

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on Friday 22 March 2013

Present:

Mr G N Cook

Councillors Farthing, Forbes, Speding, N Wright, T Wright and Mr J P Paterson.

In Attendance:

Malcolm Page (Executive Director, Commercial and Corporate Services), Paul Davies (Head of Corporate Assurance and Procurement), Rhiannon Hood (Assistant Head of Law and Governance), Tracy Davis (Audit, Risk and Assurance Manager), John Jordan (Corporate Risk Manager), Gavin Barker (Mazars), Cathie Eddowes (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

There were no apologies for absence.

Minutes

33. RESOLVED that the minutes of the meeting of the Committee held on 8 February 2013 be confirmed and signed by the Chair as a correct record.

Corporate Assurance Map – Update

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 on the adequacy of the overall system of internal control and the performance of Internal Audit.

Members' attention was drawn to the Map on page 7 and Appendix 1 which showed the detailed information under each Strategic Risk. With regard to Management

Assurance, asset management had improved from limited to moderate assurance. Service/ Business planning and Performance Management were also described as having moderate assurance and there were plans in place to address this and move towards substantial assurance. Information Governance was still in the amber category but this was expected and ICT Strategy and Delivery was rated as amber due to elements of ICT being involved in a number of new schemes. Councillor Wright commented that Government ICT schemes were seldom on time and on budget and the Head of Corporate Assurance and Procurement explained that any of those issues would be reflected in the strategic rather than corporate risk areas. However, the Executive Director of Commercial and Corporate Services stated that this was something which the Council was aware of and needed to manage in relation to the introduction of the Department for Work and Pensions system for Universal Credit.

Business Continuity Planning had been changed to moderate assurance, having been previously been rated as substantial. This was due to all business continuity plans not being updated to reflect changes in the Council.

The Risk and Assurance column may display a view of moderate or substantial assurance for all risk areas but Strategic Risks areas such as Economy and Resources would remain red as the Council could not have a material impact on national problems such as the economy.

Appendices 2 and 3 summarised the Internal Audit and Risk and Assurance work which had been carried out. The overall opinion of Internal Audit was detailed with the exception of the Customer Focus and Change Management risk areas which were new. The report in the next quarter would include all work which had been carried out, even if this had taken place in the previous year.

The Corporate Assurance Map showed that all external assurance, from organisations such as the Audit Commission and Ofsted, was substantial and all corporate risk areas had a cumulative assurance position of moderate or substantial.

The Head of Corporate Assurance and Procurement reported that PricewaterhouseCoopers (PwC) had been appointed as a Partner organisation to support the Council with the Integrated Assurance Framework and governance arrangements. A review of the implementation of the Integrated Assurance Framework had been carried out and a full report would be brought to the next Committee meeting.

Turning to the Key Performance Indicators (KPIs) at Appendix 4, the Head of Corporate Assurance and Procurement was very pleased to report that all of these were on target.

Councillor Farthing noted the issues with business continuity at the current time and suggested that this would tie in with 'corporate memory' and asked what was being done to achieve this. The Executive Director replied that there was probably more that needed to be done and officers had been conscious of this around the severance issue in 2012. It was fair to say that there was not a standardised or

embedded approach and it was recognised that there needed to be a co-ordinated and corporate way of dealing with this.

The Committee also felt that due to the current challenges facing the Council, Business Continuity could fluctuate between categories of assurance. Councillor Farthing added that a lack of Health and Safety representatives, due to workforce change, could also have an impact on the number of accidents in the workplace.

One of the suggestions which PwC had put forward in their report on the Integrated Assurance Framework was that the Business Continuity Officer be brought into the Risk and Assurance team in order to strengthen links. The Head of Corporate Assurance and Procurement advised that health and safety was currently addressed by the issuing of guidance documents but this would also be covered within the PwC report.

With regard to the implementation rate of medium risk recommendations, the Committee were reminded that this measure was designed to test the current attitude of managers and their response to the recommendations. The implementation rate was generated from the last 100 medium risk recommendations made in each directorate. The Head of Corporate Assurance and Procurement advised that there was an exit meeting at the conclusion of each piece of audit work and initial responses would be debated at this stage. A draft report was then issued to the Head of Service and, following comments, the report would be finalised. If there were any recommendations that the management chose not to accept, then this would be flagged up within the report. However, full agreement was reached in the vast majority of cases.

Having considered the report, it was: -

34. RESOLVED that the report and the updated Corporate Assurance Map be noted.

External Auditor Audit Strategy Memorandum for Year Ended 31 March 2013

The Executive Director of Commercial and Corporate Services submitted a report detailing the Audit Plan presented by Mazars, which notifies the Authority of the work which they were proposing to undertake in respect of the audit of the financial statements and the value for money conclusion for 2012/2013.

Gavin Barker, the Council's Engagement Manager, presented the document and advised that the work would be governed by the Audit Commission Act 1998 and the Code of Audit Practice for Local Government bodies. The Audit Commission was still in existence as a core body overseeing contracts but it was expected that it would cease to exist before the end of the five year contract period. The functions of the Commission would then transfer to another national body.

There were no issues for Mazars to highlight in relation to objectivity and independence, the audit would be conducted in accordance with the International Standards of Auditing and the whole approach was directed towards giving a view on the Council's Statement of Accounts.

Mazars would work closely with Internal Audit and also with experts on specific areas such as asset valuation and Pension Fund liability. Meetings had been held with the Executive Director of Commercial and Corporate Services, the Chief Executive and other officers as part of the audit planning process and had identified a number of significant risks including Property, Plant and Equipment, Pension assets and liabilities, Newcastle International Airport, potential equal pay liabilities and group accounts. The auditing standards also require management override of controls and risk of fraud in revenue and expenditure recognition to be identified as significant risks.

Gavin advised that the external auditors would also be required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. This value for money conclusion would be based on two criteria, specified by the Audit Commission, which were: -

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

The audit fees for 2012/2013 had been reduced by 40% and were set at £179,562. A review of Internal Audit had also been commissioned by the Executive Director of Commercial and Corporate Services for an additional fee of £3,500.

Councillor T Wright enquired if there had been an upturn in equal pay claims as publicity had increased in this area. The Executive Director highlighted that the Council was in the process of settling some obligations but there was nothing which could prevent further claims from being made.

With regard to the pensions liability, Councillor Forbes asked how the work of the actuary would be assessed. Gavin Barker stated that it was a complex process and Mazars would draw on the work of the Audit Commission specialists who looked at the work of all actuaries working with local authorities.

Councillor Forbes went on to ask about what would be entailed in establishing group accounts and of what benefit this would be to the Council. Gavin commented that group accounts were complex, time consuming and required a lot of work from officers. He stated that he could not identify any clear benefit. The only company which was moving toward materiality for group accounts was Care and Support Sunderland Limited but there was no need to make any changes at the current time because the only contracts the Company had were with the Council. However, it was expected that group accounts would be required in the future.

Following consideration of the report, it was: -

35. RESOLVED that: -

- (i) the contents of the report be noted; and

- (ii) the 40% reduced audit fee for the work to be undertaken in 2012/2013, as compared to the previous auditing regime be noted and welcomed and that the announcement that the 2013/2014 would be maintained at the 2012/2013 price level be noted.

Corporate Assurance Map 2013/2014

The Head of Corporate Assurance and Procurement presented a report outlining the proposed Corporate Assurance Map and the supporting plans for the Internal Audit and Risk and Assurance teams for 2013/2014.

The Committee had received quarterly update reports in relation to the Integrated Assurance Framework and the report presented the Corporate Assurance Map for 2013/2014. The Map set out where assurance would be obtained and this was indicated by a cross in the relevant box. The colours which indicated the level of assurance on the Corporate Assurance Map had been brought forward from the report which had rolled through 2012/2013

Along with the plans for the work of the Internal Audit and Risk and Assurance team, the Key Performance Measures and targets for Internal Audit were also included within the report.

Having considered the information, it was: -

- 36. RESOLVED that the Corporate Assurance Map 2013/2014 and the plans of work for the Internal Audit and Risk and Assurance teams be noted.

Proposed Forward Plan of Reports 2013/2014

The Executive Director of Commercial and Corporate Services presented the proposed Forward Plan of reports for 2013/2014.

There would be quarterly meetings in 2013/2014 at which the Committee would consider the Corporate Assurance Map alongside other reports. An additional meeting would be held in February 2014 in order to consider the Treasury Management Policy and Strategy so that Cabinet and Council could agree this by March 2014 in line with good practice.

- 37. RESOLVED that the proposed Forward Plan of reports be agreed.

Member Training and Development

The Executive Director of Commercial and Corporate Services presented a report asking the Committee to identify areas for which they required any further training or refresher sessions to be arranged.

The Executive Director suggested that due to the changes which were ongoing and being considered by the Council, he would provide an update for Members at the beginning of the next meeting and potentially at other meetings during the year.

The Chair proposed that training and development be addressed at the first Committee meeting after the Council's Annual Meeting.

It was highlighted that Members could find the technical nature of some of the Committee's work off putting and that under the old decision making structure, all elected Members had been involved in considering financial information but this was no longer the case. It was suggested that it might be useful to hold a general workshop for members on the subject of finance.

The Head of Corporate Assurance and Procurement commented that in previous years, governance, risk and finance had been covered as part of the members development programme and this could be pursued further.

The Committee: -

38. RESOLVED that: -

- (i) the Executive Director of Commercial and Corporate Services provide an update on current developments at the next meeting; and
- (ii) further training and development needs for the Committee be discussed after the Annual Meeting of the Council.

External Auditor – Audit Progress Report

The Executive Director of Commercial and Corporate Services introduced the Audit Progress Report for the Council's external auditors, covering the period up to March 2013.

Gavin Barker informed the Committee that work was progressing well on the 2012/2013 audit, work was underway on each of the key financial systems and arrangements were being made for early testing of income and expenditure.

The report also outlined the additional assistance which Mazars was able to offer and it was under this arrangement that the Executive Director had commissioned a review of Internal Audit.

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

- Local Government Financial Settlement 2013/2014
- Public health changes from April 2013
- Value for Money profiles and financial ratio tools
- Final accounts workshops for finance staff

With regard to the Value for Money profiles which were available on the Audit Commission website, it was highlighted that these would enable the key indicators for Sunderland City Council to be compared with all English councils, geographical neighbours and regions, single tier councils, metropolitan councils or nearest neighbour groupings. Gavin advised that the website was fairly user friendly but data had to be interpreted with caution.

Members having considered the report, it was: -

39. RESOLVED that the report be noted.

Treasury Management Update

The Executive Director of Commercial and Corporate Services presented a report which set out the details of the recent downgrade in the UK Sovereign Credit Rating by Moody's, the implications of this change for the Council and the delegated decision which had been made to vary the Council's Lending List Criteria and amendments to the Approved Lending List.

The investment limits that Sunderland City Council held with some UK financial institutions had been reliant on the UK sovereign credit rating remaining at AAA. While the rating had reduced to an AA+ level it was explained that there had been little increase in the risk of investing with UK institutions following the downgrade and this view was further supported by the fact foreign investment had remained unaffected, if not increased, in the period since the downgrading had occurred as the UK was still seen as a very safe haven for investors. A delegated decision was made on 12 March 2013 to amend both the Lending List Criteria and Approved Lending List to reflect the downgrading and to increase the maximum deposit which could be placed with individual AAA rated counterparties and to apply the AA+ rating when determining the limit on investments that could be placed with counterparties who had been nationalised or part nationalised.

The effect of these changes would be to allow the Council to maintain its pre downgrade investment limits of £90million with both Lloyds TSB and Royal Bank of Scotland banking groups to reflect the fact Government backed institutions remained a very low investment risk.

Moody's had noted that the UK's creditworthiness remains extremely high and they did not anticipate any further adjustments.

40. RESOLVED that the decision made under delegated powers and the associated amendments to the Lending List Criteria and Approved Lending List as set out in Appendix A be endorsed.

Independent Members of the Committee

The Chair informed members that Mr Paterson would be retiring from the Committee at its next meeting and that a process for appointing a new independent member would have to be agreed.

A selection panel would also be required for the appointment and the Chair proposed that Councillors Speding and Forbes be asked to sit on the panel with him.

41. RESOLVED that: -

- (i) the need to establish a process for appointing a new independent member be noted; and
- (ii) Councillors Speding and Forbes be invited to sit on the selection panel with the Chair. The Executive Director of Commercial and Corporate Service would advise the panel.

(Signed) G N COOK
Chair