

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on FRIDAY 27 NOVEMBER 2009 at 1.30 pm

Present:-

Mr G N Cook in the Chair

Councillors Allan, Arnott, M Forbes, Wares and T Wright.

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Mr J P Paterson.

Minutes

18. RESOLVED that the minutes of the meeting of the Committee held on 29 September 2009 be confirmed and signed as a correct record.

New Corporate Risk Profile

The Director of Financial Resources submitted a report informing the Committee of the production of a new Corporate Risk Profile.

The report is the result of work undertaken by the Council in conjunction with its risk management advisors, Marsh UK. The Council has, on three previous occasions, produced a completely new Corporate Risk Profile and on this occasion, Marsh had undertaken this process by examining a range of key policy and strategic documents and conducting a series of confidential interviews with elected Members, the Chief Executive, Directors/Chief Officers, Senior Officers and the Chair of the Local Strategic Partnership.

The draft profile was then robustly challenged by the Corporate Risk Management Group and detailed work was undertaken to define 'smart' actions and identify owners to manage the risk issues in the Profile.

The Corporate Risk Profile will be subject to two major reviews each year by the Corporate Risk Management Group and these will be reported to the Cabinet and Audit and Governance Committee.

The Chairman referred to the Corporate Risk Register document and stated that the Committee's role was to ensure that robust arrangements were in place to ensure risks were managed appropriately. Councillor Wright commented that the points scoring system did make it easier to understand the thinking underpinning the risk register. He noted that the interviews were with Cabinet Members and senior officers and queried how people further down the organisation could input into the process.

The Head of Risk Management and Insurance Services advised that there was a framework and structure for risk management within the Council. The Corporate Risk Management Group drives the process and Directorate Risk Management Groups sit beneath that. All Directorates have to have a Risk Management Plan which shows the Corporate Risk Profile actions and the Directorate's own actions. There are also divisional groups within some Directorates and there are opportunities for all staff to contribute issues upwards. Risk management is also included as a standing item on all service management team agendas.

Councillor Wright observed that there was not a specific risk relating to the Council's budget after the general election in 2010. It was highlighted that this was inherent in risk 11 'Failure to manage financial pressures' linked to risk 15 'Failures within the Council to identify/develop/implement changes that enable it to meet the challenges of value for money and efficiency savings'. However, in light of the comment made, issues about any post election budget would be recognised within the register.

Councillor Arnott welcomed the Corporate Risk Register as a comprehensive and professional document but with the caveat that he felt some statements presented as fact might be better described as opinion.

Councillor Forbes commented that the Risk Register contained a lot of worthwhile aspirations but it seemed that under risk 25 'Failure to deliver the key physical regeneration projects, including the City Centre and the Seafront', it seemed the Council was short of aspiration to address this. She queried how the authority was addressing the very real risks in those areas.

The Director of Financial Resources advised that the Economic Master Plan which was under preparation was looking at how the city could diversify and develop its economy and external experts were assisting with this. He stated that the actions included the creation of a City Centre Board and that negotiations regarding the Vaux site were continuing and that the Council was closer than ever to achieving a resolution on the key regeneration site.

The Chairman concurred that this risk issue and how it was addressed were crucial to the future of the city. It was suggested that the Head of Strategic Economic Development be invited to a future meeting of the Committee to outline the development of the Economic Master Plan for Sunderland to enable the Committee to have a broader perspective on this critical issue for the City.

19. RESOLVED that the new Corporate Risk Profile for the Council be noted.

Internal Audit Operational Plan – Consultation for Audit Plan 2010/2011

The Director of Financial Resources submitted a report outlining the approach for consultation on the Internal Audit Plan. Following the review of the Committee's remit and effectiveness, it was agreed that consultation would take place with Members of the Committee regarding the following year's draft internal audit plan at an earlier stage than was the case previously.

The Head of Audit and Procurement delivered a presentation to the Committee to outline the process of producing the plan and how Members could contribute to the planning process.

Each local authority is required, under the Local Government Act 1972, to 'make arrangements for the proper administration of their financial affairs' and regulations require the Council to maintain an adequate and effective internal audit of its system of internal control. The Internal Audit Service adheres to an Internal Audit Charter which sets out the responsibilities of the service.

Information gathered from officers, Members, Corporate Strategies and Plans and the Corporate Risk Profile are considered within an Internal Audit Risk Assessment and from that, the Internal Audit Operational Plan is developed. The Operational Plan includes assurance work, counter fraud work and systems development/advisory work so that sufficient intelligence can be gathered to provide an audit opinion within the Internal Audit Annual Report.

The Committee was asked to discuss the major risks drawing on their experiences of previous meetings and the work of the Council generally, which the Head of Audit and Procurement could then consider when formulating the Internal Audit Plan for 2010/2011.

Councillor Wright expressed his satisfaction that the system was open so that anyone could make suggestions. He stated that he was content with the proposals in the Draft Internal Audit Plan for 2009/10.

Councillor Arnott drew attention to an issue of concern for him and his political group, which was the communications budget of the Council. There was a sense that new expenditure in relation to the area was not appropriate, particularly with regard to the new Community Newsletters, and that he felt that the Audit and Governance Committee was the proper body to look at the communications budget to ensure it was spent in a proper, politically neutral way.

The Chairman advised that the Standards Committee had addressed the issue of publicity protocols at their last meeting and that this was a matter for the Committee and the Monitoring Officer. However he was happy to accept a recommendation for the Committee to look into this issue if the Members wished this. The Head of Audit and Procurement added that it was not the role of Internal Audit to question Council policy but to review and comment on the controls in place in relation to the actual implementation of Council policy.

Councillor Allan highlighted that in the past, the Committee had concerned themselves with governance issues and not political matters. The publications to which Councillor Arnott had referred were handled by a Company following a procurement process and as such provided a value for money solution. Other avenues could be explored if there was a need and other committees could address this issue rather than the Audit and Governance Committee, if that was felt appropriate.

Councillor Forbes commented that the whole issue of communications was becoming higher profile and the structure of the service was changing. Without a proper audit trail, Members could not be assured of the validity of any cashable savings which were proposed in the future.

The Director of Financial Resources advised that the Council was looking at its entire way of operating and the approach to communications was being considered with the objective of providing the most effective communications at a reduced cost. The increase for communications in this year's budget had been to bolster staff in the centre and take forward new initiatives including community newsletters. The Director of Financial Resources would ensure that communications was dealt with specifically in the report to Cabinet on next year's budget. He added that it was the responsibility of the Director of Communications and Marketing to ensure that the spend was legal and she was required to take advice from the Monitoring Officer if there was a concern that it was not.

The Chairman concluded that the process of examining the communications budget was going through Council procedures and that the Committee should not usurp the Council's budget planning process.

Councillor Arnott reiterated that he felt there were genuine concerns about the communications budget and that the Audit and Governance Committee was the correct body to analyse the situation. However, he accepted that the Committee was not in agreement with him.

Following discussion, it was:-

20. RESOLVED that the consultation for the Internal Audit Plan for 2010/2011 be noted and any further comments be submitted to the Head of Audit and Procurement.

Internal Audit Services – Progress Report for 2009/2010

The Director of Financial Resources submitted a report detailing the performance of Internal Audit Services (IAS) up to 9 October 2009, the areas of work undertaken, and the audit opinion regarding the adequacy of the overall system of internal control within the Authority.

The Head of Audit and Procurement highlighted the main points of the report. There was a shortfall in the actual number of productive audit days in comparison to the planned audit days. The service was still aiming to deliver the Plan as originally intended and resources were being bolstered through suitably experienced agency workers.

Where IAS had identified areas for improvement from audits or investigations, recommendations made are categorised as high, significant, medium or low risk. All the recommendations made have been medium or low and have been agreed and accepted and dates for implementation have been set.

IAS is on target for all planned audits of financial systems and the Financial Management Standard in Schools. With regard to the area of ICT Disaster Recovery arrangements which had previously been given an unsatisfactory opinion in 2008/2009, there were still a number of areas with an amber rating. However there were no remaining red issues and it was considered that the arrangements overall were satisfactory.

The annual report for 2008/2009 had also reported that one of the targets included within the Performance Reward Grant relating to the Local Public Service Agreement (LPSA2) could not be supported by appropriate evidence at this time. The value of the claim was therefore reduced, however evidence had now been submitted and the audited. The certificate could now be signed off and grant money would be received.

Specific work had been undertaken aimed at detecting fraud, misappropriation or errors which may have resulted in financial loss. Over 800,000 payments going back to 2006 had been checked and only three duplicate payments had been found. Most monies had been recovered and IAS was satisfied that the Council systems were good.

All of the Key Performance Indicators (KPIs) were on track with three exceptions. The charge per day was £279 which was in line with the CIPFA comparator group but the target was to achieve a lower charge than this. 36.1% of planned audits had been completed against a plan profile of 48.4%. The implementation rate for medium risk recommendations at October 2009 was 79% against a target of 90% and showed a drop in performance from March 2009. This issue had been raised with the Chief Executive and Executive Directors. In summary, performance against the Operational Plan was slightly behind, but additional resources were being utilised to rectify this.

Councillor Arnott enquired if the work to identify duplicate payments also checked that payments taken were of the correct value. The Head of Audit and Procurement

advised that part of the process was to check invoice numbers in the system and amounts that did not match would be highlighted. The answer was therefore yes.

Councillor Wright asked about the role of the seconded Audit Manager and the ICT disaster recovery work. The Head of Audit and Procurement reported that as an Audit Manager was seconded to assist with developments in relation to the improvement programme. Work was still going on to address the areas of concern in ICT disaster recovery and the update presented in the report depicted in the current situation rather than the final outcome. Councillor Allan asked when it was expected that all areas with an amber status would become green and he was informed that dates had not been set but that ICT were aware that this work was required. The Head of Audit and Procurement gave an assurance that he would take this issue back to the Head of ICT.

Councillor Forbes queried if the audit plan would encompass the checking of up to date financial statements from organisations which had received grants from the Council. The Head of Audit and Procurement advised that this would be picked up if the specific audit was in the plan but could not confirm when this was last done. He stated that he could provide further written information on the matter for Councillor Forbes if required.

With regard to the implementation rate for medium risk recommendations, the Chairman stated that if an improvement was not realised that the Committee should consider requesting those directorates which were below target to be asked to explain the reasons for this to the Committee.

Having considered the report, it was:-

21. RESOLVED that:-

- (i) the performance of the Internal Audit Service at this point in the year be noted; and
- (ii) using 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 2009/2010, it was considered that overall throughout the Council, there continued to be a sound internal control environment.

Treasury Management – Review of Performance 2008/2009 and Mid Year Review 2009/2010

The Director of Financial Resources submitted a report outlining the borrowing and investment performance for 2008/2009 and a review of the Treasury Management Strategy for 2009/2010.

The Committee had received training on treasury management earlier in the year and this was the first routine report to the Committee on treasury management

activities. The Director of Financial Resources highlighted that the report was very technical and in future a more easily digestible summary would also be produced.

The Assistant Chief Accountant (Technical) highlighted the main elements of the report. The Authority had adhered strictly to Council policy and CIPFA guidelines and as a result the Council's investments were fully protected and performance outstripped the benchmark level.

The Annual Investment Strategy had been fully complied with apart from one element which was corrected within a short time and had no effect on the Council's Prudential indicators. The report also outlined the Borrowing Strategy 2009/2010 and how the Council had addressed their borrowing during this financial year. The Assistant Chief Accountant (Technical) explained how the Council had been able to achieve substantial benefits through restructuring of debt at advantageous times.

Following discussion, it was:-

22. RESOLVED that:-

- (i) the Treasury Management performance for 2008/2009 and the progress in implementing the strategy for 2009/2010 be noted; and
- (ii) the updated Council lending criteria and list of authorised institutions be noted.

(Signed) G N COOK
Chairman