

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on FRIDAY 26 NOVEMBER 2010 at 1.30pm

Present:-

Mr G N Cook in the Chair

Councillors M Forbes, Rolph, Tate, T Wright and Mr J P Paterson.

Declarations of Interest

The following Councillors declared personal interests in the report listed below as Members of the bodies indicated:-

Item 4 – Internal Audit Services – Progress Report for 2010/2011	Councillor Rolph and Councillor Tate	LEA appointed School Governors and Members of School Finance Committee
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Apologies for Absence

Apologies for absence were received from Councillor Allan.

Minutes

21. RESOLVED that the minutes of the meeting of the Committee held on 30 September 2010 be confirmed and signed as a correct record.

With respect to the comment made by the District Auditor at the previous meeting relating to whether the controls in place relating to journal entries could allow for fraud to occur, the Director of Financial Resources reported that some additional internal audit work had been done in this area. It had been found that it was not possible to use the journal system on its own to make fraudulent payments, as payments could only be made through other separate systems where the controls were considered satisfactory.

Internal Audit Services – Progress Report for 2010/2011

The Head of Audit, Risk and Procurement submitted a report outlining the performance of Internal Audit up to 8 October 2010, the areas of work undertaken and the internal audit opinion regarding the adequacy of the overall system of internal control.

The Audit and Governance Committee had previously approved the Internal Audit Strategy and Operational Plan for 2010/2011 in March 2010. This set out the audit work planned for the year and performance targets to be achieved. The Head of Audit, Risk and Procurement advised that all Key Performance Indicators (KPIs) were on target with three exceptions. These targets were:-

- Lower cost than average (per £3 spend) within CIPFA Benchmarking Club Comparator Group;
- Percentage of planned audits completed; and
- Percentage of medium risk recommendations implemented.

The Committee were informed that the audit cost per £m gross turnover for the Council stood at £998 which was a reduction from the previous figure of £1,071. However the comparator authorities had reduced their costs to a greater extent to lead to an average of £941 per £m gross turnover. Proposals were already in place to reduce the budget of Internal Audit Services by a further £90,000 for 2011/2012.

The reason for the percentage of completed audits being lower than planned was mainly due to the majority of schools audits being scheduled for later in the year. The audit of the performance management ICT system would not be completed during this year as its implementation had been delayed. However this would not impact on the ability to give an audit opinion in the annual report.

The target of 90% implementation of medium risk recommendations was still not being met. With respect to the implementation of medium risk recommendations, the Committee were advised that quarterly reports were now being issued to Executive Directors to provide them with an update on progress, including the latest implementation rate, which should lead to an improvement.

For this year's plan, the audit risk assessment process had changed and assurances were to be provided based on 18 key risk areas. The overall opinion for all key risk areas was either good or satisfactory and there were no high or significant recommendations and no matters identified which are material to the overall internal control environment of the Council. Managers had also accepted all of the medium and low risk recommendations which had been made.

The Government had announced that the Financial Management Standard in Schools had been cancelled but would be replaced by another assessment in the future. In the interim period, the Internal Audit Service would give consideration to how they could continue to give Members assurance of sound financial management in schools.

Special work had been undertaken in relation to identifying fraud or error resulting in financial loss and although duplicate payments were found, these had not been

classed as fraudulent but a result of human error. Further work of this nature would be undertaken.

The Head of Audit, Risk and Procurement concluded that good progress had been made against the plan for this year and there continued to be a sound system of internal control throughout the Council.

Councillor Wright was pleased to note that the Council's procurement arrangements had been widely praised by external sources and he thanked Paul Davies and his staff for their achievements in this area. He then queried how the overall implementation rate for medium risk recommendations had gone down from 86% to 85% between June and October.

The Head of Audit, Risk and Procurement advised that the implementation figure reflected the outcome of follow up audits in the previous 12 months and was designed to test the recent attitude of management to their implementation.

Councillor Wright expressed his satisfaction about the work and methods of the Internal Audit Service, but asked if the Service was confident that over a period of four to five years, every department within the Council would be covered.

The Committee was advised that the role of Internal Audit was not to look at everything the Council did but to undertake sufficient work in key risk areas to be able to provide an overall opinion. Some area of work would not ever reach a significantly high point on the risk scale to warrant auditing, for example petty cash.

Councillor Wright then went on to request clarification on how the situation with the Audit Commission would impact on the Council's Internal Audit Service and its resources. The Head of Audit, Risk and Procurement explained that the Audit Commission's current role as external auditor would largely focus on the accounts, overall governance arrangements and value for money in the future and was largely different from that of Internal Audit. The work programmes for both was different but complementary. With regard to resources, there was a danger that during restructures cuts may not be felt in the short term but then have an impact on the long term of the service. The Head of Audit, Risk and Procurement indicated that he had been heavily involved in developing proposals for savings within internal audit and he was confident that the future resources proposed would be sufficient in the new structure in light of the changes which were being made.

The Director of Financial Resources added that, as Section 151 Officer, he had a statutory responsibility to ensure that adequate resources were available for audit and other financial processes. The cost of the service was only one aspect of the changes and the way services are organised to deliver services effectively was fundamental to the Business Transformation Programme was. An example of this had been the bringing together of risk management and internal audit within one Division as a more efficient and effective way of organising resources.

Councillor Tate referred to the Integrated Transport Authority's use of external auditors and queried whether this work might go out to tender in the future. The Director of Financial Resources advised that there was an ongoing debate about what would take the place of the Audit Commission. He also highlighted that some

local authorities already use external firms as their auditors, but this was done through the Audit Commission.

Ian Rutter, representing the District Auditor commented that the Audit Commission acted as external auditors for approximately 70% of local authority and health bodies. There was discussion about a successor body to the Audit Commission to be owned by employees going forward but at the present time, primary legislation for the abolition was required and it was intended that the Audit Commission would cease to exist in March 2013.

Councillor Rolph queried the robustness of the CIPFA comparator group as the turnover of organisations which on the surface look similar, could be vastly different. The Head of Audit, Risk and Procurement acknowledged that all benchmarks had limitations and the service was not just aiming to have low costs but a balance between quality and cost. A balanced scorecard approach was used as set out in the agreed Operational Internal Audit Plan, if it was felt efficiencies could be obtained then these would be pursued. Attention was also drawn to another comparator which was cost per audit day where Sunderland had achieved a lower cost than the CIPFA comparator group.

The Committee had heard that Internal Audit planned to look at the Business Transformation Programme and Councillor Rolph stated for information, that a sub-group of the Management Scrutiny Committee were also considering the programme.

Following up on the identification of duplicate payments to the value of £96,000, the Chair asked if there were any opportunities to look at this again to ensure nothing else had slipped through the system. The Head of Audit, Risk and Procurement commented that he was confident that a thorough exercise had been undertaken, however he recognised that there were external companies who have dedicated ICT tools in this area and he would discuss with the Director of Financial Resources the possibility of using an external company. These companies were paid on a commission basis only, and therefore if no overpayments were identified then no fees would be paid.

Following discussion, it was:-

22. RESOLVED that:-

- (i) the performance of the Internal Audit Service at this point in the year be noted; and
- (ii) using the cumulative knowledge and experience of the systems and controls in place, including the results of previous audit work and the work undertaken to date within 2010/2011, it was considered that overall throughout the Council there continued to be a sound internal control environment.

Internal Audit Services – Consultation for Internal Audit Plan 2011/2012

The Head of Audit, Risk and Procurement submitted a report asking the Committee to consider the development of the Internal Audit Operational Plan for the forthcoming year.

Internal Audit need to focus their work on the key/major risks facing the Council when formulating their Internal Audit Plan. To do this an audit risk assessment and planning methodology is used:-

- (a) A list of key risk areas has been determined which cover the main areas of inherent risk within the Council.
- (b) Each key risk area is assessed based on the strength of the control arrangements known to be in place to manage the risks in that area, the likelihood of a failure in control, and the impact that failure could have.
- (c) In order to carry out the risk assessment, the following is carried out:-
 - a review of key corporate strategies/plans;
 - consultation with the Chief Executive, Chief Officers, other Senior Managers, the Director of Financial Resources, the Corporate Risk Manager and the Assistant Chief Executive, to identify key issues facing the Council nationally, regionally and locally;
 - consideration of new Council (or associated body) initiatives, government initiatives and legislation.

The full process usually takes place over December and January of each year. The Council is currently engaged in a programme to review and improve services and identify efficiency savings which means there will be changes to the way services are delivered and to the systems and processes being operated. Details of these changes would be identified through the internal audit work currently ongoing and through the consultation taking place with key officers.

A number of areas have already been identified as priorities for the operation plan for 2011/2012. These are as follows:-

- Implementation of the Council's Economic Master Plan
- Shared Service Centre
- Arrangements for the delivery of Corporate Services
- ICT support and delivery to directorates, including budget management
- Corporate Asset Management
- Implementation of the Council's Smarter Working Project
- Mayor Incident Planning
- Treasury Management
- Customer Service Network developments

Members of the Committee were asked to consider the areas for potential inclusion in next year's Operational Plan and were invited to discuss any additional areas which could be considered during the development of the Operational Plan for 2011/2012.

Councillor Rolph commented that she had expected Area Committees and associated arrangements to be included in the Plan but understood that this may have been left until the changes had been embedded for a longer period. The Head of Audit, Risk and Procurement advised that there was scope to programme this to take place later in the audit year of 2011/2012.

Consideration having been given to the report, it was:-

23. RESOLVED that the development of the Internal Audit Operational Plan for 2011/2012 be noted and any further comments submitted to the Head of Risk, Audit and Procurement.

Corporate Risk Profile

The Director of Financial Resources submitted a report informing the Committee of the findings of the latest review of the Corporate Risk Profile, undertaken in September 2010.

The report provided information in relation to:-

- the identified risks and any additions, changes or closed risks;
- an analysis of the risk score movement and commentary;
- an analysis of progress in relation to actions identified to mitigate the risks.

The annual review of the Corporate Risk Profile had been carried out in April 2010 and the mid-term review had been undertaken in September 2010 by the Corporate Risk Management Group. This review confirmed that the Profile identified and detailed the major risks facing the Council and changes had been made to some of the risk descriptions to better reflect the areas covered.

The report outlined risks which had been added, closed or changed and also all risks which remain on the Profile, the Risk Owner, movement in the Risk Score and commentary. The Head of Audit, Risk and Procurement highlighted that two risks were scored at a maximum of 16, with one of these having moved up from a previous score of 12 due to a reassessment by the Group rather than a real change in the current situation. He also drew Members' attention to the table showing the analysis of actions included in the Corporate Risk Profile. As the result of the mid-term review an additional 14 actions had been added to the Profile.

Councillor Forbes referred to the changes to the risk description for Risk 15 and taking out the reference to 'significant productivity gains'. The Head of Audit, Risk and Procurement advised that the change had been made to reflect that the risk was that services may suffer once a revised budget was set. The way that the Council was planning to mitigate this risk was in part, through productivity gains, but the change to the description did not imply that productivity gains would not be sought.

Councillor Rolph queried why one of the newly added risks 'Failure to fundamentally reduce poverty levels in Sunderland' should be scored lower than a similar existing risk of 'Failure to fundamentally reduce health inequalities in Sunderland'. The Head of Audit, Risk and Procurement advised that many risks overlapped with others and the score was a judgement made by the Corporate Risk Management Group. John Jordan, Corporate Risk Manager added that in regard to the specific risks highlighted by Councillor Rolph, there was a 15 year plan to address health inequalities but there was uncertainty about whether there would be a significant impact from this in the early stages. It was felt there was more potential to reduce poverty levels at this time and this had led to differing risk scores for the two elements.

The Chairman made a general comment about changes to the benefits system and how this would impact on people in Sunderland, particularly vulnerable adults and children, and the need to address this within the risk assessment process.

Councillor Wright referred to the current staffing situation, that staff were not being replaced and there would be large pressures on staff over the next few years. The Head of Audit, Risk and Procurement reported that the risk was recognised within the profile as 'Inability to match and motivate human resources, skills/abilities, to meet changing organisational requirements'.

Having discussed the report, the Committee concluded that corporate risks were being identified and assessed, actions were in place to manage the risks and identified actions were generally being implemented on time.

24. RESOLVED that the review of the Corporate Risk Profile be noted.

Statement of Accounts 2009/2010 – Court of Appeal Decision in Veolia ES v Nottinghamshire County Council and Others (2010)

The Director of Financial Resources submitted a report updating Members on the position with regard to the formal process required to approve the Statement of Accounts 2009/2010.

It had previously been reported to the Committee that the Council had received a request from a member of the public for commercially sensitive information relating to PFI contracts during the public inspection period for the accounts. The Council had then 'stopped' the right of public inspection until guidance had been received on a point of law relating to the potential disclosure of this information.

The decision in respect of Veolia v Nottinghamshire County Council was handed down on 28 October and it had determined that the right to inspect documents under Section 15 of the Audit Commission Act 1998 did not provide an unrestricted right to inspect contract documents and there was an implied exception in respect of confidential/commercially sensitive information.

Now that the law had been clarified, the Council could continue with the existing audit and run a new public inspection period. The notice of the Audit of Accounts was published on 18 November 2010 and the new Public Inspection Period was to

run from 2 December to 31 December 2010. The date for the Exercise of Public Right to Inspect the Accounts would be 4 January 2011.

In response to a request for clarification from Councillor Wright, the Director of Financial Resources stated that the Council had asked if the Public Inspection Period could be suspended but had been advised that the process should be stopped and an entirely new Inspection Period established.

Councillor Forbes enquired if, following the Court of Appeal's ruling, contractors could declare all of a contract confidential. The Director of Financial Resources assured Members that requests were considered on the basis of a public interest test and that it was the Council who, in consultation with the contractor, would decide what was commercially sensitive.

Following a question from Councillor Tate, Members were advised that the same elector could make the same request within the inspection period but the Council would now be able to answer his objection. The judgement had been based on European Human Rights and Procurement Law so it was unlikely to be challenged further.

Having considered the report, it was:-

25. RESOLVED that the contents of the report and the timetable for public inspection and completion of the audit of the Statement of Accounts for 2009/2010 be noted.

The Chairman made reference to the meeting being the last Audit and Governance Committee to be attended by George Blyth, Director of Financial Resources. He thanked George for his hard work for the Committee and wished him good luck in his retirement.

(Signed) G N COOK
Chairman