

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on Friday 28 September 2012

Present:

Mr G N Cook

Councillors Forbes, T Wright and Mr J P Paterson

In Attendance:

Malcolm Page (Executive Director of Commercial and Corporate Services), Paul Davies (Head of Corporate Assurance and Procurement), Elaine Waugh (Head of Law and Governance), Dennis Napier (Assistant Head of Financial Resources), Gavin Barker (Audit Commission) and Gillian Warnes (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absences

Apologies for absence were received from Councillors Farthing, Speding and N Wright.

Minutes

15. RESOLVED that the minutes of the meeting of the Committee held on 29 June 2012 be confirmed and signed as a correct record.

The Chair highlighted that the Annual Report of the Committee had been well received by Members when presented at the Council meeting on 26 September 2012.

Review of the Remit and Effectiveness of the Audit and Governance Committee

The Chair and the Executive Director of Commercial and Corporate Services presented a report outlining the review of the remit and effectiveness of the Committee for the consideration by Members and suggested updated terms of reference for the Committee.

The first review of the remit and effectiveness of the Committee had taken place in 2009 and it had been decided that the review would take place every three years, in line with good practice. The review had included an update of the self assessment originally done in 2009, a review of the terms of reference of the Committee and consideration of the Annual Reports on the Work of the Committee covering the last three years.

The Committee considered the self assessment and the evidence given for each of the issues and the Chair suggested that the wording of the evidence relating to issue 18 be amended to read "Private meetings regularly take place at the end of meetings, these are not included as agenda items".

Members of the Committee were satisfied by the assessment of the effectiveness of the Committee as outlined in Appendix 1 and the suggested actions arising from the assessment. One of these actions was to update the Committee's terms of reference to reflect current job titles and activity. These changes do not affect the overall role or responsibilities of the Committee.

The changes proposed to the terms of reference reflected that the Committee would consider the Annual Audit Letter, amended the titles of officers who attend the Committee, noted that the Committee could meet in private with the head of internal audit as well as the external auditor and that an Annual Report would be presented to the Council on the work of the Committee.

With regard to the officer attendees at the Committee, Mr Paterson suggested that the Head of Law and Governance should be listed as a regular attendee rather than some one who 'may' attend. The Executive Director of Commercial and Corporate Services confirmed that this would be amended.

The self assessment had also suggested that an induction session should be held for new Members of the Committee from this municipal year onwards and this was supported by the current Members.

Having considered the review of the remit and effectiveness of the Audit and Governance Committee, it was: -

16. RESOLVED that: -
- (i) the self assessment at Appendix 1 be agreed;
 - (ii) the updated terms of reference for the Committee be agreed; and

- (iii) An induction session be organised before the next Committee meeting.

Corporate Assurance Map

The Head of Corporate Assurance and Procurement presented the updated Corporate Assurance Map to the Committee. The Map showed the work undertaken so far during the year, the Internal Audit opinion and the performance of Internal Audit.

Members were directed to the Map and were informed that the opinion of three corporate risk areas had changed, Legality had gone from amber to green, Change Management had gone from no rating to amber and Procurement had changed from amber to green.

Assurances had now been received in some areas from Legal Services, Financial Services and Transformation, Programmes and Projects. The Head of Corporate Assurance and Procurement advised that he had met with the Heads of Service of the other areas which would provide internal assurance (Strategy, Policy and Performance, Human Resources and Organisational Development and Business Continuity) and expected to have opinions for those areas for the next quarterly report.

Appendix 1 of the report gave further detail on the strategic risk areas and Members' attention was drawn to the section on progress. As more actions were progressed the risk ratings were likely to change.

It was also highlighted that Risk and Assurance had provided full assurance with regard to Programme and Project Management following work which had been carried out on the new Wear Bridge, the Local Asset Backed Vehicle and Care and Support Sunderland Limited.

The Head of Corporate Assurance and Procurement directed Members to Appendix 2 of the report which outlined all of the planned audit work in relation to each risk area and the current overall Internal Audit opinion.

With regard to the performance of Internal Audit, all of the Key Performance Indicators were on target apart from the implementation of medium risk recommendations which currently stood at 81% against a target of 90%. This was mainly due to a drop in the implementation rate within Children's Services as a number of actions agreed from the audit of the Adoption Service had not yet been implemented. Discussions had been held with the Executive Director of Children's Services and relevant Head of Service and it was expected that an improved position would be reported at the next meeting of the Committee.

The Chair stated that if an improvement was not seen during the next period, then the Head of Service should be invited to the next meeting of the Committee to explain the reasons for the delay in implementing the

recommendations. He also indicated that he would like to see improvements in the area of personal budgets in Health, Housing and Adult Services.

Councillor Wright added that it was disappointing to see the implementation rate dropping below 80% in three directorates, however the Head of Corporate Assurance and Procurement advised that it was usually found that it was one particular area within a directorate which was causing the figures to be skewed downwards.

The Head of Corporate Assurance and Procurement concluded by stating that the Corporate Assurance Map showed that the framework was working well and the audit plan and Key Performance Indicators were generally on track.

Following discussion, it was: -

17. RESOLVED that the updated Corporate Assurance Map be noted.

Treasury Management Review – Second Quarterly Review

The Executive Director of Commercial and Corporate Services submitted a report detailing the Treasury Management performance for the second quarter of 2012/2013.

The Assistant Head of Financial Resources outlined the continued positive performance of Treasury Management activity during the second quarter of 2012/2013 and reported that the Council's cost of borrowing was one of the lowest in the country and helped to keep revenue related capital financing budget costs down. All Prudential Indicators were monitored daily and had remained within the set limits agreed by the Council in March 2012.

The rate of return on investments continued to be above the benchmark rate whilst still adhering to the prudent policy agreed by the Council.

The regular updating of the Council's Authorised Lending List was required to take into account financial institution mergers and changes in institutions' credit ratings. The Executive Director of Commercial and Corporate Services had made a delegated decision on 3 July 2012 to increase the limits for investment and maximum deposits but only for those institutions with a triple AAA rating to maintain the low risk strategy in place and with a view to increasing the flexibility in the placement of funds. The Lending List Criteria and Lending List had been amended to reflect this and were attached as Appendix C and D to the report (all changes made had been set out in bold for ease of reference).

Upon consideration of the report, the Committee

18. RESOLVED that: - (i) the Treasury Management performance during Quarter 2 of 2012/2013 be noted; and

- (ii) the decision made by the Executive Director of Commercial and Corporate Services under delegated powers to amend the Lending List Criteria and Approved Lending List be endorsed.

Audited Statement of Accounts 2011/2012

The Executive Director of Commercial and Corporate Services submitted a report presenting the Letter of Representation for 2011/2012, Letters of Assurance, the Annual Governance Report from the Audit Commission and the amended Audited Statement of Accounts for 2011/2012.

The Executive Director was pleased to present a positive set of accounts to the Committee and drew Members' attention to the Foreword to the Accounts which highlighted the significant issues.

The budget had shown a positive outturn with a small amount being put into reserves. The Foreword outlined that the 2011/2012 budget had been set to take into account reductions in total of £57.8million and that the 2012/2013 budget had to taken into account a further £28.1million reduction in spending.

Beyond 2012/2013, the situation was still uncertain and identification of savings for the medium term will continue through a combined approach of:

- Implementing the Improvement Plan and Programmed Savings Plan
- Continuing the implementation of the Three Year Improvement Plans
- Developing alternative methods of service delivery
- Investing to support growth

The Executive Director also referred to the Council's Improvement Agenda and the respective change programmes which would drive this. The Council continued to invest in regeneration activity and maintained prudent levels of borrowing. With regard to the balance sheet, this showed that long term assets totalled £1.2billion with usable reserves of £180million, These figures confirmed the strong and robust level of financial resilience which the Council had.

The Executive Director expressed his thanks to the Head of Corporate Assurance and Procurement, the Assistant Head of Financial Resources and to the District Audit team for their work and contribution to the Statement of Accounts. The Chair echoed these comments.

(a) Letter of Representation

The Committee considered the Letter of Representation prepared by the Executive Director of Commercial and Corporate Services which

set out the principles used in preparing the accounts and provided the external auditor with the necessary assurances required by regulation.

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

(b) Letters of Assurance

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

20. RESOLVED that: - (i) the Letter of Assurance from those charged with governance be approved; and
- (ii) the Letter of Assurance from those charged with discharging management processes and responsibilities be received and noted

(c) Annual Governance Report

Gavin Barker, on behalf of the District Auditor, presented the Annual Governance Report to the Committee.

Gavin re-iterated the comments of the Executive Director of Commercial and Corporate Services and stated that the Annual Governance report was positive and the external auditors intended to issue an unqualified audit opinion and value for money conclusion. All grant claims and returns had been completed including the Whole of Government Accounts Return for 2011/2012.

Members were directed to the significant risks and findings section of the report where it was highlighted that there had been one amendment which had resulted in a reduction in payment to the NNDR pool. All other amendments to the accounts were mainly presentational and no material weaknesses had been identified in either the accounting or internal control systems.

In relation to the Value For Money conclusion, the District Auditor was very satisfied that proper arrangements were in place to secure economy, efficiency and effectiveness and that the Council was clearly managing its finances well.

The audit fee remained as planned and a rebate of £24,000 had already been issued to the Council.

Gavin stated that this would be the last year that the audit would be carried out by the District Audit Service and he expressed his thanks to all Members and officers for their support over the years.

Councillor Forbes queried how the business rates overstatement had not come to light prior to the preparation of the Statement of Accounts. Gavin Barker informed the Committee that the net expenditure reported was correct and the issue had not been obvious because the adjustments required had no net impact on the Accounts and was in fact very minor in the context to the Accounts.

It was also queried how value for money would be secured for wholly owned subsidiaries of the Council and the Executive Director stated that this ethos was embedded in the organisation and that any alternative arrangements would be based on the Council's financial arrangements and standards. Alternative service delivery models adopted would also be subject to the provision of a satisfactory and robust business case. It was also expected that group accounts would have to be prepared for the Council's 2012/2013 accounts which would include the financial performance and the accounts of any new or existing alternative service delivery vehicle owned (or partially owned) by the Council as at 31 March 2013..

Each separate entity would also require its own external auditor who would provide an independent, true and fair view of their accounts and it was also noted that the Council would act as internal auditors and feed any issues through to the Corporate Assurance Map.

Accordingly, the Committee: -

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

(d) Amended and Audited Statement of Accounts 2011/2012

The Executive Director of Commercial and Corporate Services presented the Audited Statement of Accounts 2011/2012 for consideration by the Committee.

The Accounts had been revised to take into account the findings of the auditor and also to include an amended Annual Governance Statement.

Having considered the Audited Statement of Accounts, the Committee therefore: -

22. RESOLVED that: - (i) the Amended Audited Statement of Accounts 2011/2012 be approved; and
- (ii) the amended Annual Governance Statement (AGS) for 2011/2012 be approved.

(Signed) G N COOK
Chair