Sunderland
City Council

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on Friday, 3rd November, 2006 at 1.30 p.m.

ITEM   PAGE

R.C. RAYNER,
City Solicitor.

Civic Centre,
SUNDERLAND.

26th October, 2006.

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At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on FRIDAY, 29TH SEPTEMBER, 2006 at 4.00 P.M.

Present:-

Mr. G.N. Cook in the Chair.

Councillors Mrs. M. Forbes, Mrs. J. Heron and L. Scott and Mr. J. Paterson.

Declarations of Interest

The following personal declarations of interest were made:

Councillor Mrs. M. Forbes and Mr. G.N. Cook declared personal interests as Members of the Tyne and Wear Fire and Rescue Authority.

Councillors C.R. Anderson and Mrs. J. Heron declared personal interests as Members of the Local Government Pension Scheme.

Apologies for Absence

An apology for absence was submitted to the meeting on behalf of Councillor Allan.

Minutes

1.   RESOLVED that the minutes of the meeting of the Committee held on 30th June, 2006 be confirmed and signed as a correct record.

Variation of Order of Business

The Chairman having requested that the order of business on the agenda be varied, it was;-

2.   RESOLVED that the order of business on the agenda be varied accordingly.

Authority's Letter of Representation

The Council's Letter of Representation to the Council's External Auditor was submitted (copy circulated) which advised that the representations given in connection with the

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audit and financial statements for the year ended 31st March, 2006 were accurate. The City Treasurer advised that the Letter of Representation was designed to give added assurance to Members of the Committee that all accounting records had been made available, that all the transactions undertaken by the Council had been properly reflected in the financial records, and that all other records and information had been made available to the Council's External Auditor.

Councillor C.R. Anderson and Mr. Patterson joined the meeting at this juncture.

3.   RESOLVED that the Authority's Letter of Representation be received and noted.

The Annual Governance Report

The Council's Audit Manager, Ms Lynn Hunt , introduced the Council's External Auditor's Annual Governance Report. Ms Hunt referred to the very low level of three misstatements in the accounts submitted for audit and detailed on Page 6 of the report, which had all been corrected and had no impact on the financial position of the Council.

She explained that the external audit had been very well managed by the Council and that the working papers were the best she had seen.

Referring to the Use of Resources Section Ms Hunt advised that in relation to Value for Money no significant weaknesses had been identified. In particular procurement processes had been improved during 2006 and the Council was on track to deliver planned efficiency savings. In addition, she advised that the Council had a strong strategic process in place to manage financial performance and risk.

In response to a question regarding the Council's approach and developments on procurement, the City Treasurer confirmed that advice and guidance had been given to local suppliers on how best to position themselves to successfully bid and tender for Council contracts. He explained that significant progress in raising awareness of local businesses and suppliers with the support and facilitation of the North East Chamber of Commerce.

With regard to Data Quality, the Audit Manager stated that information on which decisions were based was found to be robust.

The Chair congratulated the City Treasurer and his team for a superb report.

3.   RESOLVED that the Authority's Annual Governance Report be received and noted.

Statement of Accounts 2005/2006 – Audited Version

The City Treasurer submitted the amended audited accounts for approval by the Committee. The amended accounts reflected the three misstatements identified by the external audit.

(For copy report – see original minutes).

The City Treasurer referred to Appendix 1 which detailed the adjustments which had been reflected in the accounts.

Having considered the report, it was:

4.   RESOLVED that the amended Statement of Accounts for the Financial Year ended 31st March, 2006 be approved.

Corporate Risk Profile

The City Treasurer submitted a report (copy circulated) which advised Members of the updated Corporate Risk Profile (CRP) and amendments outlined in the report.

The City Treasurer reported that the CRP was regularly reviewed to ensure that the major risks facing the Council were being actively managed.

A discussion ensued regarding risk management and the City Treasurer explained that a comprehensive Business Continuity Plan had been prepared.

5.   RESOLVED that the report be received and noted.

(Signed)   MR. G.N. COOK,
            Chairman.

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AUDIT AND GOVERNANCE COMMITTEE   3rd **November 2006**

INTERNAL AUDIT SERVICES – HALF YEARLY UPDATE FOR 2006/2007

Report of the City Treasurer

1.   Purpose of Report

1.1   To consider the performance of Internal Audit Services (IAS) up to 15th September 2006, the areas of work undertaken, and information on current developments in IAS.

1.2   The Audit Plan for 2006/2007 was approved by the Policy and Co-ordination Review Committee on 23rd March 2006, before the new Audit and Governance Committee was created and was reported to the Audit and Governance Committee for information on 30th June, 2006.

2.   Description of Decision

2.1   The Audit and Governance Committee is asked to note and consider Internal Audit Services' performance.

3.   Planned and actual resource available

3.1   The 2006/2007 Audit Plan was based upon the planned staffing resources available to the service at the time, equating to 16.6 full time equivalent members of staff, with qualifications as follows:

Qualified Accountants:	3 (plus 1 trainee)
Institute of Internal Auditors - Professional Level:	4
Association of Accounting Technicians:	6
Qualification in Computer Audit:	2
Institute of Internal Auditors - Practitioner Level:	2 trainees

The expected resources identified have been available for the year to date and it is pleasing to report that the number of Qualified Accountants has now increased from 3 to 5, both of the additional qualified accountants qualifying whilst employed within the section. The two trainees passed all of their exams in the June sitting and are due to complete their final exams for Practitioner Level in November 2006.

3.2   The planned and actual use of the resource is summarised below:

Table 1: Productive Days Available

	Planned		Actual Up to 15/9/06		Variance
	Days 2006/2007	Percentage	Days 2006/2007	Percentage	
Gross Days	**4,316.0**	**100%**	**2,073.0**	**100%**	**-**
Less Uncontrollable Overheads (eg annual leave, bank holidays)	716.5	17%	415.9	20%	+3%
Productive Days Available	**3,599.5**	**83%**	**1,657.1**	**80%**	**-3%**

The slight variance is due to more than half of the staff annual leave being taken in the first half of the year. Adjustments will be made to the planned profile of productive days for future years.

Table 2: Utilisation of Productive Days Available

	Planned		Actual Up to 15/9/06		Variance
	Days 2006/2007	Percentage	Days 2006/2007	Percentage	
Productive Days Available	3,599.5	100%	1,657.1	100%	-
Less Controllable Overheads (eg risk assessments, planning, management, service development and training)	903.0	25%	434.1	26%	+1%
Chargeable Days	**2,696.5**	**75%**	**1,223.0**	**74%**	**-1%**

It can be seen from the above that the utilisation of the productive time available is in line with that planned.

4 Key Performance Indicators

4.1 Internal Audit Services' performance against its key performance indicators is shown below.

Objectives, Key Performance Indicators (KPI's) and Targets for 2006/2007

Cost & Efficiency

Objectives	KPI's	Targets	Progress To Date
1) To ensure the service provides Value for Money	1) Charge per Man Day	1) Lower cost than average within CIPFA Benchmarking Club – Comparator Group	Achieved.
	2) Audit cost per £m Gross Turnover of the Council	2) Lower cost than average within CIPFA Benchmarking Club – Comparator Group	Achieved.
	3) Percentage of planned audits completed	3) 100%	37.6% (plan profile to date 30.0%)
	4) Average number of days between end of fieldwork to issue of draft report	4) 15 working days	8.3 working days

Quality

Objectives	KPI's	Targets	Progress To Date
1) To maintain an effective system of Quality Assurance	1) ISO9001:2000 Certification	1) Retain certification	Retained – valid until 2009
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of significant recommendations made which are agreed	2) 100%	100%
	3) Percentage of agreed significant recommendations which are implemented (12 month period)	3) 90%	81%
	4) Opinion of External Auditor	4) Satisfactory opinion	Awaited.

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Objectives, Key Performance Indicators (KPI's) and Targets for 2006/2007

Client Satisfaction

Objectives	KPI's	Targets	Progress To Date
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Opinion of External Auditor	1) Satisfactory opinion	Awaited.
	2) Results of Post Audit Questionnaires	2) Average score of above satisfactory	Average score for year to date is 1.4 (1 = good and 4 = poor)
	3) Results of other Questionnaires	3) Satisfactory results	None issued
	4) No. of Complaints / Compliments	4) No target – actual numbers will be reported	8 compliments received in year to date. No complaints received.

Continuous Improvement

Objectives	KPI's	Targets	Progress To Date
1) To ensure that the service develops in line with modern thinking and practice on Internal Auditing	1) Opinion of External Auditor	1) Satisfactory opinion	Awaited.

4.2   The following specific matters relating to the above targets are worthy of comment:

- The agreed Audit Plan for the year included 101 named audits. A total of 38 draft reports have been issued, 35 of these were included with the original plan with an additional 3 being undertaken in order to respond to specific circumstances (37.6% against a predicted plan profile of 30%).

- In order to track the organisation's attitude towards implementing audit recommendations the results of follow up work relating to the preceding 12-month period is tracked. In this regard, the percentage currently stands at 81% against a target of 90%.   This has improved from an implementation rate of 73% in 2005/2006. Although the figure to date in 2006/2007 is relatively high work is being undertaken with Directorates to achieve further improvement.

5   Summary of Internal Audit Work

5.1   Where IAS identify areas for improvement from audits or investigations, recommendations are made to further minimise the level of risk. These are categorised as high, medium or low risk. The number of recommendations made to date, in relation to the Council, are shown below.

Categorisation of Risk	Definition	Number Made
High	A fundamental control weakness which presents material risk to the audited body and requires immediate attention by senior management.	Nil
Medium	There is a control weakness within the system, which presents material risk to the area or service being audited, and management attention is required to remedy the situation within a reasonable period.	299
Low	There is a control weakness or an opportunity for improvement which does not expose the system to any material risk, but implementing the recommendation would represent good practice.	72

5.2   In relation to the 10 audits that have been finalised to date management has agreed all of the recommendations.

5.3   Although a number of recommendations to improve internal control were made, the work undertaken did not identify any matters material to the overall internal control environment of the Council.

5.4   The following key points are noted.

5.4.1 Key Systems

IAS are on target to complete its work with regard to the effectiveness of internal control within the Council's key financial systems and key non-financial systems, in accordance with agreed rolling programmes of audit work in these areas.

5.4.2 Contract Monitoring – 50m Swimming Pool

A Control Risk Self Assessment has been provided to the Community and Cultural Services Directorate in order to assist them with identifying the risks to the project and ensuring that they are appropriately managed. It is intended in the second half of the year to perform some detailed work on the arrangements put in place.

5.4.3 Annual Efficiency Statement

An audit is ongoing in relation to assessing the framework in place to monitor achievement against the Council's efficiency targets.

5.4.4 Partnerships

Audits are ongoing in relation to the Community Mental Health Partnership and the Local Strategic Partnership, the Sunderland Partnership.

5.4.5 Corporate Disaster Recovery and Business Continuity Planning

An audit has been undertaken into the arrangements in place for disaster recovery across the corporate ICT infrastructure including departmental/corporate risk assessments. Although a number of positive developments have been made including the recent introduction of comprehensive corporate and departmental business continuity plans further actions have been agreed in order to strengthen the arrangements in place.

5.4.6 Single Status Payroll Adjustments

Due to the volume of payroll adjustments required to implement the first phase of job evaluation, sample testing has taken place on the system for effecting changes processed through the payroll system. The work found that the systems in place were satisfactory and no errors were identified.

5.5   General Support

IAS has also provided significant support and guidance to all Directorates during the year including the HR/Payroll project and Council Tax and Council Tax / Housing Benefits project.

5.6 Internal Audit Services are also currently involved in the following:

- Planning to deliver external assessments of schools in relation to the new Financial Management Standard in Schools (FMSiS).

- Carrying out the implementation/awareness plan of the Council's Whistle Blowing and Anti-fraud and Corruption policy.

- Implementation of the National Fraud Initiative, a national data matching exercise undertaken by the Audit Commission.

6 Developments within Internal Audit

6.1 In order to further enhance its performance; in early 2006 Internal Audit initiated a project to introduce new software to enable greater automation of its processes. This project is ongoing and to date 2 audits have been piloted within the new system and the project is on target to achieve a go live for April 2007.

7. Conclusions

7.1 This report provides details of the performance of IAS to the Committee and seeks to give reassurance that the service is being delivered to meet statutory responsibilities and is continually seeking to improve the standards of its service.

7.2 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 2006/2007, it is considered that overall throughout the Council there continues to be a sound internal control environment.

Background Papers

Annual Internal Audit Plan 2006/2007 – Policy and Co-ordination Committee, 23rd March 2006.

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Item No.5

Progress Report - october 2006

Sunderland City Council

Audit 2005/06

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External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Document Control

Author   Lynn Hunt

Filename   Progress Report October 2006

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Copies of this report

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Contents

Introduction

1 The purpose of this report is to provide the Council's Audit and Governance Committee with a summary of external audit work undertaken since our audit plan was presented in June.

2 The detailed outcomes referred to below are listed in Appendix 1 and have been discussed with the relevant officer as indicated. Copies of our reports can be provided on request.

Summary of recent reports

Audit of 2005/6 Financial statements

3 Auditors' responsibilities are to review and report on:

- the Council's financial statements; and
- whether proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources.

4 We issued an unqualified opinion and conclusion on the accounts on 29 September. In overall terms we found that the 2005/6 closure process was well managed. Working papers provided were of a very high quality and there was a low level of errors in the accounts. We did not identify any significant weaknesses in systems of accounting and financial control.

5 Similarly, our work in relation to the value for money conclusion did not identify any significant issues to bring to members' attention. Procurement processes have been improved during 2006 and the Council is on track to deliver stated efficiency savings targets. There are strong strategic arrangements in place for:

- setting and delivering objectives
- managing financial performance and risk.

6 The Council has good information on costs and how these compare to others. Members and managers routinely use this information to review and challenge value for money as part of the corporate value for money framework.

Data quality and best value performance plan

7 For the first time we have carried out a detailed review of Sunderland's corporate management arrangements for data quality. Similar reviews have been undertaken at each of the Audit Commission's local government audited bodies. This new work reflects the increasing reliance which is being placed on performance information, e.g. to manage services, inform users, account for performance, and as basis for taking decisions.

8 Our work on Data Quality has three stages as detailed below:

- Stage 1 - Management Arrangements

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- Stage 2 - Compliance and Completeness Check
- Stage 3 - Data Quality spot checks

To prepare council officers for this new approach, we held a workshop with key staff on 16 June, following which an action plan was produced.

9   We have also undertaken, as in previous years, a compliance audit of the Best Value Performance Plan, which at Sunderland is incorporated into the annual Corporate Improvement Plan.

10   In summary, we found that the Council has significantly improved data management arrangements over the past 12 months by:

- Developing strategies for both information management and information governance
- Extending quality assurance checks for BVPI performance data
- Involving the Deputy Chief Executive and Leader of the Council in data quality, to emphasise the importance of this issue to staff

11   Officers were able to demonstrate positively, with many examples, where data has been used to drive improvement. However, systems used to collect and analyse data often require a high degree of manual intervention or data cleansing to enable accurate reporting.

12   Minor compliance issues identified in stage 2 of our work were highlighted and corrected, and we issued an unqualified report, with no statutory recommendations, on 18 September 2006.

13   Finally, we carried out detailed testing on a sample of 8 indicators. The key issue arising was that two library indicators (stock level and stock turn) were reserved due to a lack of audit trails at smaller libraries with manual information systems. The Council is currently undertaking work to ensure that reliable auditable evidence is available to support 2006/07 outturns, and implementing a new library information system which will provide the necessary audit trails in future years.

Ethical Governance

14   High ethical standards are the cornerstone of good governance. They are an integral part of good decision making and can lead to increased confidence in local democracy. Ethical governance is an area of great interest to the national and local press, particularly when things go wrong. One of the common aspects of governance failures is not the absence of frameworks, controls and arrangements but the absence of appropriate behaviours and values amongst members and officers.

15   To complete this audit we undertook

- a document review;
- focus groups with a range of officers and members; and
- surveys of members and key officers.

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16 In summary, we found that maintaining high ethical standards has been a focus for the Council in recent years. Elected members and officers see strong ethical governance as a key component in driving improvement and promoting confidence in local democracy. The Council's Standards Committee is proactive and independent.

17 All of the expected corporate arrangements are in place, the code of conduct is well-understood by members and officers and extensive training has been provided. There have been a number of referrals to the Standards Board but the number is not out of line with other councils. Members and officers are well-prepared for local investigations and determinations.

18 The Council Leader is seen as an extremely positive role model and proactively promotes the importance of the ethical agenda. The Chief Executive is also seen as a good role model, and along with the Monitoring Officer is highly respected.

19 A presentation which sets out the results of this work will be given to the Standards Committee on 3 November.

Civil Contingencies

20 The Civil Contingencies Act 2004 aims to deliver a co-ordinated framework for civil protection in the United Kingdom which meets the challenges of the twenty-first century. The purpose of our work was to undertake a cross-cutting, strategic overview of arrangements within the Tyne and Wear locality with an initial focus on the work of local authorities, police and fire.

21 Our main conclusions were that considerable progress has been made by the agencies responsible for civil contingencies, and the new structures put in place to comply with the 2004 Act have been built on long standing local emergency planning arrangements. However there is no room for complacency and our report has recommended;

- Greater member involvement, to raise the profile of civil contingency work with local communities

- Better information sharing

- An improved focus on performance management, with clear success criteria based on defined accepted outcomes

- A three year budget allocation, to put the joint arrangement on a more sustainable footing.

An action plan has now been put in place to address these issues.

Children's Services

22 One component of this year's work was to ensure that the Council has made appropriate arrangements for complying with new legal requirements for integrating children's services and establishing a children's trust.

23   We found that Sunderland has made considerable progress in a short time in taking forward its change agenda for children and young people. Much of the infrastructure necessary to make further progress is now in place. The Children and Young People's Plan is published, setting out the key priorities and based on an analysis of need. The Children's Trust has representation at the highest level and a newly revamped officer Strategic Partnership to push forward the pace of change. A new Children's Services leadership team is established, which helpfully incorporates joint working between the City Council and the Teaching Primary Care Trust.

24   The pace of development of the Children's Trust inevitably suffered to some extent from acting leadership and management arrangements in 2005 and the necessary preparation for and implementation of a new management structure. However, these issues are now being addressed and new organisational structures have put in place, both within the Children's Trust and at Sunderland City Council. These new structures are based on 'Every Child Matters' priorities and have a clear emphasis on performance management.

25   Next steps have been identified as follows.

- Refining key priorities which reflect community engagement and analysis of need.

- Developing governance and partnership arrangements, with clear protocols on decision making and accountability.

The Trust can then focus on important features of integrated working across children's services, for example joint commissioning and a common assessment framework.

Audit Commission Surveys

26   The council has also participated in two national Audit Commission surveys:

- "Your Business@Risk"

- Annual schools survey.

27   "Your Business@Risk" was a survey of IT users which assessed their perception of business risk in terms of:

- Service disruption

- Financial loss

- Reputational damage

- Loss of public confidence.

28   Outcomes were generally positive but with some potential issues around communication and awareness (eg lack of knowledge about data protection and security policy). An action plan has therefore been drawn up in conjunction with officers, and it has been agreed that we will repeat the survey in 12 months time to properly assess the Council's progress.

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29   58 out of 119 local schools participated in the annual schools survey. This survey represents schools' views on LEA support arrangements, together with a self assessment of progress against the 5 "Every Child Matters" themes of:

- Being healthy
- Staying safe
- Enjoying and achieving
- Making a positive contribution
- Achieving economic wellbeing.

30   Again, results were very positive with an overall assessment of satisfactory or better in all areas.

Looking ahead

31   The following work is currently in progress or scheduled and will be reported to members in due course:

- A workshop with members to focus on the scrutiny function is due to take place on 10 November
- Use of Resources assessment is well underway and a meeting to feedback final scores to the City Treasurer and Chief Executive has been arranged for 4 December
- The annual Direction of Travel assessment will take place in December 2006.

32   During January 2007, the Council will also receive its Corporate Assessment site visit.

Appendix 1 – Recent audit activity

Work area	Date	Council key contact
Civil Contingencies (report)	July 2006	G Fitzgerald
Your Business@Risk - IT survey	August 2006	S Williams
Workshop on data quality and target setting	May 2006	S Reed
Data quality audit	July to September 2006	S Reed
Compliance work on best value performance plan	September 2006	G Farnworth
Audit opinion and certificate on 2005/6 accounts Annual report to those charged with governance	September 2006	K. Beardmore
Review of children's services (report) Annual school survey	October 2006	H Patterson
Ethical Governance - presentation and summary report	October 2006	B Raynor

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