlikely to happen in the current interest rate environment.

4.9 The Council's borrowing portfolio position at 31st March 2011 was:

		Principal (£m)	**Total (£m)**	**Average Rate (%)**
Borrowing				
Fixed Rate Funding	PWLB	138.0		
	Market	34.5		
	Other	0.3	172.8	3.86
Variable Rate Funding	Market	5.0		
	Temporary / Other	31.1	36.1	0.93
Total Borrowing			**208.9**	**3.35**
Total Investments	In House		**187.4**	**1.50**
Net Debt			**21.5**	

Prudential Indicators – 2010/2011

4.10 All external borrowing and investments undertaken in 2010/2011 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all
of the other Prudential Indicators as follows:.

The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was originally set by the Council for 2010/2011 in total as £415.548m which was detailed as follows:

	£m
Borrowing	323.990
Other Long Term Liabilities	91.558
Total	**415.548**

The Operational Boundary for External Debt for 2010/2011 was set at £327.301m as follows:

	£m
Borrowing	235.743
Other Long Term Liabilities	91.558
Total	**327.301**

Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Council's Balance Sheet in compliance with International Financial Reporting Standards.

The Council's maximum external debt in 2010/2011 was £272.016 million (which includes long term liabilities in respect of Public Finance Initiative schemes and borrowing in respect of other organisations such as Tyne and Wear Fire and Rescue Authority), and is well within both of the above limits.

4.11 The table below shows that all other Treasury Management Prudential Indicators have been complied with during 2010/2011, and these are set out in the table below.

Prudential Indicators		**2010/2011**	
		Limit £'000	**Actual £'000**
P10	**Upper limit for fixed interest rate exposure**		
	Net principal re fixed rate borrowing / investments	90,000	32,366
P11	**Upper limit for variable rate exposure**		
	Net principal re variable rate borrowing / investments	50,000	27,497
P12	**Maturity Pattern**	Upper Limit	
	Under 12 months	40%	17.85%
	12 months and within 24 months	50%	0.05%
	24 months and within 5 years	75%	10.40%
	5 years plus	100%	76.98%
	A lower limit of 0% for all periods		
P13	**Upper limit for total principal sums invested for over 364 days**	100,000	0

4.12 The impact on the borrowing costs of the Council in following its Borrowing Strategy has produced the following effect on the Council's "pool rate" of interest over the last five years as follows:

2007/08	4.71%
2008/09	4.14%
2009/10	2.89%
2010/11	2.98%

The movement in the pool rate reflects long term fixed rate borrowing decisions and the movement in market rates. The cost of rescheduled borrowing in 2010/2011 of on average 3.31% has resulted in a minimal increase of 0.09% in the pool rate from 2.89% in 2009/2010 to 2.98% for 2010/2011.

5. Investment Strategy and Performance – 2010/2011

5.1 The general policy objective for the Council in considering potential investments is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

1) The security of capital
2) The liquidity of its investments and then
3) The Council aims to achieve the optimum yield on its investments but this is commensurate with the proper levels of security and liquidity

5.2 Annual Investment Strategy sets out the type of investments the Council can use for the purpose of investments and makes specific reference to:

- the procedures for determining the use of each asset class, (advantages and associated risk), particularly if the investment falls under the category of "non-specified investments";
- the maximum periods for which funds may be prudently committed in each asset class;
- the amount or percentage limit to be invested in each asset class;
- whether the investment instrument is to be used by the Council's in-house officers and/or by the Council's appointed external fund managers (if used); and, if non-specified investments are to be used in-house, whether prior professional advice is to be sought from the Council's treasury advisers;
- the minimum amount to be held in short-term investments (i.e. one which the Council may require to be repaid or redeemed within 12 months of making the Investment).

The Annual Investment Strategy has been fully complied with in 2010/2011.

5.3 At 31st March 2011 the Council had outstanding investments of £187.4 million. The table below shows the return made on the Council's total investments for 2010/2011 as compared with the benchmark 7 Day LIBID rate, which the Council uses to assess its performance.

	2010/2011 Return %	**2010/2011 Benchmark %**
In-house Managed Funds	**1.50**	**0.36**

This return far exceeded the benchmark set for 2010/2011 and represents a very good achievement especially when short term investment rates continue to remain very low.

5.4 All investments placed in 2010/2011 have been made in accordance with the approved Criteria and the Approved Lending List by Council on 3rd March 2010.

5.5 As members will be aware, the regular updating of the Council's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. The Executive Director of Commercial and Corporate Services, in consultation with the Cabinet Portfolio holder, has the delegated authority to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported to Cabinet and the Audit and Governance Committee retrospectively, in accordance with normal Treasury Management reporting procedures The few changes made during 2010/2011 have already been reported to members previously but for information these are included in the attached Appendices..

6. **Reasons for Decisions**

6.1 To note the performance for 2010/2011.

7. **Alternative Options**

7.1 No alternatives are submitted for Cabinet consideration.

Background Papers
Sector CityWatch (Monthly) and weekly credit rating list
Sector / Capital Economics / UBS Economic forecasts
Local Government Act 2003
The Prudential Code for Capital Finance
CIPFA Code of Practice on Treasury Management in Local Authorities
The Financial Times

Lending List Criteria **Appendix 1**

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	50	2 Years
AA+	F1+	A1+	Aa1	P-1	50	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	364 Days
Money Market Funds Maximum amount to be invested in Money Market Funds is £50 million with a maximum of £30 million in any one fund.					50	2 Years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AAA will be applied to that institution to determine the amount the Council can place with that institution.

Where any banks / building societies are 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 limits are as follows:

Appendix 1

Country Limit
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.

In addition a total limit of £40 million has been set which can be invested in other countries provided they meet the above criteria. A separate limit of £300 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	300
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	300
Local Government	300
UK Banks	300
UK Building Societies	150
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 AAA; and
- that market intelligence and professional advice is taken into account.

Group limits are set out in Appendix 3

Approved Lending List **Appendix 2**

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term	Limit £m	Max Deposit Period
UK	AAA	F1+			Aaa			AAA		300	364 days
Lloyds Banking Group (see Note 1)										**Group Limit 50**	
Lloyds Banking Group plc	AA-	F1+	C	1	A1	-	-	A	A-1	50	364 days
Lloyds TSB Bank Plc	AA-	F1+	C	1	Aa3	P-1	C-	A+	A-1	50	364 days
Bank of Scotland Plc	AA-	F1+	C	1	Aa3	P-1	D+	A+	A-1	50	364 days
Royal Bank of Scotland Group (See Note 1)										**Group Limit 50**	
Royal Bank of Scotland Group plc	AA-	F1+	C/D	1	A1	P-1	-	A	A-1	50	364 days
The Royal Bank of Scotland Plc	AA-	F1+	C/D	1	Aa3	P-1	C-	A+	A-1	50	364 days
National Westminster Bank Plc	AA-	F1+	-	1	Aa3	P-1	C-	A+	A-1	50	364 days
Ulster Bank Ltd	A+	F1+	E	1	A2	P-1	D-	BBB+	A-2	50	364 days
Santander Group *										**Group Limit 40**	
Santander UK plc	AA-	F1+	B	1	Aa3	P-1	C-	AA	A-1+	40	364 days
Cater Allen	AA-	F1+	B	1	Aa3	P-1	C-	AA	A-1+	40	364 days
Barclays Bank plc *	AA-	F1+	B	1	Aa3	P-1	C	AA-	A-1+	40	364 days
HSBC Bank plc *	AA	F1+	B	1	Aa2	P-1	C+	AA	A-1+	40	364 days

Appendix 2

	Fitch			Moody's				Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term	Limit £m	Max Deposit Period
Nationwide BS *	AA-	F1+	B	1	Aa3	P-1	C-	A+	A-1	40	364 days
Standard Chartered Bank *	AA-	F1+	B	1	A1	P-1	B-	A+	A-1	40	364 days
Clydesdale Bank / Yorkshire Bank **	AA-	F1+	C	1	A1	P-1	C-	A+	A-1	10	364 days
Co-Operative Bank Plc	A-	F2	B/C	3	A2	P-1	D+	-	-	5	6 months
Northern Rock ***	BBB+	F2	C	2	-	-	-	A-	A-2	0	
Top 10 Building Societies (by asset value)											
Nationwide BS (see above)											
Yorkshire BS	A-	F2	B/C	5	Baa1	P-2	D+	A-	A-2	0	
Coventry BS	A	F1	B	5	A3	P-2	C-	-	-	5	6 Months
Skipton BS	A-	F2	B/C	5	Baa1	P-2	D+	-	-	0	
Leeds BS	A	F1	B/C	5	A2	P-1	C+	-	-	10	364 Days
West Bromwich BS ***	BBB-	F3	C/D	5	Baa3	P-3	E+	-	-	0	
Principality BS ***	BBB+	F2	C	5	Baa2	P-2	D-	-	-	0	
Newcastle BS ***	BBB-	F3	C/D	5	Baa2	P-2	D-	-	-	0	
Norwich and Peterborough BS ***	BBB+	F2	C	5	Baa2	P-2	D-	-	-	0	
Nottingham BS	-	-	-	-	A3	P-2	C-	-	-	0	-
Foreign Banks have a combined total limit of £40m											
Australia	AA+	-	-	-	Aaa	-	-	AAA		40	364 Days
National Australia Bank	AA	F1+	B	1	Aa2	P-1	B-	AA	A-1+	40	364 Days
Australia and New Zealand Banking Group Ltd	AA-	F1+	B	1	Aa2	P-1	B-	AA	A-1+	20	364 Days

Appendix 2

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term	Limit £m	Max Deposit Period
Commonwealth Bank of Australia	AA	F1+	A/B	1	Aa2	P-1	B-	AA	A-1+	40	364 Days
Westpac Banking Corporation	AA	F1+	A/B	1	Aa2	P-1	B-	AA	A-1+	40	364 Days
Canada	**AAA**				**Aaa**			**AAA**		40	364 Days
Bank of Nova Scotia	AA-	F1+	B	1	Aa1	P-1	B	AA-	A-1+	20	364 Days
Royal Bank of Canada	AA	F1+	A/B	1	Aa1	P-1	B+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	B	1	Aaa	P-1	B+	AA-	A-1+	20	364 Days
Money Market Funds										50	
Prime Rate Stirling Liquidity	AAA MMF							AAAm		30	On Call
Insight Liquidity Fund					AAA MR1			AAAm		30	On Call
Ignis Sterling Liquidity	AAA MMF							AAAm		30	On Call

Notes

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AAA rating applied to them thus giving them a revised credit limit of £50 million for a maximum period of 364 days

* 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 revised credit limit of £40 million for a maximum period of 364 days

** 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.