

## AUDIT AND GOVERNANCE COMMITTEE

### AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on  
Friday 28 June 2013 at 1.30pm

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| 1.   | <b>Receipt of Declarations of Interest (if any)</b>   |      |
| 2.   | <b>Apologies</b>  |      |
| 3.   | <b>Minutes of the Meeting of the Committee held on 22 March 2013</b><br><br>(Copy attached.)  | 1    |
| 4.   | <b>Update on Current and Future Key Developments</b><br><br>Verbal report by the Executive Director of Commercial and Corporate Services.                   | -    |
| 5.   | <b>Annual Governance Review / Annual Governance Statement</b><br><br>Report of the Executive Director of Commercial and Corporate Services (copy attached). | 9    |
| 6.   | <b>Annual Report on the Work of the Committee 2012/2013</b><br><br>Report of the Executive Director of Commercial and Corporate Services (copy attached).   | 33   |

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| 7.  | <b>Statement of Accounts 2012/2013 (Subject to Audit)</b>                                  | 37  |
|     | Report of the Executive Director of Commercial and Corporate Services (copy attached).     |     |
|     | <i>Please note that the Statement of Accounts (Appendix A) will be printed separately.</i> |     |
| 8.  | <b>Treasury Management – Review of Performance 2012/2013</b>                               | 59  |
|     | Report of the Executive Director of Commercial and Corporate Services (copy attached).     |     |
| 9.  | <b>Review of Internal Audit 2012/2013</b>  | 65  |
|     | Report of the Executive Director of Commercial and Corporate Services (copy attached).     |     |
| 10. | <b>Review of the Integrated Assurance Framework</b>  | 79  |
|     | Report of the Executive Director of Commercial and Corporate Services (copy attached).     |     |
| 11. | <b>Framework Underpinning the Corporate Assurance Map</b>                                  | -   |
|     | Presentation by the Audit, Risk and Assurance Manager.                                     |     |
| 12. | <b>Corporate Assurance Map – Update</b>  | 97  |
|     | Report of the Head of Corporate Assurance and Procurement (copy attached).                 |     |
| 13. | <b>External Auditor - Audit Progress Report to June 2013</b>                               | 117 |
|     | Report of the Executive Director of Commercial and Corporate Services (copy attached).     |     |
| 14. | <b>Treasury Management 2013/2014 – First Quarterly Review</b>                              | 129 |
|     | Report of the Executive Director of Commercial and Corporate Services (copy attached).     |     |

15. **Committee Membership**

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Verbal report by the Chair.

ELAINE WAUGH  
Head of Law and Governance

Civic Centre  
SUNDERLAND

20 June 2013



**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

**AUDIT AND GOVERNANCE COMMITTEE**

**28 June 2013**

**ANNUAL GOVERNANCE REVIEW / ANNUAL GOVERNANCE STATEMENT**

**Report of the Executive Director of Commercial and Corporate Services**

**1. Purpose of Report**

- 1.1 This report provides details of the 2012/2013 Annual Governance Review, the Corporate Assurance Map at the end of the year and the Internal Audit opinion on the adequacy of the overall system of internal control. A Draft Annual Governance Statement and a draft revised Local Code of Corporate Governance are included as well as an improvement plan for the year ahead.

**2. Description of Decision**

- 2.1 The Audit and Governance Committee are asked to consider the report and agree the improvement plan, revised Local Code of Corporate Governance and draft Annual Governance Statement.

**3. Background**

- 3.1 In March 2012 the Committee approved the proposed Corporate Assurance Map for 2012/13 and the plans of work for Internal Audit and Risk & Assurance.
- 3.2 A key feature of the integrated assurance framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources. The results of this assurance work are used to review the Council's corporate governance arrangements on an annual basis.
- 3.3 The Local Code of Corporate Governance is reviewed annually to ensure that it is up to date and effective. The Council is also required to publish an Annual Governance Statement (AGS), with its Statement of Accounts which must be supported by a comprehensive assurance gathering process.

**4. Annual Governance Review 2012/13**

- 4.1 The review was undertaken by gathering assurance throughout the year from a number of sources via the Integrated Assurance Framework, and was led by the Corporate Assurance Group (CAG), which is chaired by the Head of Corporate Assurance and Procurement and made up of senior staff from across all directorates, as well as relevant specialists.
- 4.2 The review has considered assurance provided from:

- Members, through the Members Survey
- Heads of Service throughout the year
- Executive and Corporate Directors
- Specialist functions who have an oversight of the Council's governance arrangements
- Risk and Assurance Team
- Internal Audit
- External Auditor
- Other external agencies such as OFSTED

*Feedback from Members*

- 4.3 The Members Survey asks Members for their views on a number of different areas, including governance arrangements and role clarity. This area asks Members about how clear they are about their role and the governance arrangements in place within the Council. Members are also asked if they are sufficiently supported to carry out their role and are briefed appropriately. Positive responses were received to all of the questions in this area.

*Corporate Assurance Map*

- 4.4 The assurances gathered have been shown in a Corporate Assurance Map which has been updated and reviewed by the CAG on a quarterly basis and presented to the Audit and Governance Committee throughout the year. The Audit and Governance Committee have monitored the assurances provided, received progress regarding specific issues and considered the performance of the Internal Audit team.
- 4.5 The improvement plan agreed following the 2011/2012 Corporate Governance Review included 10 actions. The CAG reviewed progress on these actions and found that all were either complete or well progressed.
- 4.6 From the work undertaken, the Corporate Assurance Map as at 31<sup>st</sup> March 2013 is shown overleaf.

## Corporate Assurance Map

| Assurance Position (as at 31 <sup>st</sup> March 2013)<br>(Cumulative) | 2012/2013            |                                   |                     |  |                                  |         |                    |                |                    |
|--|----------------------|-----------------------------------|---------------------|--|----------------------------------|---------|--------------------|----------------|--------------------|
|  | Management Assurance | Other Internal Assurance Activity |                     |  |                                  |         | Risk and Assurance | Internal Audit | External Assurance |
|  |                      | Legal Services                    | Financial Resources | Transformation Programmes and Projects | Strategy, Policy and Performance | HR & OD |                    |                |                    |
| <b>Strategic Risk Areas</b>  |                      |                                   |                     |  |                                  |         |                    |                |                    |
| Economy  |                      |                                   |                     |  |                                  |         | Amber              |                |                    |
| Resources (external and internal)                                      |                      | Green                             |                     |  |                                  |         | Amber              |                | Green              |
| Unable to meet needs of the community                                  |                      |                                   |                     |  |                                  |         | Green              |                |                    |
| Reputation   |                      |                                   |                     |  |                                  |         | Green              |                |                    |
| Social breakdown   |                      |                                   |                     |  |                                  |         | Amber              |                |                    |
| Lack of effective strategic partnerships                               |                      |                                   |                     |  |                                  |         | Green              |                |                    |
| Planning and responsiveness to national agenda                         |                      |                                   |                     |  |                                  |         | Amber              |                |                    |
| <b>Corporate Risk Areas</b>  |                      |                                   |                     |  |                                  |         |                    |                |                    |
| Customer Focus / Service   | Green                |                                   |                     |  | Green                            |         | Green              |                | Green              |
| Legality   |                      | Green                             |                     |  |                                  |         | Green              | Green          |                    |
| Service / Business Planning  | Amber                |                                   |                     |  | Green                            |         | Amber              | Amber          |                    |
| Programme and Project Management                                       | Green                |                                   |                     | Green                                  |                                  |         | Amber              | Green          |                    |
| Change Management  |                      |                                   |                     | Green                                  |                                  | Green   | Amber              |                |                    |
| Partnerships   | Green                |                                   |                     |  |                                  |         | Amber              | Amber          | Green              |
| Business Continuity Planning   | Green                |                                   |                     |  |                                  |         | Green              | Amber          |                    |
| Procurement  | Green                |                                   |                     |  |                                  |         | Green              | Green          |                    |
| Relationship and Contract Management                                   |                      | Green                             |                     |  |                                  |         | Amber              |                |                    |
| Financial Management   | Green                |                                   | Green               |  |                                  |         | Green              |                | Green              |
| Human Resource Management  |                      |                                   |                     |  |                                  | Amber   | Amber              | Amber          |                    |
| Information Governance   | Green                | Amber                             |                     |  |                                  |         | Amber              | Amber          |                    |
| Performance Management   | Amber                |                                   |                     |  | Green                            |         | Amber              | Amber          | Green              |
| Asset Management   | Amber                |                                   |                     |  |                                  |         | Green              | Amber          |                    |
| ICT Strategy and Delivery  |                      |                                   |                     |  |                                  |         | Amber              | Amber          |                    |
| Fraud and Corruption   | Green                |                                   |                     |  |                                  |         | Amber              | Green          |                    |
| Risk Management (Service Delivery)                                     | Green                |                                   |                     |  |                                  |         | Green              | Green          | Green              |
| Housing Benefits   |                      |                                   |                     |  |                                  |         | Amber              | Green          |                    |
| Schools  | Green                |                                   | Green               |  |                                  |         | Green              | Green          |                    |

Key: X=activity planned, White=no coverage, **Green**=full / substantial assurance, **Amber**=moderate assurance, **Red**=limited / no assurance  
**Previously described as:** **Good** **Satisfactory** **Unsatisfactory**

### Strategic Risk Areas

- 4.7 The top section of the Map relates to the strategic risks identified in the Corporate Risk Profile. Progress against each of the planned actions to mitigate the risks has been assessed with the lead officers and assurance levels determined for all areas. The overall rating of the strategic risk areas has not changed.

### Assurance from Internal Audit

- 4.8 The Map shows the ongoing opinion of Internal Audit from work undertaken within the last two years plus work completed in 2012/13.

### Assurance from Risk and Assurance Team

- 4.9 Much of the work of the team is ongoing over a period of time due to the nature of their role, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work that will be ongoing into 2013/14 includes:

- Support to the development of alternative service delivery projects such as the Local Asset Backed Vehicle, Care and Support Project and the future of ICT delivery.
- Assurance work regarding Equal Pay Claims.
- Assurance on the delivery of the Workforce Transformation project (pay and grading review).
- Supporting the migration of services to the Customer Services Network.
- Supporting the delivery of the Workforce Planning Project.
- Assurance on the delivery of the Council's Transformation Programme.

- 4.10 The Risk and Assurance Team have also provided support to 28 schools to help them manage their risks. This takes into account assessments undertaken by other departments in the Council. Considering the work done by the Safeguarding, Asbestos, Internal Audit and the Risk and Assurance Team, the overall assessment for schools is considered to be substantial.

### Assurance from others within the Council

- 4.11 Assurance provided from others within the Council is shown in the Corporate Assurance Map above. Given the number of staff who left the Council last October under the severance scheme the Business Continuity Officer has changed the assurance level for business continuity to amber and highlighted that the risk in this area has increased due to service continuity plans not all being updated. This process is ongoing but not completed.



### Assurance from Management

- 4.12 Arrangements have been developed to obtain assurance from service Management in a number of areas. Members will note that the majority of risk areas are shown as having substantial assurance. These assessments have been used to inform the annual assurance statements provided by Executive and Corporate Directors.

### Assurance from External Sources

- 4.13 The Map shows five areas where Full or Substantial assurance has been received from external sources. This relates to the results of the recent OFSTED inspection into safeguarding children and services for children looked after, and the value for money opinion of the Audit Commission. The results of the OFSTED inspection gave an overall rating of 'Good' and specific ratings in relation to the relevant Corporate Risk areas are shown.

### Overall

- 4.14 The overall level of assurance for all risk areas has not changed from the update report presented in March 2013.

### Review of the Integrated Assurance Framework

- 4.15 The Partner organisation, PricewaterhouseCoopers, has carried out a review of the implementation of the Integrated Assurance Framework. The report is included later on the Committee Agenda but in summary, it concludes that good progress has been made so far and a number of recommendations have been agreed to further strengthen the arrangements.

### *Internal Audit Performance*

- 4.16 All of the targets set for Internal Audit were achieved.
- 4.17 The original Internal Audit Plan included 75 audits for the Council. Of these 10 were cancelled as follows:
- Four schools converted to Academies during the year.
  - Schools Admissions – Internal Audit was to review the new arrangements following a service review to ensure appropriate controls were still in place. The review was not completed and implemented therefore the audit could not take place.
  - Early childhood services – this was included in the support provided by the risk and assurance team in relation to responsive local services.
  - Traffic Management and Road Safety – being covered by the Risk and Assurance team through involvement in the project to review arrangements.

- Events company – the audit was to review the contract management arrangements with the newly formed Events Company. The company was established in April 2013 and therefore this audit is to be carried out during 2013/14.
- Corporate Performance Management – the arrangements were going through a review so support was provided to this rather than undertaking a formal audit.
- Contract Management Framework – the Council is developing a corporate framework for managing contracts. This was still in development and therefore the audit is to be carried out during 2013/14.

4.18 From the remaining 65 audits, two were ongoing at the end of March giving an achievement of 97% of the revised audit plan. An additional 13 unplanned audits were also completed during the year. Therefore, sufficient audit work has been undertaken to provide an internal audit opinion on the Council's overall system of control.

4.19 It is pleasing to report that the current percentage of medium risk recommendations implemented (excluding schools) stands at 90% - meeting the target.

#### *Counter Fraud / Error Work*

4.20 Counter fraud / error work was undertaken in the following areas during the year:

Car Mileage Claims  
 Honoraria / Pay Protection  
 Foreign Payments Bank Account  
 Purchasing Cards  
 Car Parks Income  
 Purchasing  
 BACS Payroll Transactions  
 Procurement

4.21 Audit work was also commenced in relation to overdrawn establishment / service bank accounts. This was still ongoing at the year end and will be concluded in 2013/14. No fraud was identified although the work identified some opportunities for improvements to the control environment. Substantial assurance is provided regarding the Council's anti fraud and corruption arrangements in the areas examined.

#### *Duplicate Payments*

4.22 During the year the Council engaged a company to review the Council's creditor payments to identify any potential duplicate payments and overpaid VAT. The company is paid a small percentage of any monies recovered therefore there is no cost to the Council of undertaking this exercise.

4.23 The table below shows the value of overpayments identified from the various activity, the amount that has been recovered and the amount that has not been able to be recovered:

| Description        | No. of transactions analysed | Value pf transactions analysed £ | Identified No. | Identified £       | Repaid £       | o/s £  |
|--------------------|------------------------------|----------------------------------|----------------|--------------------|----------------|--------|
| Duplicate payments | 612,531                      | 1,114,357,198                    | 43<br>(0.007%) | 60,094<br>(0.005%) | 43,872         | 16,222 |
| Unclaimed VAT      |                              |                                  | -              | 59,106             | 59,106         | 0      |
| <b>Total</b>       | 612,531                      | 1,114,357,198                    |                | 119,200            | <b>102,978</b> | 16,222 |

4.24 From the table it can be seen that the Council has recovered £102,978 of overpayments from this exercise. It is intended to complete the exercise again during the current year for a later period. The o/s amount is being reviewed to determine whether it is collectable.

#### *Corporate Governance Improvement Plan*

4.25 A small number of improvements were identified to strengthen the arrangements and these are detailed at Appendix 1.

4.26 The Improvement Plan also includes a small number of areas that the Council is already addressing but inclusion in the plan will facilitate monitoring to ensure that the planned actions are delivered within a reasonable timeframe bearing in mind the importance / nature of the actions.

#### *Local Code of Corporate Governance*

4.27 The local code of corporate governance was reviewed and updated to reflect current arrangements. The proposed new code is detailed at Appendix 2.

### **5. Draft Annual Governance Statement**

5.1 The Annual Governance Statement has been drafted taking into account the findings of the annual governance review and is attached at Appendix 3.

### **6. Conclusions**

6.1 This report sets out the assurance provided in the Corporate Assurance Map, work undertaken by the Internal Audit team and performance for Internal Audit for 2012/13.

- 6.2 Results of the work undertaken have not highlighted any issues which affect the opinion that overall throughout the Council there continues to be an adequate system of internal control.
- 6.3 The Council continues to have robust and effective corporate governance arrangements in place. The views elicited during the review from Members, senior managers across the Council, and all Chief Officers, demonstrate that the principles of good governance continue to be embedded Council-wide.
- 6.4 Whilst an Improvement Plan has been developed the review has not identified any weaknesses that would need to be highlighted in the Council's Annual Governance Statement.

## **7. Recommendations**

- 7.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map. The Committee is asked to:
- consider and agree the Improvement Plan included at Appendix 1, and the revised Local Code of Corporate Governance at Appendix 2, and recommend them to Cabinet, and
  - consider and agree the draft Annual Governance Statement at Appendix 3.

## 2012/13 Annual Review of Corporate Governance Arrangements - Improvement Plan for 2013/14

| Ref | Action   | EMT Lead      |
|-----|--|---------------|
| 1.  | The corporate toolkit in relation to Alternative Service Delivery Models should continue to be refined as the Council implements new models. | Malcolm Page  |
| 2.  | The Integrated Assurance Framework should be further developed to clarify the assurance gained from all sources.                             | Malcolm Page  |
| 3.  | Implement agreed actions to address budget issues regarding Adult Social Care.   | Neil Revely   |
| 4.  | Ensure that business continuity requirements are adequately considered as staff leave the Council as part of the Workforce Planning Project. | Sue Stanhope  |
| 5.  | Ensure that Business Continuity Plans are maintained throughout the ongoing transformational / significant changes across the Council.       | Janet Johnson |



## **Draft Revised Local Code of Corporate Governance**

### **Introduction**

The Council has a corporate governance framework in place which is aimed at ensuring that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. The corporate governance framework comprises the systems, processes, cultures and values through which the Council directs and controls its functions, and through which it accounts to, engages with and, where appropriate leads communities.

The Council's corporate governance framework is based upon guidance jointly issued by the Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA) and recommended as best practice.

The framework is based upon the following six core principles:

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
- Members and employees working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and employees to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

Each of these six core principles have supporting principles with associated requirements and the Code sets out how the Council aims to meet these requirements.

The framework is summarised in a table at Annex 1.

## **Core Principle 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area**

As part of the Sunderland Partnership the Council has produced the Sunderland Strategy (2008-2025) – the sustainable community strategy which draws together a shared vision, principles for action and priorities for the City. Linked with this the Council's own overarching plan, the Corporate Plan, sets out explicitly the Council's planned key actions and performance targets for the future. Community leadership runs through all the council's work and shapes how we work with our communities. The Council will:

- develop and promote the Council's purpose and vision as a Community Leadership Council.
- review on a regular basis the Council's vision for the local area and its impact on the Council's governance arrangements
- ensure that partnerships are underpinned by a common vision that is understood and agreed by all parties
- publish an annual report on a timely basis to communicate the Council's activities, achievements, financial position and performance incorporated within the Corporate Plan annual update
- decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available
- put in place effective arrangements to identify and deal with failure in service delivery
- decide how value for money is to be measured and make sure that it has the information needed to review value for money and performance

## **Core Principle 2 - Members and employees working together to achieve a common purpose with clearly defined functions and roles**

All Council members and key officer roles and functions are set out in the Council's Constitution, there is a protocol on member / employee relations and an agreed set of organisational values underpinning all of the Council's work. The Council will:

- set out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and its approach towards putting this into practice
- set out a clear statement of the respective roles and responsibilities of other authority members, members generally and of senior officers
- determine a scheme of delegation and reserve powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the Council taking account of relevant legislation and ensure that it is monitored and updated when required



- make the Chief Executive responsible and accountable to the Council for all aspects of operational management
- develop protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained
- make a senior officer responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control
- make a different senior officer responsible to the Council for ensuring that agreed procedures are followed and that all applicable statutes, regulations are complied with
- develop protocols to ensure effective communication between members and employees in their respective roles
- set out the terms and conditions for remuneration of members and employees and an effective structure for managing the process including an effective remuneration panel
- ensure that effective mechanisms exist to monitor service delivery
- ensure that the Council's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated
- when working in partnership ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Council
- when working in partnership ensure that there is clarity about the legal status of the partnership, and ensure that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions

**Core Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

All Council Members and staff are required to act in accordance with codes of conduct and high standards are promoted across the Council and with its partners. The Council will:

- ensure that its leadership sets a tone for the organisation by creating a climate of openness, support and respect
- ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the Council, its partners and the community are defined and communicated through codes of conduct and protocols
- put in place arrangements to ensure that members and employees of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. The Council will put in place appropriate processes to ensure that they continue to operate in practice

- develop and maintain shared values including leadership values both for the Council and staff reflecting public expectations, and communicate these with members, staff, the community and partners
- put in place arrangements to ensure that procedures and operations are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice
- develop and maintain an effective standards committee
- use its shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Council
- in pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively

**Core Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

The Council conducts all business in an open and transparent manner, and has formal processes for declaring relationships or interests to ensure that decision-making is transparent and objective. There is a robust system of scrutiny and effective arrangements for managing risks. The Council will:

- develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the Council's performance overall and of any organisation for which it is responsible
- develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based
- put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice
- develop and maintain an effective audit committee which is independent
- put in place effective transparent and accessible arrangements for dealing with complaints
- ensure that those making decisions, whether for the Council or a partnership, are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications
- ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately
- ensure that risk management is embedded into the culture of the organisation, with members and managers at all levels recognising that risk management is part of their job
- ensure that arrangements are in place for whistle blowing to which staff and all those contracting with the Council have access
- actively recognise the limits of lawful activity placed on the Council by, for example the ultra vires doctrine but also strive to utilise powers to the full benefit of their communities

- recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on the Council by public law
- observe all specific legislative requirements placed upon the Council, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law - rationality, legality and natural justice into their procedures and decision making processes

**Core Principle 5: Developing the capacity and capability of members and employees to be effective**

The Council recognises the importance of having highly skilled and motivated Members and staff to deliver its priorities and to sustain public confidence in its services. The Council is committed to the development of Members and staff skills, knowledge and performance through programmes of induction, training and development. The Council will:

- provide induction and training programmes tailored to individual needs and opportunities for members and employees to update their knowledge on a regular basis
- ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the organisation
- assess the skills required by members and employees and make a commitment to develop those skills to enable roles to be carried out effectively
- develop skills on a continuing basis to improve performance including the ability to scrutinise and challenge and to recognise when outside expert advice is needed
- ensure that effective arrangements are in place for reviewing the performance of the Council as a whole and of individual members and agreeing an action plan which might for example aim to address any training or development needs

**Core Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability**

The Council has a consultation framework aimed at ensuring the community is given the opportunity to be involved in, and influence, policy-making, service delivery and evaluation in order to continually improve services. Key to our success as a council is the way we engage our local communities through Community Leadership. The Council will:

- make clear its role and responsibilities to Members, staff and the community
- consider those institutional stakeholders to whom they are accountable and assess the effectiveness of the relationships and any changes required
- produce an annual report on scrutiny function activity

- ensure that clear channels of communication are in place with all sections of the community and other stakeholders including monitoring arrangements to ensure that they operate effectively
- hold meetings in public unless there are good reasons for confidentiality
- ensure arrangements are in place to enable the Council to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands
- establish a clear policy on the types of issues it will meaningfully consult on or engage with the public and service users including a feedback mechanism for those consultees to demonstrate what has changed as a result
- ensure that it is open and accessible to the community, service users and its staff. It will also ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so
- develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making

### **Annual Governance Review**

The Council will conduct, at least annually, a review of the effectiveness of the corporate governance framework including the system of internal control. The Corporate Assurance Group (CAG) will lead this review. Membership of the CAG is as follows:

- Head of Corporate Assurance and Procurement (Chair)
- Head of Financial Resources
- Head of Law and Governance
- Deputy Director of Human Resources and Organisation Development
- Audit, Risk and Assurance Manager
- Audit Manager
- Lead Risk and Assurance Specialists
- Senior Management Representatives from all Directorates

The review will be informed by the Council's Integrated Assurance Framework which is designed to gather assurance on an ongoing basis from all relevant sources across the Council.

A report on the findings and recommendations arising from the review will be presented to the Council's Executive Management Team, Audit and Governance Committee and Cabinet.

June 2013

## Annex 1 – Governance Framework

| Purpose and Outcomes  | Roles and Responsibilities | Values     |
|---|----------------------------|------------|
| Taking Effective Decisions  | Capacity and Capability    | Engagement |
| The corporate governance framework comprises the systems, processes, cultures and values through which the Council directs and controls its functions, and through which it accounts to, engages with and, where appropriate leads communities. |                            |            |



| Key Documents Produced / Reviewed Annually  | Key Documents Produced / Reviewed As Required   | Supporting Processes, Monitoring and Regulation  |
|---|---|--|
| Annual Statement of Accounts<br>Corporate Plan<br>Strategic Risk Profile<br>Council tax leaflet<br>Medium Term Financial Strategy<br>Members Allowances Scheme<br>Service Plans<br>Treasury Management Strategy / Annual Review | Anti Fraud and Corruption Policy<br>Business Continuity Management Arrangements<br>Complaints Procedure<br>Constitution<br>Consultation and Involvement Toolkit<br>Corporate Health and Safety Policy<br>Corporate Complaints Policy<br>Procurement Policy and Strategy<br>Delegated Decision Records<br>Directorate Delegation Schemes<br>Employees' Code of Conduct<br>Member / Employee Relations Protocol<br>Member Training and Development Programme<br>Members' Code of Conduct<br>Monitoring Officer Protocol<br>Partnership Agreements<br>Partnerships Code of Practice<br>Sunderland Leadership Programme<br>Vision and Values<br>Whistle Blowing Policy and Arrangements | Area Committees / Frameworks<br>Annual Governance Review and Statement<br>Audit and Governance Committee<br>Budget Management Framework<br>Committee Management Information System<br>Consultation Arrangements<br>Corporate Appraisal Process<br>Corporate Assurance Group<br>Corporate Assurance Map<br>Employee Declarations of Interest<br>External Audit (Annual Audit Letter)<br>Financial Procedure Rules<br>Inspectorate Reports<br>Integrated Assurance Framework<br>Internal Audit<br>Job profiles<br>Joint Consultative Arrangements<br>Monitoring Officer role<br>Procurement Procedure Rules<br>Register of Member's Interests<br>Scrutiny Arrangements<br>Section 151 Officer<br>Standards Committee<br>Website and Intranet |



## 2012/13 Draft Annual Governance Statement

### 1. SCOPE OF RESPONSIBILITY

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is used economically, efficiently and effectively and is safeguarded properly accounted for. We also have a duty to continually review and improve the way things are done.

We have put in place a local Code of Corporate Governance and a framework intended to make sure we do the right things in the right way for the right people. The Code is on the Council's website [\[here\]](#) or can be obtained from the Executive Director of Commercial and Corporate Services. This Statement explains how the Council has complied with its Code in 2012/13.

### 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values that direct and control our activities and through which we account to, engage with, and lead the community. The framework enables us to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The governance framework has been in place at the Council for the year ended 31st March 2013 and up to the date of approval of the Annual Report and Statement of Accounts.

### 3. THE GOVERNANCE FRAMEWORK

- 3.1 There is a clear vision of our purpose and intended outcomes for citizens and service users that is clearly communicated, both within and outside the organisation. The [Sunderland Strategy 2008-2025](#) provides the framework for members of the [Sunderland Partnership](#), organisations, groups of people and individuals, to work together to improve the quality of life in Sunderland by 2025. It sets out a Vision for the city and its people and how everyone will work together to achieve that Vision:

*“Creating a better future for everyone in Sunderland - Sunderland will be a welcoming, internationally recognised city where people have the opportunity to fulfil their aspirations for a healthy, safe and prosperous future.”*

- 3.2 The Council has developed a set of guiding principles to help decision making and agree priorities. These are:
- Elected members are community leaders at the core of decision making
  - Our communities, residents and businesses are at the centre of everything we do
  - We encourage, respect and value innovation and enterprise
  - We demand high performance, personal responsibility and personal accountability
  - We value people's individual contributions to our collective goals
  - We are ambitious for the city and for ourselves; we view all change as an opportunity; we celebrate and build on our past without being confined by it.
- 3.3 To translate these principles into clear outcomes that will deliver its vision for the city the Council has set three strategic priorities:
- People** – raising aspirations, creating confidence and promoting opportunity  
**Place** – leading the investment in an attractive and inclusive city and its communities  
**Economy** – creating the conditions in which businesses can establish and thrive.
- 3.4 The Corporate Plan sets out our priorities and the significant actions we will take. These, in turn, shape the activity of our various services and how we will focus our resources. We are clear where we need to get to and what we need to do to get there.
- 3.5 Arrangements are in place to review our vision and its implications for the authority's governance arrangements. The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the authority's vision remains relevant and meets the needs of local communities. There are annual reviews of the local Code of Corporate Governance to ensure that it is up to date and effective. The reviews are carried out by the Council's Corporate Assurance Group using assurances and information gathered through the Integrated Assurance Framework (IAF) which was put in place in 2012/13. The IAF brings together assurances from all available internal and external sources.
- 3.3 Arrangements are in place to measure the quality of our services, to ensure they are delivered in line with our objectives and for ensuring that they provide value for money. There are clear and effective performance management arrangements including staff appraisals for Directors and key staff, which address financial responsibilities. Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions and person specifications.
- 3.4 The roles and responsibilities of Council members and employees are clearly documented, with clear delegation arrangements and protocols for effective communication. The Council's [Constitution](#) sets out how the Council operates.



It incorporates a clear delegation scheme, indicates responsibilities for functions and sets out how decisions are made.

3.5 The Constitution includes Rules of Procedure and a scheme of delegation which clearly define how decisions are taken and we have various Codes and Protocols that set out standards of behaviour for members and staff. Directorates have established delegation schemes, although these require regular updating to reflect ongoing organisational changes.

3.6 During the year a system of scrutiny was in place allowing the scrutiny function to:

- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
- make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
- consider any matter affecting the area or its inhabitants; and
- exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees; and
- consider Local Petitions and Councillor Calls for Action for matters within their terms of reference.

3.7 A range of financial and HR policies and procedures are in place, as well as robust and well embedded risk management processes. Appropriate project management disciplines are utilised and Business Continuity Plans are in place, which are subject to ongoing review. There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts. There are clearly defined capital expenditure guidelines in place and procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

3.8 The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Executive Director of Commercial and Corporate Services is the designated Chief Finance Officer and fulfils this role through the following:

- Attendance at meetings of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
- Alignment of medium term business and financial planning processes;
- Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively;

- Ensuring that the finance function is resourced to be fit for purpose.
- 3.9 The Council has an Audit and Governance Committee which, as well as approving the Authority's Statement of Accounts, undertakes an assurance and advisory role to:
- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
  - be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
  - receive and consider (but not direct) internal audit's strategy, plan and monitor performance;
  - receive and consider the external audit plan;
  - review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
  - receive and consider the annual report of internal audit;
  - consider the reports of external audit and inspection agencies, including the Annual Audit Letter;
  - ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
  - review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit;
  - review the adequacy of and compliance with, the Councils Treasury Management Policy; and
  - make recommendations to Cabinet or Council as appropriate.
- 3.10 We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Head of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities. All Cabinet Reports are considered for legal issues before submission to members.
- 3.11 The Council's internal audit service has been subject to an independent review of its effectiveness which concluded that the service operates in accordance with professional standards.
- 3.12 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they can easily report their concerns. Monitoring records held by the Head of Law and Governance reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately.

The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

- 3.13 We have arrangements to identify the development needs of members and senior officers in relation to their strategic roles. The Community Leadership Programme has continued to support elected Members to fulfil their community leadership role, including the introduction of Account Managers for all Members. The Council's HR Strategy identifies managing the performance of all of employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation of the extent to which employees understand and support the values of the Council.
- 3.14 Clear channels of communication have been established with all sections of the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that services meet the needs of local people. Community Spirit is Sunderland's residents' panel, currently made up of around 1,500 residents from all parts of the city.
- 3.15 Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships, and are reflected in the authority's overall governance arrangements. The Council has published a Code of Practice for Partnerships which includes a template for Partnership Agreements and a range of checklists to ensure key risk areas are considered and addressed. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and employees to review existing arrangements. A Register of Partnerships is maintained. The significance of partnerships is identified using an assessment scorecard recommended by CIPFA.

#### **4. REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is carried out over the course of the year through the Integrated Assurance Framework. The review is informed by the Corporate Assurance Map which summarises assurances gathered from all available sources and in particular:

- The views of Members through participation in a survey covering governance issues and through the activity of the Scrutiny and Standards Committees.
- Assurances from Heads of Service who have carried out self-assessments relating to their areas of responsibility.
- Assurances from Chief Officers who have provided Controls Assurance Statements relating to their area of responsibility, having considered the detailed self-assessments from their Heads of Service.

- Assurances from senior officers responsible for relevant specialist areas.
- Internal audit planning processes which include consultation with all Chief Officers, and audit activity as detailed in the Internal Audit Annual Report. The external auditor has conducted a review of the effectiveness of Internal Audit Services and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.
- The Audit Commission's Annual Audit Letter for 2011/12 provides an unqualified opinion on the financial statements. The report confirms that the Council has proper arrangements in place to secure financial resilience, and for challenging how it secures economy, efficiency and effectiveness.
- An Ofsted inspection of the Adoption Service took place in 2012/13 which gave a judgement for overall effectiveness of Good. Inspections also took place in Children's Homes and Children's Centres which gave judgements of Adequate or Good. Findings of external inspectorates are used to support continuous service improvement.

The Executive Director of Commercial and Corporate Services (the Chief Financial Officer) has directed, co-ordinated and overseen the review and its findings have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.

The findings of the review have been reported to the Audit and Governance Committee. Under their Terms of Reference the Committee have satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it.

The Leader of the Council, the Chief Executive and the Executive Director of Commercial and Corporate Services have overseen the review and signed the Annual Governance Statement.

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an improvement plan has been agreed.

We propose over the coming year to take steps to implement the improvement plan to further enhance the Council's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review and we will monitor their implementation and operation as part of the next annual review.

Paul Watson  
Leader of the Council

Dave Smith  
Chief Executive

Malcolm Page  
Executive Director of  
Commercial and Corporate  
Services

Dated

**AUDIT AND GOVERNANCE COMMITTEE**

**28<sup>th</sup> June 2013**

**ANNUAL REPORT ON THE WORK OF THE COMMITTEE 2012/13**

**Report of the Executive Director of Commercial and Corporate Services**

**1. Purpose of Report**

- 1.1 This report provides a summary of the work undertaken by the Audit and Governance Committee during 2012/13 and the outcome of this work. The purpose of this report is to demonstrate how the Committee has fulfilled its role and will be presented to Council once agreed by this committee.

**2. Role of the Committee**

- 2.1 The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its role is to:
- approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be);
  - consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
  - be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
  - receive, consider and monitor reports on treasury management policy, strategy and practices.
- 2.2 To enable the Committee to fulfil its role effectively awareness / update sessions have been held to provide members of the Committee with information on relevant issues. Sessions provided include the following:
- Statement of Accounts and International Financial Reporting Standards.
  - Update on changes resulting from the Council's improvement programmes.

### **3. Matters Considered**

- 3.1 The Committee has met five times during the course of the year to consider a range of issues. Appropriate officers of the Council have been in attendance at the meetings to present reports and provide additional information in order to clarify issues and respond to questions from members of the Committee. Regular attendees at the meetings are the Executive Director of Commercial and Corporate Services, Head of Corporate Assurance and Procurement, Head of Law and Governance and the Council's External Auditors.
- 3.2 To enable the Committee to fulfil its role as set out in paragraph 2.1, a range of reports were considered, as follows:
- a) The Committee endorsed the Corporate Assurance Map for 2012/13 which set out what areas assurance will be gathered on and where the assurance will be sought from. The report included the plans of work for the year for the Internal Audit and Risk and Assurance teams, and the performance indicators for Internal Audit. The Committee was also given the opportunity to identify any areas of work to be considered for 2012/13.
  - b) A progress report in relation to the Corporate Assurance map was presented on a quarterly basis. These provided details of the level of assurance for the strategic and corporate risks areas from management, specialist assurance functions, Internal Audit, Risk and Assurance, the external auditor and other external agencies. Specific key issues were highlighted within the reports for members to consider further, specifically in relation to the rate of implementation of internal audit recommendations by directorates, which improved during the course of the year. It is pleasing to note that the Internal Audit Plan was delivered with all of the Key Performance Indicators being met. The head of internal audit's opinion on the Council's internal control environment was positive.
  - c) The committee reviewed its remit and effectiveness during the year. The review confirmed that the Council's arrangements continue to comply with the CIPFA guidance.
  - d) An annual review of the effectiveness of Internal Audit is carried out and the results of this review were reported to members to provide assurance that the arrangements in place are sound. The review, undertaken by the external auditor (Mazars) is very positive, and concluded that the internal audit function continues to meet all relevant professional standards.

- e) External Auditors provided reports detailing their Interim Opinion report, their fees, the Annual Audit Letter, Annual Governance Report, and the Annual Grants report. In addition progress reports were provided to the latter meetings in the year. These reports provided a very positive opinion regarding the Council's performance, governance, financial management and value for money arrangements. The External Auditor was also able to confirm that the objection to the accounts which had prevented previous years statement of accounts being signed off, had been resolved.
- f) The updated Risk Management Strategy and Policy for the Council was presented to Members for their comments. Progress was reported in relation to the actions taken to mitigate risks on the Corporate Risk Profile.
- g) The results of the Annual Governance Review for 2011/12 were presented, which summarises the overall governance arrangements in place within the Council, and makes recommendations for further improvement. The resultant draft Annual Governance Statement highlighted the good corporate governance arrangements in place and was approved by the Committee and included within the Council's Statement of Accounts.
- h) The annual Statement of Accounts 2011/12 (subject to audit) was presented for members to challenge and approve before they were made available for public inspection and to the external auditors. Once the external auditor had completed the audit, any amendments were submitted back to the Committee for approval. The Committee also received information regarding the International Financial Reporting Standards. The External Auditor commented positively on the arrangements the Council has in place with regard to the production of the Accounts.
- i) The Committee received reports in relation to the Council's Treasury Management arrangements to receive assurance that they are appropriate and approved the Treasury Management Policy and Strategy. The Committee noted the good performance in this area, specifically with regard to security and level of return.
- j) A report was presented to Committee setting out the Councils Counter Fraud Strategy. This explained the Council's arrangements to combat fraud and included an improvement plan to strengthen the arrangements further.
- k) Members received a report setting out the proposal to form a Single Fraud Investigation Service covering the work of the Department of Work and Pensions, Local Authority Benefit Fraud Investigators, and HRMC in relation to tax credits. The single service aims to rationalise the investigation and prosecution policies into a single way of working.

- I) The Committee was updated on the results of the work undertaken to investigate the matches provided through the National Fraud Initiative administered by the Audit commission. This compares data for a number of services across a number of organisations to identify potential frauds. No particular concerns were highlighted but Members commented that they were pleased the Council was continuing with this initiative, especially given Welfare Reform.

3.3 From the reports presented the Committee has been proactively monitoring activity in a number of important areas, as follows:

- *Implementation of Agreed Internal Audit Recommendations* – The implementation of actions agreed with Directorates as a result of Internal Audit work are monitored and reported to Members on a quarterly basis. The Committee take particular interest in the performance of individual directorates. In particular the performance of Children’s Services and Health, Housing and Adults Services were discussed and improvements sought.
- *Integrated Assurance Framework* – The Committee received quarterly update reports in relation to the assurance provided through the Corporate Assurance Map. This co-ordinates assurance from different sources to provide an overall view of the governance arrangements within the Council and its arrangements to manage risks.
- *Corporate Risk Profile* – The Committee have received updates regarding the Council’s Corporate Risk Profile through the corporate Assurance Map.

3.4 It can be seen that the work of the committee is wide ranging with members monitoring performance more closely in those areas where it was deemed appropriate.

#### **4. Recommendation**

4.1 The Committee is asked to consider the report and provide any comments for inclusion prior to the report being presented to Council.



**AUDIT AND GOVERNANCE COMMITTEE**

**28 June 2013**

**STATEMENT OF ACCOUNTS 2012/2013 (SUBJECT TO AUDIT)**

**REPORT OF THE EXECUTIVE DIRECTOR OF COMMERCIAL AND CORPORATE SERVICES**

**1. Purpose of the Report**

- 1.1 To provide members with the certified copy of the Council's Statement of Accounts 2012/2013 (Subject to Audit) as at 30<sup>th</sup> June 2013 (Appendix A) – copy to follow separately. Any late adjustments to the accounts will if necessary be tabled at the meeting.
- 1.2 To provide members with the draft Letters of Assurance required by the external auditor as part of the final accounts process.

**2. Description of Decision**

- 2.1 The Committee is requested to note the Statement of Accounts 2012/2013 (Subject to Audit).
- 2.2 Members are requested to approve the contents of the Letter of Assurance from those charged with governance (Appendix B) and, to note the Letter of Assurance from those charged with discharging management processes and responsibilities (Appendix C).

**3. Introduction**

- 3.1 The Council has implemented the new financial reporting requirements set out in the Accounts and Audit Regulations 2011 whereby the Accounts subject to audit need only be certified by the Relevant Finance Officer by 30<sup>th</sup> June of each year. The Accounts once audited however, still need to be approved by members of this Committee at its planned meeting in September, as the audited Accounts of the Council must be formally approved before 30<sup>th</sup> September of each year.
- 3.2 The Accounts comply with International Financial Reporting Standards (IFRS), as they did for the first time for the 2010/2011 accounts. In an attempt to help make the accounts more meaningful to members, a Summary paper (Appendix D) and Handout (Appendix E) will be tabled at the meeting for member's information.

#### **4. Statement of Accounts 2012/2013 (Subject to Audit)**

- 4.1 The financial statements for 2012/2013 subject to audit are attached in Appendix A for information and have been certified as at 28<sup>th</sup> June by the Executive Director of Commercial and Corporate Services in accordance with the regulations.
- 4.2 Members should note that the Foreword by the Executive Director of Commercial and Corporate Services to the Accounts will provide a helpful summary of the main financial issues for 2012/2013 for the Council and is there to help put the Accounts, which are necessarily very complex in nature, into context.
- 4.3 Members should they wish, are also able to ask questions on the Accounts at this stage, before the audit has been completed, although they will have a further opportunity in September when the audited Accounts are to be formally considered for approval.
- 4.4 Quality checks continue on the accounts right up until the time they are approved by this committee in order to ensure the Accounts presented subject to audit reflect the most accurate and best set of accounts possible. Each year a set of presentational adjustments are provided for approval along with the accounts. Appendix F sets out the proposed changes, if any, where appropriate.

#### **5. Reasons for Decision**

- 5.1 To note the Statement of Accounts 2012/2013 (subject to audit).
- 5.2 To approve the contents of the Letter of Assurance from those charged with Governance and, to note the Letter of Assurance from those charged with discharging management processes and responsibilities as required.

#### **6. Alternative Options**

- 6.1 No alternatives are submitted for Members consideration.

Mr G Barker  
Mazars LLP  
Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

## Appendix B

Date: 28<sup>th</sup> June 2013  
Our ref:  
Your ref:

Dear Gavin,

### **Audit of Sunderland City Council - Financial Statements for the year end 31 March 2013 - Understanding your management processes and arrangements**

I am writing with reference to your letter to the Audit Committee on 24 April 2013, in relation to "Assurances from the Audit and Governance Committee as the body charged with Governance", which seeks relevant assurances from those charged with governance required by external auditors under the International Auditing Standards. These assurances are provided below, representing Sunderland City Council's formal response from those charged with governance, which, for the purposes of the financial statements, is the Audit and Governance Committee.

As in previous years, the Audit and Governance Committee have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the council which might have an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where officers and auditors have discussed key risks) and, to the extent that it is necessary, in the production of the financial statements. The process for the production of the Annual Governance Statement should also mean that all key risks which would relate to the financial statements have been considered. In response to your letter dated 24 April 2013 please therefore find responses to your questions below and the completed Appendix 1, as requested.

Specific assurances:

**1) I exercise oversight of management's processes through receiving reports as the Chair of the Audit and Governance Committee and discussions with key officers. I am aware of the following arrangements:**

- ***undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error;***

This responsibility is exercised through the effective functioning of the Audit and Governance Committee, the constitution and operation of which follows CIPFA guidelines.

The Executive Director of Commercial and Corporate Services (EDCCS) and Head of Corporate Assurance and Procurement (HCAP) attend all meetings of the Audit and Governance Committee to discuss and review findings of Internal and External Audit reviews and the level of adequacy of management's response. The Audit and Governance Committee also consider the Annual Governance Statement and the actions taken and proposed in relation to improving governance and internal controls.

The committee also reviews the Internal Audit Strategy and Annual Internal Audit Plan and is able to comment on areas proposed for review. The council's Corporate Risks are regularly reported and reviewed by the Committee and the council's Internal Audit Plan ensures that fraud risk or related concerns are escalated through to the appropriate level or to this committee if appropriate. Ad-hoc meetings between the Chair and the HCAP and/or EDCCS also take place where necessary. Roles and responsibilities of members and officers are clearly set out in Codes of Conduct, the Scheme of Delegation, Anti Fraud and Corruption Policy (including the Fraud Response Plan) and in the Risk Management Policy and Strategy which also describe the relevant registers, declarations and escalation processes to be complied with.

The Audit and Governance Committee declares that it has no knowledge of any actual, suspected or alleged fraud that could affect the council in relation to the 2012/13 financial statements.

- ***identifying and responding to risks of fraud in the Council;***

The council has an Anti Fraud and Corruption Policy which is regularly updated and approved by the committee. The committee reviews the Internal Audit Strategy and Annual Internal Audit Plan, which includes the Counter Fraud Work Programme for the year. The Counter Fraud Work Programme is based on a Fraud Risk Assessment for the effective deployment of resources and includes both reactive and proactive work. The committee receives regular updates on progress against the Counter Fraud Work Programme with any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud. Updates are also presented on the implementation of the control improvements.

The system of internal control is a significant part of the Governance framework within the Council and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Internal management control arrangements are in place which should identify and prevent fraud risks from occurring and detect them if they do occur. The Council engages in numerous fraud prevention and identification activity including corporate processes such as participating in the National Fraud Initiative as well as specific service based fraud identification activity. Should a fraud risk occur then the Council's Fraud Response Plan is followed to ensure concerns are raised at the appropriate level and investigated thoroughly.

- ***communicating to employees its view on business practice and ethical behaviour and communicating to you the processes for identifying and responding to fraud and error;***

Written procedures are in place covering financial and administrative matters which are communicated to staff through the induction process, through management and are available on the Council's intranet site. These documents are regularly updated and set out the standards of conduct that are expected, the policies and procedures which should be followed and what to do if staff have concerns that these arrangements are not being complied with. Internal Audit carry out a programme of work which includes assessing the level of compliance against the Council's key policies and procedures. Key procedures include:

- Codes of conduct;
- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy (including the Fraud Response Plan);
- Corporate Health and Safety Policy;
- Corporate Complaints Policy;
- Corporate Procurement Strategy;
- Code of Practice for Partnerships;
- Treasury Management Strategy;
- Directorate / department budget management schemes.

The Counter Fraud Strategy which supports the delivery of the aims of the Council's Anti Fraud and Corruption Policy was presented to the Audit and Governance Committee in December 2012. This set out in detail a new approach to be adopted by the council in tackling fraud across the broad spectrum of the council and council funded services.

The key elements of the revised Strategy include:

In order to effectively tackle fraud it is important that a holistic approach is adopted, focused on preventing fraud occurring in the first place, seeking it out and correcting it where it does exist, and delivering swift and effective punishments to those who attack the Council, whilst deterring others from considering the same course of action.

Under the Integrated Assurance Framework established within the Council, managers are clearly responsible for establishing appropriate controls and for ensuring they are working in practice. The Framework also aims to co-ordinate all assurance activity, including that in relation to fraud and to ensure arrangements are working effectively across the Council. This includes the co-ordination of fraud prevention, detection and investigation arrangements.

The Audit, Risk and Assurance service has the expertise in relation to the design of control systems that aim to manage the risk of fraud. The Risk and Assurance team has been created to provide advice and guidance in relation governance and control matters, including fraud, at the earliest stage to ensure appropriate controls are designed into arrangements as they are being established. This team also undertakes investigations of suspected fraud and corruption.

The Internal Audit team maintains the fraud risk assessment for the Council and

undertakes compliance work aimed at detecting fraud and providing assurance on the effectiveness of the controls in place. Internal Audit will also review the effectiveness of management in establishing fraud prevention controls and monitoring compliance with them.

The service aims to embed a collaborative approach to tackling fraud with an agreed approach to be adopted across the whole Council and its activities and includes counter fraud work undertaken in any service of the Council, schools, partnerships within which the Council is involved, third parties providing services to or on behalf of the Council and other organisations receiving or holding Council funds.

The Audit and Governance Committee met five times during 2012/13 with a quarterly Corporate Assurance Map Update report being submitted as part of the Integrated Assurance Framework. The Update reports set out the work done to identify fraud and the results of this work and the updated position regarding each risk area identified in the Corporate Assurance Map.

Private meetings are held between the head of internal audit, the External Auditor and members of the Audit and Governance Committee to discuss the detail of any significant investigations into suspected cases of fraud and corruption.

**2) I am made aware of management processes for identifying and responding to the risk of fraud and possible breaches of internal control through receiving reports as the Chair of the Audit and Governance Committee and discussions with key officers.**

I am aware that arrangements are set out in the Council's Fraud Response Plan, part of the Council's Anti Fraud and Corruption Policy. This sets out how concerns should be reported and who to, what people who suspect fraud should and should not do and what the person who receives the concerns should and should not do. The Fraud Investigation Plan sets out how investigations of concerns should be carried out.

During 2012/13, I was made aware of two breaches of control, neither of which were material in nature. The details of these cases have been discussed in detail with the External Auditor.

**3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2012-13? If so, please provide details**

I am not aware of any actual, suspected or alleged frauds other than those reported to the committee as part of the regular updates on the Counter Fraud Work Programme. The Committee is aware that all council matters are reviewed for their legality to ensure council expenditure, services and actions are within the law. As such this Committee has reassurance that legal advice is sought where appropriate and that all reports to council and members must be reviewed by the legal services section and that legal representation is made at all council meetings.

Cabinet reports are vetted by or on behalf of the monitoring officer to ensure compliance with legal requirements and there is legal representation at Cabinet meetings. In addition, the monitoring officer and senior members of Legal Services also have access to reports which are considered by the Executive Management Team. As part of their job description,

solicitors are required to keep up to date with new and emerging legislation which affects local government. To assist in this role, the team subscribe to an electronic legal update service and various legal publications and regularly attend relevant training courses. As a member of the Association of Council Secretaries and Solicitors and Northern Secretaries Group, information is shared with other local authorities both regarding new legislation and case law and the approach and application of existing legal requirements.

In respect of new legislation or developments in case law, briefing notes or reports are prepared as appropriate and policies and procedures developed in conjunction with officers from the relevant Council departments.

Regular team meetings are held within Legal Services both at "service area" level and senior management team level, at which any concerns regarding the Council's compliance with legal requirements could be raised and addressed.

The Council's internal audit team regularly carries out audits of the Council's corporate legality arrangements, with the objective of providing assurance that the Council has arrangements in place to ensure that it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. The last review carried out in 2012 reported that there were no issues or concerns raised and the audit gave full assurance regarding the Council's arrangements to ensure legality. The audit concluded that the controls evaluated were well designed, appropriate in scope and applied consistently and effectively.

**4) Are you aware of any actual or potential litigation or claims that would affect the financial statements? If so, please provide details.**

On behalf of the Audit and Governance Committee I declare that it has no knowledge of and is not on notice of any non-compliance with laws and regulations that could impact on the 2012/13 financial statements

**5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern? If so, please provide details.**

The council by its very nature is a going concern and the Committee has no reason to believe that any events would impact on this position. The fact the council shows a net worth of £341m and assets worth over £1,117m, with cash backed reserves of over £166m would support our view. The council is also extremely well managed and prudent in its approach to all financial matters which is reflected in the strong Balance Sheet presented to this committee as part of the Statement of Accounts for 2012/13.

Yours sincerely,  
Geoff Cook

Chairman of the Audit and Governance Committee





| No. | Questions for management   | Those charged with governance response  |
|-----|--|---|
| 1   | <p>Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2012 – 31 March 2013?</p>  | <p>Two breaches of control, neither of which were material in nature occurred. The details of these cases have been discussed in detail with the External Auditor.</p> <p>Neither are material to the Accounts</p>  |
| 2   | <p>Do you suspect fraud may be occurring within the Council?</p> <p>Have you identified any specific fraud risks within the Council?</p> <p>Do you have any concerns that there are areas within your Council that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p> | <p>A fraud risk assessment is in place and is regularly updated which covers all appropriate parts of the Council. This covers areas of fraud risks, sets out the individual risks, a score for the risks and tests that are carried out to identify potential fraud taking place. A programme of proactive counter fraud work is undertaken every year by Internal Audit which did not identify any areas of concern.</p> <p>The Council also takes part in the Audit Commission's NFI programme which also has not identified any areas of concern.</p>   |
| 3   | <p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <p>If not where are the risk areas?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p>  | <p>Internal controls regarding segregation of duties are in place and the results of Internal Audit work have not highlighted any material concerns. An adequate opinion on the system of internal control has been reported to the Audit and Governance Committee for the year.</p> <p>The Council has an Anti Fraud and Corruption policy and supporting documents in place which is available to all staff on the Council intranet and is included in the induction process.</p> <p>Other controls in place include a robust budget management framework which includes detailed support for Financial Resources, verification checks in key systems such as payroll, BACS payments, Accounts Payable which are aimed at identifying fraud or errors, the majority of Council payments are</p> |

|   |   |  |
|---|---|--|
|   |   | through the Supplier Relationship Management system which ensures authorisation of payments by an approved authorised officer. There has been a significant amount of work undertaken across the Council to raise awareness of Information Governance issues and encourage staff to keep information secure.   |
| 4 | <p>How do you encourage staff to report their concerns about fraud?<br/> What concerns about fraud are staff expected to report?</p>  | <p>This is undertaken by officers of the Council. A Whistle Blowing policy is in place and is on the Council's intranet which gives details of how staff can raise concerns. Publicity campaigns have also taken place where posters have been placed around Council buildings encouraging staff to act on any concerns they may have. Staff are encouraged to raise concerns about any areas where controls are not being complied with, where there is significant non-compliance with policies and procedures or where there are concerns regarding corruption or potential financial loss.</p> |
| 5 | <p>From a fraud and corruption perspective, what are considered to be high risk posts within your Council?<br/> How are the risks relating to these posts identified, assessed and managed?</p>                                       | <p>The Internal Audit Fraud Risk Assessments identifies potential fraud risks in specific areas which would cover any specific risks in relation to individual posts. Counter fraud checks would be designed to test these risks to identify any potential fraudulent activity.</p>  |
| 6 | <p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?<br/> How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>No</p> <p>The council has robust procedures in place to ensure all related party transactions are identified and then where appropriate are fully disclosed in the Statement of Accounts. The council has an established Code of Practice for Partnerships and maintains and updates its Partnership Register regularly. Internal practices and processes carried out as part of the closing of accounts timetable also has specific tasks and detailed analysis of all member and chief officer interests and related party transactions which are reviewed and</p>                            |

|     |  | collated to form notes in the statement of accounts. All member interests are also documented and held by democratic services for scrutiny and also help to inform the process. The procedures for the identification and assessment of group accounts process also helps to inform this area in addition to the other processes and policies in place. Reviews by senior management also help inform the control process.  |
|-----|--|---|
| No. | Questions for management   | Those charged with governance response  |
| 7   | <p>Are you aware of any entries made in the accounting records of the Council that you believe or suspect are false or intentionally misleading?</p> <p>Are there particular balances where fraud is more likely to occur?</p> <p>Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Council?</p> <p>Could a false accounting entry escape detection? If so, how?</p> <p>Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud?</p> | <p>No</p> <p>Internal controls and internal check mitigate the risk as does appropriately qualified and experienced staff involved in compiling the accounts.</p> <p>All areas are subject to a risk review and reports from internal and external audit help identify and report their findings in areas where risk is high. The SAP system makes false accounting unlikely because of the way it is designed and is fed by the bank reconciliation and feeder systems that have separate controls and reconciliation processes in place to maintain the integrity of the financial system. Monthly bank reconciliations are carried out and reviewed by senior management along with balance sheet and suspense account reviews.</p> <p>Strong and robust budgetary control and financial practices are in place across the council</p> <p>Areas that are identified as high risk are reviewed more regularly by internal audit as part of their risk based approach to auditing.</p> <p>Legal and financial review is carried out across the whole council spectrum of activity.</p> |
| 8   | <p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <p>Are you aware of any inappropriate organisational or management</p>  | <p>No – The Medium Term Financial Plan, the budget planning process and the Annual budget along with agreed cash limits approach is reviewed and monitored during the</p>   |

|  |  |  |
|--|--|--|
|  | <p>pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?</p> | <p>year to review achievement and adherence to agreed budget levels agreed by members and executive directors within the council. Actual performance and any actions necessary are reviewed by management and reported to members who receive formal Cabinet quarterly reports during the year.<br/>As a consequence there are no inappropriate pressures or incentives being applied.</p> |
|--|--|--|

Mr G Barker  
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Durham  
DH1 5TS

## Appendix C

Date: 28<sup>th</sup> June 2013  
Our ref:  
Your ref:

Dear Gavin,

### **Audit of Sunderland City Council - Financial Statements for the year end 31 March 2013 - Understanding your management processes and arrangements**

I refer to your letter dated 24<sup>th</sup> April 2013 in respect of the above management arrangements and processes in place within the council in order to provide you with the necessary assurances from management which you require under International Auditing Standards. The assurances are provided below, representing Sunderland City Council's formal response from management in this respect.

As in previous years, I as section 151 officer of the council, on behalf of management, have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the council which might have had an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where myself and other senior officers with yourselves have identified and discussed key risks faced by the council) and, to the extent that it is necessary, in the production of the financial statements. The processes and arrangements in place and adhered to by senior management in the production of the Annual Governance Statement also shows that all key risks which would relate to the financial statements have been fully and appropriately considered. In response to your letter dated 24<sup>th</sup> April 2013 please therefore find responses to your specific questions and I have also attached the completed Appendix 1, as requested.

Specific assurances:

**1) I can confirm the areas set out below show that appropriate management processes are in place:**

- ***undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error;***

A risk management assessment is carried out and updated regularly (but at least annually) and this helps to ensure that all risks are identified and then addressed appropriately. The review of risks is also reported formally to the Audit and Governance Committee throughout the year.

I along with the senior executive management team ensure that arrangements are in place within the council that achieve the effective and efficient use of resources, have policies and procedures in place so that the council is effectively managed and that internal control mechanisms are put in place and operating effectively within the council to help mitigate against all identified risks and therefore that the financial statements are therefore not materially misstated each year.

I, as the Executive Director of Commercial and Corporate Services and Section 151 officer and the Head of Corporate Assurance and Procurement (HCAP) attend all meetings of the Audit and Governance Committee to discuss and review findings of all Internal and External Audit reviews and ensure members are kept informed through the regular reporting mechanisms in place. The committee receives and approves the accounts on behalf of the council and as such is kept informed of all issues and risks that could impact upon the financial statements and operates within the guidelines recommended by CIPFA. Management also considers and informs the Annual Governance Statement and the actions set out in order to further improve governance arrangements, the achievement of value for money in its use of resources and to improve the internal control environment.

Management also receives the independent Internal Audit Strategy and Annual Internal Audit Plan and is able to comment on areas proposed for review. The council's Corporate Risks are regularly reported and reviewed by the Management within the council and the council's Internal Audit Plan ensures that fraud risk or related concerns are escalated through to the appropriate level as appropriate. Ad-hoc meetings between the Chair and the HCAP and/or myself also take place where necessary to discuss matters as they arise. Roles and responsibilities of members and officers are clearly set out in Codes of Conduct, the Scheme of Delegation, Anti Fraud and Corruption Policy (including the Fraud Response Plan) and in the Risk Management Policy and Strategy which also describe the relevant registers, declarations and escalation processes to be complied with.

I would declare on behalf of management that I have no knowledge of any actual, suspected or alleged fraud that could affect the council in relation to the 2012/13 financial statements.

- ***identifying and responding to risks of fraud in the Council;***

The council has an Anti Fraud and Corruption Policy which is regularly updated and is also approved by the Audit and Governance (A&G) Committee. Regular reviews and achievement of the annually reviewed audit plan is discussed with me but importantly is reported separately to the A&G committee. It is important that the Internal Audit Strategy and Annual Internal Audit Plan, which includes the Counter Fraud Work Programme for the year is established independently by the HCAP in accordance with best practice. The Counter Fraud Work Programme is based on a Fraud Risk Assessment for the effective deployment of resources and includes both reactive and proactive work. I receive regular updates on progress against the Counter Fraud Work Programme with any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud. Updates are also presented on the implementation of the control improvements and all findings are reported to members as appropriate.

The system of internal control is a significant part of the Governance framework within the Council and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Internal management control arrangements are in place which should identify and prevent fraud risks from occurring and detect them if they do occur. The Council engages in numerous fraud prevention and identification activity including corporate processes such as participating in the National Fraud Initiative as well as specific service based fraud identification activity. Should a fraud risk occur then the Council's Fraud Response Plan is followed to ensure concerns are raised at the appropriate level and investigated thoroughly.

- ***communicating to employees its view on business practice and ethical behaviour and communicating to you the processes for identifying and responding to fraud and error;***

Written procedures are in place covering financial and administrative matters which are communicated to staff through the induction process, through management and are available on the Council's intranet site. These documents are regularly updated and set out the standards of conduct that are expected, the policies and procedures which should be followed and what to do if staff have concerns that these arrangements are not being complied with. Internal Audit carry out a programme of work which includes assessing the level of compliance against the Council's key policies and procedures. Key procedures include:

- Codes of conduct;
- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy (including the Fraud Response Plan);
- Corporate Health and Safety Policy;
- Corporate Complaints Policy;
- Corporate Procurement Strategy;
- Code of Practice for Partnerships;
- Treasury Management Strategy;
- Directorate / department budget management schemes.

The Counter Fraud Strategy which supports the delivery of the aims of the Council's Anti Fraud and Corruption Policy was presented to the Audit and Governance Committee in December 2012. This set out in detail a new approach to be adopted by the council in tackling fraud across the broad spectrum of the council and council funded services.

The key elements of the revised Strategy include:

In order to effectively tackle fraud it is important that a holistic approach is adopted, focused on preventing fraud occurring in the first place, seeking it out and correcting it where it does exist, and delivering swift and effective punishments to those who attack the Council, whilst deterring others from considering the same course of action.

Under the Integrated Assurance Framework established within the Council, managers are clearly responsible for establishing appropriate controls and for ensuring they are working in practice. The Framework also aims to co-ordinate all assurance activity, including that in relation to fraud and to ensure arrangements are working effectively across the Council. This includes the co-ordination of fraud prevention, detection and investigation arrangements.

The Audit, Risk and Assurance service has the expertise in relation to the design of control systems that aim to manage the risk of fraud. The Risk and Assurance team has been created to provide advice and guidance in relation governance and control matters, including fraud, at the earliest stage to ensure appropriate controls are designed into arrangements as they are being established. This team also undertakes investigations of suspected fraud and corruption.

The Internal Audit team maintains the fraud risk assessment for the Council and undertakes compliance work aimed at detecting fraud and providing assurance on the effectiveness of the controls in place. Internal Audit will also review the effectiveness of management in establishing fraud prevention controls and monitoring compliance with them.

The service aims to embed a collaborative approach to tackling fraud with an agreed approach to be adopted across the whole Council and its activities and includes counter fraud work undertaken in any service of the Council, schools, partnerships within which the Council is involved, third parties providing services to or on behalf of the Council and other organisations receiving or holding Council funds.

The Audit and Governance Committee met five times during 2012/13 with a quarterly Corporate Assurance Map Update report being submitted as part of the Integrated Assurance Framework. The Update reports set out the work done to identify fraud and the results of this work and the updated position regarding each risk area identified in the Corporate Assurance Map.

Private meetings are held between the head of internal audit, the External Auditor and members of the Audit and Governance Committee to discuss the detail of any significant investigations into suspected cases of fraud and corruption.

**2) I am aware of management processes for identifying and responding to the risk of fraud and possible breaches of internal control through receiving internal audit reports and discussions with key officers.**

I am aware that arrangements are set out in the Council's Fraud Response Plan, part of the Council's Anti Fraud and Corruption Policy. This sets out how concerns should be reported and who to, what people who suspect fraud should and should not do and what the person who receives the concerns should and should not do. The Fraud Investigation Plan sets out how investigations of concerns should be carried out.

During 2012/13, I was made aware of two breaches of control, neither of which were material in nature. The details of these cases have been discussed in detail with the External Auditor.



**3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2012-13? If so, please provide details**

I am not aware of any actual, suspected or alleged frauds other than those reported to management and members as part of the regular updates on the Counter Fraud Work Programme. I am aware that all council matters are reviewed for their legality to ensure council expenditure, services and actions are within the law. As such we have as senior management appropriate legal arrangements in place headed by the monitoring officer who reports to me directly and which gives reassurance that legal advice is sought where appropriate and that all reports to council and members must be reviewed by the legal services section and that legal representation is made at all council meetings.

Further that Cabinet reports are vetted by or on behalf of the monitoring officer to ensure compliance with legal requirements and there is legal representation at Cabinet meetings. In addition, the monitoring officer and senior members of Legal Services also have access to reports which are considered by the Executive Management Team. As part of their job description, solicitors are required to keep up to date with new and emerging legislation which affects local government. To assist in this role, the team subscribe to an electronic legal update service and various legal publications and regularly attend relevant training courses. As a member of the Association of Council Secretaries and Solicitors and Northern Secretaries Group, information is shared with other local authorities both regarding new legislation and case law and the approach and application of existing legal requirements.

In respect of new legislation or developments in case law, briefing notes or reports are prepared as appropriate and policies and procedures developed in conjunction with officers from the relevant Council departments.

Regular team meetings are held within Legal Services both at "service area" level and senior management team level, at which any concerns regarding the Council's compliance with legal requirements could be raised and addressed.

I am further reassured by the fact that the Council's internal audit team carried out an audit of corporate legality arrangements last year, with the objective of providing assurance that the Council has arrangements in place to ensure that it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. There were no issues or concerns raised and the audit gave full assurance regarding the Council's arrangements to ensure legality. The audit concluded that the controls evaluated were well designed, appropriate in scope and applied consistently and effectively.

**4) Are you aware of any actual or potential litigation or claims that would affect the financial statements? If so, please provide details.**

On behalf of Management I declare that I have no knowledge of and the council is not on notice of any non-compliance with laws and regulations that could impact on the 2012/13 financial statements. All contingent liabilities are discussed and identified and or updated and reviewed annually and in order to reflect the known position as at the balance sheet date.

**5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern? If so, please provide details.**

I have a responsibility to ensure that the council continues as a going concern as Section 151 officer to the council and I have no reason to believe that any events would adversely impact on this position. The fact the council is currently showing a net worth of £341m, owns assets worth over £1,117m and in addition has cash backed reserves of over £166m in the current set of audited financial statements would support this view. The council is also extremely well managed and prudent in its approach to all financial matters (an opinion shared by yourselves and documented in your Annual Audit Letter) which is reflected in the strong Balance Sheet which forms part of the Statement of Accounts for 2012/13. The council has an excellent record of effectively managing its resources and also has effective financial management arrangements in place. I can therefore confirm that the council is a going concern and will continue to be a going concern.

Yours sincerely,

Malcolm Page

Executive Director of Commercial and corporate Services

| No. | Questions for management   | Those charged with governance response   |
|-----|--|--|
| 1   | <p>Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2012 – 31 March 2013?</p>  | <p>Two breaches of control, neither of which were material in nature occurred. The details of these cases have been discussed in detail with the External Auditor.</p> <p>Neither are material to the Accounts</p>   |
| 2   | <p>Do you suspect fraud may be occurring within the Council?</p> <p>Have you identified any specific fraud risks within the Council?</p> <p>Do you have any concerns that there are areas within your Council that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p> | <p>A fraud risk assessment is in place and is regularly updated which covers all appropriate parts of the Council. This covers areas of fraud risks, sets out the individual risks, a score for the risks and tests that are carried out to identify potential fraud taking place. A programme of proactive counter fraud work is undertaken every year by Internal Audit which did not identify any areas of concern.</p> <p>The Council also takes part in the Audit Commission's NFI programme which also has not identified any areas of concern.</p>  |
| 3   | <p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <p>If not where are the risk areas?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p>  | <p>Internal controls regarding segregation of duties are in place and the results of Internal Audit work have not highlighted any material concerns. An adequate opinion on the system of internal control has been reported to the Audit and Governance Committee for the year.</p> <p>The Council has an Anti Fraud and Corruption policy and supporting documents in place which is available to all staff on the Council intranet and is included in the induction process.</p> <p>Other controls in place include a robust budget management framework which includes detailed support for Financial Resources, verification checks in key systems such as payroll, BACS payments, Accounts Payable which are aimed at identifying fraud or errors, the</p> |

|   |   |  |
|---|---|--|
|   |   | majority of Council payments are through the Supplier Relationship Management system which ensures authorisation of payments by an approved authorised officer. There has been a significant amount of work undertaken across the Council to raise awareness of Information Governance issues and encourage staff to keep information secure.  |
| 4 | <p>How do you encourage staff to report their concerns about fraud?<br/> What concerns about fraud are staff expected to report?</p>  | <p>This is undertaken by officers of the Council. A Whistle Blowing policy is in place and is on the Council's intranet which gives details of how staff can raise concerns. Publicity campaigns have also taken place where posters have been placed around Council buildings encouraging staff to act on any concerns they may have. Staff are encouraged to raise concerns about any areas where controls are not being complied with, where there is significant non-compliance with policies and procedures or where there are concerns regarding corruption or potential financial loss.</p> |
| 5 | <p>From a fraud and corruption perspective, what are considered to be high risk posts within your Council?<br/> How are the risks relating to these posts identified, assessed and managed?</p>                                       | <p>The Internal Audit Fraud Risk Assessments identifies potential fraud risks in specific areas which would cover any specific risks in relation to individual posts. Counter fraud checks would be designed to test these risks to identify any potential fraudulent activity.</p>  |
| 6 | <p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?<br/> How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>No</p> <p>The council has robust procedures in place to ensure all related party transactions are identified and then where appropriate are fully disclosed in the Statement of Accounts. The council has an established Code of Practice for Partnerships and maintains and updates its Partnership Register regularly. Internal practices and processes carried out as part of the closing of accounts timetable also has specific tasks and detailed analysis of all member and chief</p>  |

|            |  |   |
|------------|--|---|
|            |  | <p>officer interests and related party transactions which are reviewed and collated to form notes in the statement of accounts. All member interests are also documented and held by democratic services for scrutiny and also help to inform the process. The procedures for the identification and assessment of group accounts process also helps to inform this area in addition to the other processes and policies in place. Reviews by senior management also help inform the control process.</p>   |
| <b>No.</b> | <b>Questions for management</b>  | <b>Those charged with governance response</b>   |
| 7          | <p>Are you aware of any entries made in the accounting records of the Council that you believe or suspect are false or intentionally misleading?</p> <p>Are there particular balances where fraud is more likely to occur?</p> <p>Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Council?</p> <p>Could a false accounting entry escape detection? If so, how?</p> <p>Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud?</p> | <p>No</p> <p>Internal controls and internal check mitigate the risk as does appropriately qualified and experienced staff involved in compiling the accounts.</p> <p>All areas are subject to a risk review and reports from internal and external audit help identify and report their findings in areas where risk is high. The SAP system makes false accounting unlikely because of the way it is designed and is fed by the bank reconciliation and feeder systems and that have separate controls and reconciliation processes in place to maintain the integrity of the financial system. Monthly bank reconciliations are carried out and reviewed by senior management along with balance sheet and suspense account reviews.</p> <p>Strong and robust budgetary control and financial practices are in place across the council</p> <p>Areas that are identified as high risk are reviewed more regularly by internal audit as part of their risk based approach to auditing.</p> <p>Legal and financial review is carried out across the whole council spectrum of activity.</p> |

|   |   |  |
|---|---|--|
| 8 | <p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <p>Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?</p> | <p>No – The Medium Term Financial Plan, the budget planning process and the Annual budget along with agreed cash limits approach is reviewed and monitored during the year to review achievement and adherence to agreed budget levels agreed by members and executive directors within the council. Actual performance and any actions necessary are reviewed by management and reported to members who receive formal Cabinet quarterly reports during the year.</p> <p>As a consequence there are no inappropriate pressures or incentives being applied.</p> |
|---|---|--|

**AUDIT AND GOVERNANCE COMMITTEE**

**28 June 2013**

**TREASURY MANAGEMENT – REVIEW OF PERFORMANCE 2012/2013**

**Report of the Executive Director of Commercial and Corporate Services**

**1 Purpose of the Report**

- 1.1 To report on the Treasury Management borrowing and investment performance for 2012/2013.

**2 Description of Decision**

- 2.1 The committee is requested to note the positive Treasury Management performance for 2012/2013.

**3 Introduction**

- 3.1 This report sets out the annual borrowing and investment performance for the financial year 2012/2013 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by Council on 7<sup>th</sup> March 2012. The Treasury Management Strategy comprises the approved Council strategy for borrowing and its policies for managing its investments (which give priority to the security and liquidity of those investments).
- 3.2 The Policy Statement and Strategy complies with best practice, including the Department of Communities and Local Government Investment Guidance which came into effect from 1<sup>st</sup> April 2010 and it incorporates the recommendations included in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The Code of Practice was revised in November 2011 mainly to accommodate the changes to local authority housing finance regulations.

**4 Review of Performance 2012/2013**

**4.1 Summary**

The performance of the Council's Treasury Management function continues to contribute significant financial savings that are used to provide funding to support the Council's revenue budget. The average rate of the Council's borrowing at 3.49% is in the top quartile when benchmarked against other authorities as is the rate of return achieved on investments of 1.91%.

**Borrowing Strategy and Performance – 2012/2013**

- 4.2 The basis of the agreed Borrowing Strategy was to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Council's future borrowing requirement when market conditions were favourable;
- use a benchmark financing rate of 4.50% for long-term borrowing (i.e. all borrowing for a period of one year or more);

- take advantage of debt rescheduling opportunities as appropriate.

4.3 The Borrowing Strategy has been reviewed by this committee in June, September and December 2012 and was updated where necessary to reflect changing circumstances. The Borrowing Strategy for 2012/2013 was based upon the views of the Executive Director of Commercial and Corporate Services, supplemented with market data, market information and leading economic forecasts provided by the Council's treasury management adviser, Sector Treasury Services.

4.4 The view in February 2012, at the time the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until June 2013 before steadily rising to 1.25% by March 2014 and that PWLB borrowing rates would steadily increase throughout 2012/2013 across all periods. Economists have revised their forecasts and are not expecting any change to the Bank Base Rate, currently 0.5%, until March 2015 at the earliest due to slower than anticipated economic recovery.

The government announced in the March 2012 budget plans to introduce a 0.20% discount on PWLB loans under the prudential borrowing regime for those authorities that provided "improved information and transparency on their locally determined long-term borrowing and associated capital spending plans" and who successfully applied and were eligible for the lower rate. The Council successfully applied to access loans at the lower PWLB certainty rate, which came into effect on 1<sup>st</sup> November 2012 and eligibility lasts until 31<sup>st</sup> October 2013 when authorities must reapply to access the PWLB certainty rate for the following 12 months.

4.5 The table below shows the average borrowing rates in 2012/2013. The Council did not take out any new PWLB borrowing in 2012/2013 and has instead used internal funds to finance its borrowing requirement. This policy has been taken as there is a short-term revenue cost in taking out new borrowing and PWLB interest rates are anticipated to remain low over the short term.

| <b>2012/2013</b> | <b>Qtr 1<br/>(Apr - June)<br/>%</b> | <b>Qtr 2<br/>(July - Sept)<br/>%</b> | <b>Qtr 3<br/>(Oct - Dec)<br/>%</b> | <b>Qtr 4<br/>(Jan - Mar)<br/>%</b> |
|------------------|-------------------------------------|--------------------------------------|------------------------------------|------------------------------------|
| 7 days notice    | 0.35                                | 0.34                                 | 0.31                               | 0.31                               |
| 1 year           | 1.24                                | 1.10                                 | 1.07*                              | 1.00*                              |
| 5 year           | 1.92                                | 1.68                                 | 1.68*                              | 1.78*                              |
| 10 year          | 2.95                                | 2.68                                 | 2.66*                              | 2.87*                              |
| 25 year          | 4.13                                | 3.94                                 | 3.93*                              | 4.05*                              |
| 50 year          | 4.24                                | 4.14                                 | 4.09*                              | 4.20*                              |

\* Qtr 3 and 4 rates take account of the 0.2% discount to PWLB rates available to eligible authorities that came into effect on 1<sup>st</sup> November 2012.

4.6 The Treasury Management Strategy for 2012/2013 included provision for debt rescheduling but also stated that because of the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long-term debt it would be difficult to refinance long-term loans at interest rates lower than those already in place.



Rates have not been sufficiently favourable for debt rescheduling in 2012/2013 but the Treasury Management Team continue to monitor market conditions and secure early redemption if appropriate opportunities arise.

4.7 The Council's borrowing portfolio position at 31<sup>st</sup> March 2013 is set out below:

|                           |                      | <b>Principal<br/>(£m)</b> | <b>Total<br/>(£m)</b> | <b>Average<br/>Rate (%)</b> |
|---------------------------|----------------------|---------------------------|-----------------------|-----------------------------|
| <b>Borrowing</b>          |                      |                           |                       |                             |
| Fixed Rate Funding        | PWLB                 | 142.9                     |                       |                             |
|                           | Market               | 39.5                      |                       |                             |
|                           | Other                | 1.7                       | 184.1                 | 3.91                        |
| Variable Rate Funding     | Temporary / Other    | 29.0                      | 29.0                  | 0.78                        |
| <b>Total Borrowing</b>    |                      |                           | <b>213.1</b>          | <b>3.49</b>                 |
| <b>Total Investments*</b> | All managed In-House |                           | <b>210.0</b>          | <b>1.91</b>                 |
| <b>Net Position</b>       |                      |                           | <b>(3.1)</b>          |                             |

\* Total Investments includes monies invested on behalf of the North Eastern Local Enterprise Partnership for whom Sunderland City Council is the accountable body

The Council had a deficit of £3.1 million representing the difference between gross debt and total investments. This position is expected to change over the next few years as the Council has to manage its finances with significantly less government funding. This could impact in the form of increased borrowing and reductions to reserves, with the result that the net borrowing position of the Council will increase.

#### **Prudential Indicators – 2012/2013**

4.8 All external borrowing and investments undertaken in 2012/2013 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other Prudential Indicators as follows:

The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was originally set by the Council for 2012/2013 in total as £377.324m which was detailed as follows:

|                             |                       |
|-----------------------------|-----------------------|
|                             | <b>£m</b>             |
| Borrowing                   | 342.396               |
| Other Long Term Liabilities | <u>34.928</u>         |
| <b>Total</b>                | <b><u>377.324</u></b> |

The Operational Boundary for External Debt for 2012/2013 was set at £339.011m as follows:

|                             |                       |
|-----------------------------|-----------------------|
|                             | <b>£m</b>             |
| Borrowing                   | 304.083               |
| Other Long Term Liabilities | <u>34.928</u>         |
| <b>Total</b>                | <b><u>339.011</u></b> |

Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto

the Council's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).

The Council's maximum borrowing level in 2012/2013 was £217.581 million (which includes borrowing in respect of other organisations such as Tyne and Wear Fire and Rescue Authority but excludes other long-term liabilities such as PFI and Finance leases which already include borrowing instruments) and is well within the borrowing limits set by both of these indicators.

4.9 The table below shows that all other Treasury Management Prudential Indicators have been complied with during 2012/2013.

| Prudential Indicators |   | 2012/2013                                |                                    |
|-----------------------|---|--|------------------------------------|
|                       |   | Limit<br>£'000                           | Actual<br>£'000                    |
| <b>P10</b>            | <b>Upper limit for fixed interest rate exposure</b><br>Net principal re fixed rate borrowing / investments  | 130,000                                  | 42,735                             |
| <b>P11</b>            | <b>Upper limit for variable rate exposure</b><br>Net principal re variable rate borrowing / investments   | 60,000                                   | 13,902                             |
| <b>P12</b>            | <b>Maturity Pattern</b><br>Under 12 months<br>12 months and within 24 months<br>24 months and within 5 years<br>5 years plus<br>A lower limit of 0% for all periods | Upper Limit<br>50%<br>60%<br>80%<br>100% | 16.68%<br>4.70%<br>4.81%<br>79.07% |
| <b>P13</b>            | <b>Upper limit for total principal sums invested for over 364 days</b>  | 75,000                                   | 20,000                             |

The Council is currently within the limits set for all of its Treasury Management Prudential Indicators.

## 5. Investment Strategy and Performance – 2012/2013

The Investment Strategy for 2012/2013 was approved by Council on 7<sup>th</sup> March 2012. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

- (A) The **security** of capital;
- (B) The **liquidity** of its investments and then
- (C) The Council aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

The Annual Investment Strategy has been fully complied with in 2012/2013.

- 5.1 At 31<sup>st</sup> March 2013, the Council had outstanding investments of £210.0 million. The table below shows the return made on the Council's total investments for 2012/2013 as compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

|                               | <b>2012/2013<br/>Return<br/>%</b> | <b>2012/2013<br/>Benchmark<br/>%</b> |
|-------------------------------|-----------------------------------|--------------------------------------|
| <b>In-house Managed Funds</b> | <b>1.91</b>                       | <b>0.39</b>                          |

This return far exceeded the benchmark set for 2012/2013 and represents a very good achievement especially when short-term investment rates continue to remain very low.

- 5.2 All investments placed in 2012/2013 have been made in accordance with the approved Investment Strategy and comply with the Criteria and the Approved Lending List set by Council on 7<sup>th</sup> March 2012 and also taking into account subsequent revisions reported and approved by Cabinet during the year.

The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the benefit of the Council. Investment rates available in the market have continued at historically low levels and due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to limit investments to all financial institutions to shorter term periods.

The UK sovereign rating was downgraded to AA+ by Moody's on 22<sup>nd</sup> February 2013 and subsequently by Fitch, however advice is that the guidance to restrict investment to very short-term periods is not applicable to institutions considered to be very low risk because the government holds shares in these organisations (i.e. Lloyds TSB and RBS). These part government owned organisations have the government's AA+ rating applied to them, or in respect of Money Market Funds which are AAA rated.

- 5.3 As members will be aware, the regular updating of the Council's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. Changes made during 2012/2013 have already been reported to members previously and the latest Lending List and Criteria are included in the Treasury Management First Quarterly Review 2013/2014 reported to this meeting for information.

## 6. Reason for Decision

- 6.1 To note the performance for 2012/2013.

## 7. Alternative Options

- 7.1 No alternatives are submitted for consideration.



**AUDIT AND GOVERNANCE COMMITTEE**

**28 JUNE 2013**

**REVIEW OF INTERNAL AUDIT 2012/13**

**Report of the Executive Director of Commercial and Corporate Services**

**1. Purpose of Report**

- 1.1 The purpose of this report is to inform the Committee of the results of the review of the Internal Audit undertaken by the External auditor, Mazars.

**2. Background**

- 2.1 The Accounts and Audit Regulations require that an annual review of the effectiveness of internal audit is carried out. This takes the form of a self assessment against the CIPFA Code of Practice for Internal Audit in local Government and an independent review by the External auditor.

**3. Findings of the Review**

- 3.1 The findings of the review for 2012/13 are attached in the External Auditor's report. The approach used was to conduct a review of Internal Audit's quality system against the requirements of the CIPFA Code and to review a sample of audit files to assess how well the standards are complied with.

- 3.2 The External Auditor's review concluded that:

*'Our review confirmed that IAS continues to meet its professional and statutory duties. Processes in place are driven by a Quality System. Our detailed review of files did not highlight any significant non-compliance with the Quality System or the Code.'*

- 3.3 A small number of minor issues have been discussed with Council officers. The review has confirmed that appropriate arrangements are in place for the provision of Internal Audit in the Council.

**4. Recommendations**

- 4.1 The Committee is asked to note the report.



# Sunderland City Council

# Review of Internal Audit

June 2013



## Contents

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*Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.*

*Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.*



# 1 Introduction

The Accounts and Audit Regulations 2011 state that ‘a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.’ These practices are defined in CIPFA's Code of Practice for Internal Audit in Local Government in the UK (the Code).

As part of the Council’s governance arrangements, it reports annually on the work of Internal Audit to comply with the requirements of Regulation 6 of the Accounts and Audit Regulations 2011. This regulation requires an annual assessment of the effectiveness of Internal Audit.

This review is intended to contribute towards the assessment of the Internal Audit Service (IAS).

## 2 Our approach

Our review focused on arrangements for 2012/13 in two areas:

- A review of the IAS' Quality System against the professional and statutory requirements contained within the Code.
- A sample review of five IAS files that covered work in areas spread across the Council's functions.

Professional standards for Internal Audit are contained in the Code and cover the following key areas:

- Scope of Internal Audit
- Independence and ethics
- The role of the Audit Committee
- Relationships
- Staffing, training and continuous professional development (CPD)
- Audit strategy and planning
- Undertaking audit work
- Due professional care
- Reporting
- Performance, quality and effectiveness

The five files selected for review were:

- Payroll
- Benefits administration
- Corporate Attendance Management
- Corporate Legality
- St Benet's primary school

We have not reviewed IAS against the requirements of the new United Kingdom Public Sector Internal Audit Standards which came into force from 1 April 2013.

### 3 Main conclusions

Our review concludes that the Council's Internal Audit Service complies with the CIPFA 'Code of Practice for Internal Audit in Local Government in the UK'. Our review confirmed that IAS continues to meet its professional and statutory duties. Processes in place are driven by a Quality System. Our detailed review of files did not highlight any significant non-compliance with the Quality System or the Code. Some minor issues were discussed with officers.

IAS has been through major changes that have reduced the size and function of Internal Audit at Sunderland City Council, with Internal Audit now being viewed as part of the Council's overall Integrated Assurance Framework (IAF).

The changes that have been made are now becoming embedded, though key documents are in need of updating to reflect the new structure and processes in place. These include, but are not restricted to, the Quality Manual, the Quality Procedures Manual, the Audit Charter and the Audit Strategy. Officers are aware of this, and are currently in the process of updating the documents.

## 4 Detailed findings

Detailed below are our key findings against each area of the Code.

### Scope of Internal Audit

#### Background

The CIPFA standard on the scope of Internal Audit addresses:

- Internal Audit's terms of reference;
- Its scope of work;
- Other work undertaken; and
- Its role in anti fraud and corruption work.

#### Findings

IAS' formally approved terms of reference and scope are clearly set out in both the Internal Audit Charter and the Council's Financial Procedure Rules and are appropriate for a council internal audit function. Whilst the principles in the Audit Charter remain valid and appropriate, it requires updating to reflect the new structure and responsibilities of IAS.

IAS' scope includes services provided in partnership and, where appropriate, access rights are written into partnership agreements.

The Audit Charter includes a requirement that the Head of Corporate Assurance and Procurement (HoCAP) is to be notified of all suspected or detected fraud, corruption or financial impropriety.

No areas of non-compliance with the CIPFA standard were identified.

The new Integrated Assurance Framework (IAF) and Corporate Assurance Map (CAM) have been in place for 2012/13 and have led to changes in the approach of IAS.

These changes have resulted in separate teams for Risk and Assurance and Internal Audit. The smaller internal audit team focuses on planned audit work and continues to meet CIPFA Code requirements. The Risk and Assurance team are able to provide advice on the design and implementation of new systems. This two-step approach ensures that Internal Audit is free from operational duties and has reduced threats to their independence through self-review.

### Independence

#### Background

The CIPFA standard on independence considers:

- Internal Audit's principles regarding independence;
- its organisational independence;
- the status of the Head of Internal Audit;

- the independence of individual auditors and contractors; and
- declarations of interests.

### **Findings**

The Audit Charter and Financial Procedure Rules set the standards for IAS' independence.

As noted above, the new IAF arrangements have improved the independence position of Internal Audit and reduced the threat of self-review.

Arrangements in place to provide assurance that independence is maintained include:

- the Audit Charter specifies that IAS will not have any executive responsibilities; and
- the HoCAP reports directly to the Executive Director of Commercial and Corporate Services and has the freedom to report to Members and officers.

Internal Auditors are required to sign an annual certificate of independence or declare any issues that may lead to a conflict of interest. For the financial year 2012/13 declarations were not on file for the HoCAP and the Audit Manager. Declarations were, however, available for the current financial year. Arrangements are in place to mitigate potential conflicts of interest.

## **Ethics for the Internal Auditor**

### **Background**

This CIPFA standard covers ethical standards for Internal Auditors in relation to:

- integrity;
- objectivity;
- competence; and
- confidentiality.

### **Findings**

The Quality System clearly sets out auditor responsibilities in relation to integrity, objectivity, confidentiality and competence. For example, requirements for staff rotation are set out:

- an assignment should not be undertaken by the same individual more than twice; and
- audit work will not be undertaken within two years where the auditor has had previous operational responsibilities.

There are occasions where an auditor does, in practice, undertake an audit twice in succession, but this only where it can't be avoided due to the specialist nature of the work involved and the expertise of team members, or there is a length of time between the two visits. Due to the smaller size of the IAS team, this is likely to occur more often in the future but review procedures are in place to mitigate any perceived threats to independence.

Each report has a 'Strictly Private and Confidential' footer, which highlights that contents are not for reproduction, publication or disclosure to unauthorised persons without prior agreement.

Staff are regularly reminded of their obligations. Team meetings are held every six weeks where messages about quality, ethical behaviour and independence are reinforced if necessary.

The Council's Code of Conduct for Officers applies equally to IAS staff and this covers ethical conduct.

Similarly, the Council's annual appraisal process is used to identify any training needs, and staff are appropriately qualified to carry out their roles.

No areas of non-compliance with the CIPFA standard were identified.

## Audit Committees

### Background

This CIPFA standard covers:

- the purpose of an Audit Committee; and
- Internal Audit's relationship with the Audit Committee.

### Findings

The Council has an independent Audit and Governance Committee (AGC), comprised of five elected members and two co-opted members, one of whom is the Chair.

The HoCAP submits the annual operational plan to the AGC and also, if there are any changes to it, the IAS strategy. Regular progress reports and an annual report are also presented. These plans are now part of the IAF and CAM updates.

The HoCAP has access to the Committee and Chair which provides assurance on the independence of Internal Audit. The AGC's terms of reference also stipulate that the AGC may meet privately with the HoCAP.

Our attendance at AGC meetings provide assurance that processes are robust and officers are regularly challenged.

No areas of non-compliance with the CIPFA standard were identified.

## Relationships

### Background

This CIPFA standard covers:

- the principles of good relationships (internal and external); and
- Internal Audit's relationship with:
  - management;
  - other internal auditors;
  - external auditors;
  - other regulators and inspectors; and

- elected members.

### **Findings**

The HoCAP seeks to develop good working relationships with all relevant parties.

IAS continues to score highly in client post-audit questionnaires, with an average in 2012/13 to date of 1 (1 = good, 4 = poor).

The Head of Performance Improvement liaises with inspectorates, and the HoCAP is aware of inspectors' views through discussions with them as part of the Corporate Assurance Group, and through his role in the annual governance review.

The external auditor meets regularly with the HoCAP and Audit, Risk and Assurance Manager (ARAM) and has an effective working relationship with IAS.

No areas of non-compliance with the CIPFA standard were identified.

## **Staffing, training and CPD**

### **Background**

This CIPFA standard covers:

- Internal Audit's staffing levels; and
- training and the continuous professional development of Internal Auditors.

### **Findings**

IAS auditors are subject to an annual Council appraisal where performance is formally assessed.

All Internal Auditors have professional qualifications and as such are required to comply with their institute's requirements for continuing professional development.

Personal development plans are in place for auditors, which are regularly monitored.

The HoCAP confirms that IAS is sufficiently resourced within the annual Internal Audit plan, which provides assurance that its scope and adherence to the Code will not be compromised.

The reduced level of staffing in IAS may mean that IAS does not have the capacity to deal with increased workloads due to any ad hoc investigations that arise. A smaller team is always more vulnerable to the effects of long-term sickness or sudden loss of experienced members of staff. Staffing levels were considered as part of the restructure of IAS, and are also considered as part of the five-year plan.

If any additional resources are required, a partnership has been entered into with PWC that means that the Council can access suitably qualified staff to assist with workload, and also provide expertise in specific areas. Whilst this is at an additional cost to the Council, this arrangement provides comfort that the function of IAS will not be impaired.

No areas of non-compliance with the CIPFA standard were identified.

## Audit strategy and planning

### Background

This CIPFA standard covers:

- Internal Audit's audit strategy; and
- its risk based audit plan.

### Findings

The annual risk-based plan is approved by the AGC. The Audit Strategy is now part of the IAF. The documents are in line with the Code and include an explanation of:

- how the HoCAP will form and evidence his annual opinion on the control environment;
- how IAS has identified and will address significant local and national issues and risks;
- how IAS will be provided; and
- the resources and skills required to deliver the planned work.

The HoCAP and Executive Director of Commercial and Corporate Services both review and challenge the proposed audit plan before it is finalised and presented to members for approval.

No areas of non-compliance with the CIPFA standard were identified.

## Undertaking audit work

### Background

This CIPFA standard covers:

- Internal Audit's planning;
- the approach to undertaking audit work; and
- the recording of audit assignments.

### Findings

We found that work was well planned, with clear audit briefs issued at the start of each audit. Standard documentation and the need for a thorough review are Quality System requirements that are followed in practice. Risks, controls, testing and evaluation of results are all clearly recorded within the MKI e-audit system.

The sample of audit files tested provided sufficient information to enable an understanding of the work carried out and why conclusions were reached. Findings and conclusions were adequately supported with appropriate evidence.

Some minor points for improvement were identified. These have been shared with the ARAM and the HoCAP.



## Due professional care

### Background

This CIPFA standard covers:

- the responsibilities of the individual Internal Auditor; and
- the responsibilities of the Head of Internal Audit.

### Findings

IAS has appropriate procedures in place to ensure due professional care. The Quality Procedures Manual contains guidance on professional standards and ethics. The review process also provides assurance that due professional care is applied throughout internal audit work.

The Council's Whistleblowing Policy sets out arrangements for the disclosure of improper conduct.

No areas of non-compliance with the CIPFA standard were identified.

## Reporting

### Background

This CIPFA standard covers:

- the principles of reporting;
- reporting on audit work;
- follow-up audits and reporting; and
- annual reporting and presentation of the audit opinion.

### Findings

The Quality System contains comprehensive guidance on report writing. The MKI e-audit system is used to automatically feed recommendations into reports set out in the correct format. Our detailed testing highlighted that clear reports are issued in good time following the conclusion of audits. Examples of good practice include:

- clearly stating the scope of the audit;
- giving an opinion on the control environment; and
- categorisation of audit recommendations (high, medium, low and observation).

Documented escalation procedures are applied for late responses to reports.

The annual report to the Audit and Governance Committee follows Code requirements, in that it includes:

- an opinion on the control environment;
- a summary of work undertaken, from which the opinion was drawn;

- a comparison of work undertaken to that planned;
- a summary of IAS performance against targets and measures;
- commentary on compliance with the Code; and
- results of quality assurance assessments.

No areas of non-compliance with the CIPFA standard were identified.

## Performance, quality and effectiveness

### Background

This CIPFA standard covers:

- the principles of performance, quality and effectiveness;
- the quality assurance of audit work; and
- the performance and effectiveness of the Internal Audit service.

### Findings

There is a Quality System in place within IAS, consisting of a Quality Manual and Quality Procedures Manual. This is based on procedures that were in place prior to the restructure of IAS and requires updating. At a time when there are significant changes and pressures on local government, good and up-to-date written procedures can help mitigate against loss of expertise and capacity and ensure continuation and consistency of approach.

Each audit is staffed by an appropriate skills mix and the level of supervision takes account of the experience of the auditor.

Monitoring of the audit plan is carried out throughout the year within IAS and with regular reporting to both the Executive Director of Commercial and Corporate Services and the AGC.

IAS has developed a suite of performance indicators, which are reported to each meeting of the AGC. The most recent data show that IAS is meeting its targets.

Performance is also compared against other authorities within the CIPFA benchmarking club. Review of the latest benchmarking report highlights no areas of concern that indicate that IAS may be out of line with other Internal Audit services in local authorities.

No areas of non-compliance with the CIPFA standard were identified.

**AUDIT AND GOVERNANCE COMMITTEE**

**28 JUNE 2013**

**REVIEW OF THE INTEGRATED ASSURANCE FRAMEWORK**

**Report of the Executive Director of Commercial and Corporate Services**

**1. Purpose of Report**

- 1.1 The purpose of this report is to inform the Committee of the results of the review of the Integrated Assurance Framework undertaken by PricewaterhouseCoopers (PWC).

**2. Background**

- 2.1 One of the reasons for appointing PWC as a partner was to provide support in developing the Integrated Assurance Framework (IAF) which was introduced in April 2012. The first piece of work requested from PWC was a review of the progress so far and suggested actions to improve the arrangements, the results of which are included in the attached report.
- 2.2 The review was undertaken in the context of recognising that the IAF is a new and innovative development in its formative stages during 2012/13.

**3. Results of the Review**

- 3.1 The review concluded that good progress has been made so far in implementing the Framework and that the Council is one of the early adopters of this approach in local authorities. The review confirmed that there was a good understanding of how the Framework operates.
- 3.2 The review also identified areas that could be improved further which are set out in the report.

**4. Recommendations**

- 4.1 The Committee is asked to note the report.



# *Sunderland City Council*

## Integrated Assurance Framework – Final report



Sunderland  
City Council

April 2013

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## Distribution List

|             |   |
|-------------|---|
| For action: | Malcolm Page, Executive Director of Commercial and Corporate Services |
|             | Paul Davies, Head of Corporate Assurance and Procurement              |
|             | Tracy Davis, Audit, Risk and Assurance Manager                        |

# 1. Introduction

## *Background*

As part of the Internal Audit / Risk and Assurance team partnership between PricewaterhouseCoopers (PwC) and Sunderland City Council (the Council), the Council asked us to carry out a review of the Integrated Assurance Framework (IAF).

The assurance framework is supported by the Corporate Assurance Map which sets out assurances gained by the Council over the strategic and corporate risk areas. The assurance is documented using a three lines of defence model.

The current assurance map is monitored by the Corporate Assurance Group, with quarterly updates being provided to each Executive Director and the Audit and Governance Committee.

An integrated assurance framework is a very innovative best practice approach, and the Council is one of the early adopters of this within the local authority sector. It has made great efforts to implement this new process and to gain a better understanding of where assurance exists within the Council and what additional measures are required or where efficiencies may be obtained. This report sets out some areas where this could be further refined or enhanced but the progress and implementation of this framework operational within the Council.

## *Summary of our findings*

The following points of good practice were raised during the review:

- The Council seeks to drive continuous improvement and part of this is the development of the integrated assurance framework;
- The Council has a good framework in place to obtain assurances and has utilised good practice to develop this;
- There is a clear understanding by the Head of Corporate Assurance and Procurement and Audit and Risk and Assurance Manager of the purpose of the integrated assurance framework and how it operates. The Internal Audit and Risk and Assurance teams are embedded into the process and this is a fundamental part of how the Council gains its assurance;
- There is an assurance map in place which sets out the three lines of defence which is frequently reported within the Council and to the Audit and Governance Committee;
- The Internal Audit and Risk and Assurance team provides support for directorates to manage risks and drive improvements or undertake additional work as required. The feedback from these directorates on this role has been very positive;
- For each of the areas of assurance there is detail behind how this is gained and evidence is obtained; and
- The Head of Corporate Assurance and Procurement takes an overall view of the assurances given to the Council to ensure that they are subject to challenge and present a fair assessment.

The following areas for further development were raised during our work:

- Documenting a Council wide definition of assurance;
- Further expanding the assurance map to show what assurance the Council needs;
- Further refinement of the three defence lines areas and what they include;
- The level of assurance gained from the work of internal audit;
- The role of performance management in the assurance process;

- The assurance provided from the second line of defence areas; and
- The role of the business continuity function and the wider assurance team.



## *Culture*

The Council has made great progress in implementing an integrated assurance process. The language is much more familiar across the Council and many contribute to the map and the ongoing provision of assurance to the Council. The Audit and Governance Committee is now familiar with the map and it is reported to members for discussion and review.

Across the three lines of defence:

- The first line of defence requires the most development and needs those responsible to make the appropriate assessments against the core functions of their roles;
- The second line of defence is more established but there are some inconsistencies in how assurances are provided and additional input by these owners will aid the process to further develop; and
- The third line of defence is the most developed. The Internal Audit and Risk and Assurance team clearly understands the process and has developed a framework to provide assurance together with the other sources of information in this area.

Support has been provided to the directorates but additional training or guidance may be required with some of the first line of defence owners.

## *Scope of the review*

This is included at Appendix 1.

This is a final report which supersedes the draft report. Our definitive opinions and conclusions are those contained in this final report.

## 2. Recommendations

|  |  |
|--|--|
| <b>1 – Assurance</b>   |  |
| <p>The Council has made significant progress in developing an integrated assurance framework and involving key areas and functions of the Council in the assurance process.</p> <p>There is currently no one documented definition of assurance, overall responsibilities and what it means for the Council.</p> |  |
| <b>Risks</b>   |  |
| <p>The definition of assurance is unclear and is misunderstood / misinterpreted by users.</p>  |  |
| <b>Action plan</b>   |  |
| <b>Recommendations</b>   |  |
| <p>To further develop the framework and supporting policies, the Council should document its definition of assurance, what is being provided through the integrated assurance map and responsibilities should be clearly outlined.</p>   |  |
| <b>Agreed action</b>   | <b>Responsible person / title:</b>       |
| <p>A document setting out the definition of assurance, roles and responsibilities of those involved and how the assurance is provided will be developed for presentation to the Audit and Governance Committee.</p>  | <p>Audit, Risk and Assurance Manager</p> |
|  | <b>Target date:</b>                      |
|  | <p>28/06/2013</p>                        |

## 2 – Risks and Ratings

The assurance map details both the strategic and corporate risk areas of the Council. It does not yet show how much assurance the Council needs in those areas or if sufficient assurance is being obtained. This may be particularly relevant if the Council has any key risk areas which it needs to monitor more closely.

### Risks

There is the possibility that too much or too little assurance is gained over some risk areas leading to inefficiencies, gaps in assurance or potential duplication.

### Action plan

#### Recommendations

The assurance map in place for the Council should, for each strategic and corporate risk area, detail the following:

- How much assurance the Council requires (for example high, medium or low assurance required); and
- What the current assurance provision is (for example if more, less or the required amount is sufficient).

This will allow internal audit work and other assurance focus to be targeted where it is needed, this can be particularly important during periods of significant change / transformation and when work has to be prioritised.

#### Agreed action

The assurance map will be developed as set out above.

#### Responsible person / title:

Audit, Risk and Assurance  
Manager

#### Target date:

28/06/2013

### 3 – Defence lines

The assurance map currently shows the risks facing the Council and the separate assurances that are gained over each risk split between the following areas:

- First line of defence - Management Assurance;
- Second line of defence - Other Internal Assurance Activity;
- Second line of defence - Risk and Assurance;
- Third line of defence - Internal Audit; and
- Third line of defence - External Assurance.

As the map is being developed it is recognised that the Council is embedding this process and is looking to follow best practice in further developing and integrating the process. Therefore the map can be further extended to obtain this coverage.

#### Risks

Not all assurances in place over a given risk are documented and captured, leading to too little or too much assurance being gained. This could lead to a misrepresentation of the data being presented and failure to make decisions based on sound information.

#### Action plan

##### Recommendations

The assurance map could be further developed to expand and clarify the following lines of defence:

- First line of defence – Management control and reporting;
- Second line of defence – Functional oversight and governance; and
- Third line of defence – Independent review.

Additional areas of assurance that are currently not shown on the assurance map, should be considered, these may include but not be limited to:

- First line of defence – providing more assessment on key roles of management for example key performance indicators, contract management, quality processes, system controls, procedures, operational risk management, partnership working;
- Second line of defence – including the role of the other steering / project groups; and
- Third line of defence – reports from other external bodies e.g. OFSTED, other inspections for example by the Health and Safety Executive.

#### Agreed action

The Assurance Map will be updated to clarify the roles of each line of defence and additional sources of assurance will be considered as set out above.

#### Responsible person / title:

Audit, Risk and Assurance manager

#### Target date:

28/06/2013

#### 4 – Internal Audit

The Council’s assurance map currently details assurance that is gained from the Council’s internal audit function. This is shown on the assurance map, if a review has been completed in relation to a specific risk of the Council.

In the appendix to the map it sets out what level of assurance has been gained from the internal audit reviews conducted and when the review was completed, however this does not include all the reviews undertaken over the period considered or how it leads to the assessment of the overall assurance rating. There may be a risk that the scope of the audit did not fully cover the strategic risk.

#### Risks

It is not clear to the users of the assurance map what level of assurance is gained from the internal audit function and when the coverage was obtained or if it provides significant coverage of the strategic risk area.

#### Action plan

#### Recommendations

The detail to support the assurance map should show how the level of assurance is gained from the internal audit reviews to ensure that the reader is fully aware of how the conclusion has been made.

If the review does not cover the area in full this should be clear from the assurance provided.

As the Council further develops the assurance map it should also do this for other third line of defence areas.

#### Agreed action

The audits undertaken during the period from which the assurance is being taken will be listed within the Update Reports to the Audit and Governance Committee. This will also give a brief summary of the scope of the audits so that the level of coverage is clear.

#### Responsible person / title:

Audit, Risk and Assurance Manager

#### Target date:

28/06/2013

**5 – Performance Management**

There is a performance management framework in place within the Council; however this is not linked to the integrated assurance framework so it is not clear if there are any performance issues in place over the areas in which the assurance map covers.

**Risks**

There is a lack of oversight over the key performance issues facing the Council and what performance monitoring is conducted.

**Action plan**

**Recommendations**

The performance management of the Council should link to the assurance map. This should both be in the design of the performance management process (in the first line of defence assessment) and also in the assessment of performance either by the line managers or by the second line of defence scrutiny / review groups.

It should be clear from the assurance map if there are performance issues or if assurance can be given that areas are performing well. This is particularly important for strategic objectives and tracking performance of projects / programmes such as those associated with the transformation agenda.

**Agreed action**

The extent to which the corporate performance management arrangements can be reflected through the Assurance Map will be considered in consultation with the Head of Strategy and Performance.

**Responsible person / title:**

Head of Corporate Assurance and Procurement

**Target date:**

01/07/2013

## 6 – Second line of defence

The second lines of defence in the corporate assurance map provide an assessment of how these areas contribute to the assurance provided to the Council and its members. There are six key areas covered within the map. These are

- Legal Services;
- Financial Resources;
- Transformation, Programmes and Projects;
- Strategy, Policy and Performance;
- HR &OD; and
- Business continuity.

From meeting with each of these areas it is clear that some provide assurance over the design and operation of the system, whereas others support only the design of the process and do not provide assurance that it is operating effectively or complying with all legislation.

For example, the health and safety function provides assurance but this is based on advice, policies and some inspections rather than a confirmation that the Council is compliant with all health and safety requirements. HR also provides advice and support for managers but does not oversee compliance with all legislative requirements across the Council. The transformation assessment is not based on the success or effectiveness of the process and the strategy, policy and performance is not based on the operating effectiveness of this process across the Council.

However, for legal, finance and business continuity it was noted that the assurance owners are taking responsibility and making an assessment on both how the processes and systems are designed and how they are operating across the Council.

### Risks

The assurance map may be misunderstood by users as providing comfort on compliance across all these areas, which may be misleading.

### Action plan

#### Recommendations

Assurance owners should be clear as to what they are contributing to the map and performing additional checks, inspections or consulting with other areas of the Council to provide an informed, evidenced based review. One of the key functions of an assurance map is to show legislative compliance across core areas and coverage against key risks, to do this the Council should have an informed view of operational practices.

The assurance map should show what is actually being provided and have the appropriate limitations if information is not being obtained.

#### Agreed action

A review will be undertaken to obtain clarity on the assurance actually being provided by the second line of defence. The Assurance Map will be amended to show clearly the scope of assurance being provided.

#### Responsible person / title:

Audit, Risk and Assurance Manager

#### Target date:

30/07/2013

**7 – Business Continuity Planning**

The Council currently has a business continuity officer who is not based in the Internal Audit or Risk and Assurance team. There is assurance provided from this officer, however, this would be better utilised if it was included in this team and her skills could also be used more widely to meet the Council’s assurance objectives.

**Risks**

The business continuity officer is not used as effectively as possible to deliver the Council’s assurance agenda.

**Action plan**

**Recommendations**

Management should consider moving the business continuity officer into the Internal Audit / Risk and Assurance team.

This would provide further opportunities for the development of this role and for the skill set of this individual to be used more widely to support the integrated assurance framework.

| <b>Agreed action</b>  | <b>Responsible person / title:</b>          |
|---|---|
| The role of the Business Continuity Officer will be reviewed in line with the assurance that could be obtained. Decisions will then be made as to the most appropriate service for the role to sit. | Head of Corporate Assurance and Procurement |
|   | <b>Target date:</b><br>30/07/2013           |



# *Appendix 1. Scope of the review*

We will review your IAF in a five step approach:

## 1. Understand your approach

We will meet with you and the Audit, Risk and Assurance Manager to discuss the IAF. Following this we will spend a day with the Manager will enable us to understand your framework in more detail and the work undertaken to date.

## 2. Project planning

We will discuss this in more detail at our next meeting and confirm:

- Staff and budget;
- Timescales for planning, progress updates, fieldwork and reporting;
- Approach to the review, scope and milestones;
- Coverage within the Council and arranging meetings; and
- Reporting format.

## 3. Review the 3 lines of defence

We will review each of the 3 lines to assess the process in place and work undertaken to date. This will involve interviews with 2<sup>nd</sup> line of defence owners.

## 4. Assess culture

During our review we will assess the current appetite to the IAF and if there are any barriers which need to be addressed, for example through training, guidance, ownership, accountability and consistency advice.

## 5. Debrief and report

Provide a draft report, followed by discussion with the Head of Corporate Assurance and Procurement and the Audit, Risk and Assurance Manager, provide a final report to reflect any comments.

# Appendix 2. Limitations and responsibilities

## *Limitations inherent to the internal auditor's work*

We have undertaken the review of the integrated assurance framework, subject to the limitations outlined below.

### *Internal control*

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### *Future periods*

Our assessment of controls relating to the integrated assurance framework is for the period April 2012 to February 2013. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

### *Responsibilities of management and internal auditors*

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

Our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.



This document has been prepared only for Sunderland City Council and solely for the purpose and on the terms within the agreed scope. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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**AUDIT AND GOVERNANCE COMMITTEE**

**28 June 2013**

**CORPORATE ASSURANCE MAP – UPDATE 2013/14**

**Report of the Head of Corporate Assurance and Procurement**

**1. Purpose of Report**

- 1.1 To enable the Audit and Governance Committee to consider the updated Corporate Assurance Map based on 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.
- 1.2 For completeness, the report covers Internal Audit's key performance measures. The report does not set out the work undertaken for associated bodies for which the Council has a lead responsibility, this is a matter for the bodies concerned.

**2. Description of Decision**

- 2.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map (the Map).

**3. Background**

- 3.1 In March 2013 the Committee approved the proposed Corporate Assurance Map for 2013/14 and the plans of work for Internal Audit and Risk & Assurance.
- 3.2 At that time, the Map was prepared based on knowledge of the assurance position from Internal Audit work, a risk assessment covering all of the corporate risk areas and consultation with the Chief Executive, all Executive Directors and key offers across the Council.
- 3.3 A key feature of the new integrated assurance framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources and consider if there are any gaps or duplication in the assurance provided.

**4. Updated Corporate Assurance Map**

- 4.1 The updated Corporate Assurance Map, as at 12<sup>th</sup> June 2013, is shown overleaf. It has been updated based on the work to date of the Internal Audit, and Risk and Assurance Teams and assurance from other sources within the Council and external sources.



## Corporate Assurance Map

| Assurance Position (as at 12 <sup>th</sup> June 2013)<br>(Cumulative) | 2013/14              |                                   |                     |  |                                  |         | Risk and Assurance | Internal Audit | External Assurance |
|---|----------------------|-----------------------------------|---------------------|--|----------------------------------|---------|--------------------|----------------|--------------------|
|   | Management Assurance | Other Internal Assurance Activity |                     |  |                                  |         |                    |                |                    |
|   |                      | Legal Services                    | Financial Resources | Transformation Programmes and Projects | Strategy, Policy and Performance | HR & OD |                    |                |                    |
| <b>Strategic Risk Areas</b>   |                      |                                   |                     |  |                                  |         |                    |                |                    |
| People  |                      |                                   |                     |  |                                  |         | X                  |                |                    |
| Place   |                      |                                   |                     |  |                                  |         | X                  |                |                    |
| Economy   |                      | X                                 |                     |  |                                  |         | X                  |                | X                  |
| Organisational  |                      |                                   |                     |  |                                  |         | X                  |                |                    |
| <b>Corporate Risk Areas</b>   |                      |                                   |                     |  |                                  |         |                    |                |                    |
| Customer Focus / Service  | X                    |                                   |                     | X                                      |                                  |         | X                  | X              |                    |
| Legality  |                      | X                                 |                     |  |                                  |         | X                  |                |                    |
| Service / Business Planning   | X                    |                                   |                     | X                                      |                                  |         | X                  | X              |                    |
| Programme and Project Management                                      | X                    |                                   | X                   |  |                                  |         | X                  |                |                    |
| Change Management   |                      |                                   | X                   |  | X                                |         | X                  |                |                    |
| Partnerships  | X                    |                                   |                     |  |                                  |         | X                  | X              |                    |
| Business Continuity Planning  | X                    |                                   |                     |  |                                  | X       |                    | X              |                    |
| Procurement   | X                    |                                   |                     |  |                                  |         | X                  | X              |                    |
| Relationship and Contract Management                                  |                      |                                   |                     |  |                                  |         |                    | X              |                    |
| Financial Management  | X                    | X                                 |                     |  |                                  |         | X                  | X              | X                  |
| Human Resource Management   | X                    |                                   |                     |  | X                                |         | X                  | X              |                    |
| Information Governance  | X                    | X                                 |                     |  |                                  |         | X                  | X              |                    |
| Performance Management  | X                    |                                   |                     | X                                      |                                  |         | X                  | X              |                    |
| Asset Management  | X                    |                                   |                     |  |                                  |         | X                  | X              |                    |
| ICT Strategy and Delivery   |                      |                                   |                     |  |                                  |         | X                  | X              |                    |
| Fraud and Corruption  | X                    |                                   |                     |  |                                  |         |                    | X              |                    |
| Risk Management (Service Delivery)                                    | X                    |                                   |                     |  |                                  |         | X                  |                |                    |
| Housing Benefits  |                      |                                   |                     |  |                                  |         |                    | X              |                    |
| Schools   | X                    | X                                 |                     |  |                                  |         | X                  | X              |                    |

Key: X=activity planned, White=no coverage, **Green**=full / substantial assurance, **Amber**=moderate assurance, **Red**=limited / no assurance

## Strategic Risk Areas

- 4.2 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile. The Profile is currently being refreshed/updated with EMT for 2013/14. Once agreed the detail shall be brought to the Committee at the next meeting. Progress against each of the mitigating actions will be assessed with the lead officers and assurance levels determined, these will be reported to future Committee meetings.

## Assurance from Internal Audit

- 4.3 The detailed results of Internal Audit work are shown at Appendix 1, with the summary outcomes shown on the Map. Appendix 1 now shows all of the opinions, including those from previous years, that have been considered in determining the overall assurance level.
- 4.4 One of the reports finalised in the current year relates to Housing Related Support Grants. In November 2012, the external auditor passed to the Head of Corporate Assurance and Procurement a letter of complaint to be investigated. The letter contained allegations about the relationship between Council officers and a charity called Wearside Women In Need (WWIN) who receive funding from the Council for housing related support services, predominantly for the victims and perpetrators of domestic violence.
- 4.5 Following this, further correspondence was received by the Council from the same complainant and another source raising similar concerns. The allegations made were that Council officers were acting corruptly and favouring WWIN as they continued to provide funding even though WWIN's accounts were consistently overdue with the Charities Commission.
- 4.6 It was also alleged that Council officers had put weaker arrangements in place by allocating grants to the current providers and not offering an opportunity for other providers to bid for work.
- 4.7 The investigation, which was reviewed by the External Auditor, concluded that:
- There is no evidence that officers of the Council have acted corruptly in their dealings with WWIN. They have been treated the same as the other current contracted Housing Related Support service providers.
  - Consultation was undertaken with service providers but not directly with service users. This is to be addressed during a review of the arrangements to be put in place from April 2014.
  - WWIN have now submitted their accounts to the Charities Commission up to 31<sup>st</sup> March 2012, although they have been consistently late. Examination of the accounts available and more recent financial information shows that there are no grounds to discontinue funding WWIN for the remaining period of the grant i.e. up to 31 March 2014.



- Although all providers were treated equally a competitive process was not undertaken. In relation to the provision of Housing Related Services from April 2014, a procurement process is therefore now being planned and put in place. This will also ensure that appropriate financial checks are undertaken on all potential providers.
  - Financial monitoring was not undertaken by the HHAS Commissioning Team during 2012/13, however the arrangements are currently being strengthened with support from Internal Audit. A positive independent assessment of cost / price was undertaken in early 2011 and the fact that the funding to WWIN has reduced significantly since then suggests that the Council is receiving better value for money under the new arrangements.
- 4.8 An action plan was issued as a result of the work and positive progress is being made in addressing these. Internal Audit will continue to follow-up and report progress on these actions.
- 4.9 An action plan was issued as a result of the work and positive progress is being made in addressing these. Internal Audit will continue to follow-up and report progress on these actions.
- 4.10 The findings of this work do not impact on the Council's overall system of internal control.

#### Assurance from Risk and Assurance Team

- 4.11 Areas that the Risk and Assurance Team are currently involved in are shown at Appendix 2. Much of their work is ongoing over a period of time due to the nature of their role, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work within the third quarter has included:
- Support to the development of alternative service delivery vehicles such as the Local Asset Backed Vehicle, Care and Support Project, and the future of ICT delivery.
  - Providing assurance on the delivery of the Transformation Programme.
  - Providing assurance on the delivery of the Workforce Transformation project (pay and grading review).
  - Work has also been undertaken regarding Equal Pay Claims.
  - Supporting the delivery of the Workforce Planning project to help Heads of Service achieve their efficiency targets.

#### Assurance from others within the Council

- 4.12 Assurance provided from others within the Council is shown in the Corporate Assurance Map above. The levels of assurance have not changed since the end of March 2013.

#### Assurance from Management

- 4.13 Arrangements are in place to obtain assurance from service management in a number of areas. These arrangements will be further developed with the support of the partner PricewaterhouseCoopers. Members will note that the majority of risk areas are shown as having substantial assurance.

#### Assurance from External Sources

- 4.14 The Map shows five areas where Full or Substantial assurance has been received from external sources.

#### Overall

- 4.15 The overall level of assurance for all risk areas has not changed since the end of March 2013.

#### Appointment of Partner

- 4.16 The Partner organisation, PricewaterhouseCoopers, has carried out a review of the implementation of the Integrated Assurance Framework. The report is included on the Committee Agenda but in summary, it concludes that good progress has been made so far and a number of recommendations have been agreed to further strengthen the arrangements.

### **5. Internal Audit Performance**

- 5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 3. Performance is on target for all KPI's apart from the current percentage of medium risk recommendations implemented (excluding schools), which now stands at 89%.

A summary of the performance by directorate for medium risk recommendations is shown below:

| <b>Directorate / Body</b>                 | <b>Implementation Rate</b> |
|---|----------------------------|
| Children's Services (non schools)         | 79%                        |
| Office of the Chief Executive             | 88%                        |
| Commercial and Corporate Services         | 93%                        |
| Health, Housing & Adult Services          | 93%                        |
| <b>Implementation Rate (exc. Schools)</b> | <b>89%</b>                 |
| Schools                                   | 83%                        |
| <b>Total Implementation Rate</b>          | <b>86%</b>                 |

## **7. Conclusions**

- 7.1 This report provides an update on the assurance provided in the Corporate Assurance Map, work ongoing in relation to the Internal Audit and Risk & Assurance Teams and performance targets for Internal Audit.
- 7.2 Results of the work undertaken so far during the year have not highlighted any issues which affect the opinion that overall throughout the Council there continues to be an adequate system of internal control.

## **8. Recommendations**

- 8.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map.



Detailed Internal Audit Coverage

| Key Risk Area               | 2011/12 Audits / Opinions   | 2012/13 Audits / Opinions   | 2013/14 Audits / Opinions | Scope of 2013/14 Audit                         | Overall Opinion   |   |
|-----------------------------|-----------------------------|---|---------------------------|--|---|---|
| Customer Focus              |                             | Children's Services – Safeguarding – follow up of inspectorates recommendations | L                         | Early Intervention and Locality Based Services | Review the governance arrangements for multi agency working, information sharing & performance management.  | Insufficient work to enable opinion to be given |
|                             |                             | Personal Budgets  | L                         | Out of Area Placements                         | Review implementation of new placements strategy.   |   |
|                             |                             |   |                           | Web Content Development                        | Review the arrangements for keeping the new website and intranet up to date, and for on line payments.  |   |
|                             |                             |   |                           | Crisis Loans / Social Fund                     | Review the arrangements for implementing the new Local Welfare Provision Scheme, and delivery of the new Crisis Support and Community Care Support, Services. |   |
| Legality                    |                             | Equality Impact Assessments   | M                         |  |   | Substantial                                     |
|                             |                             | Licensing (Compliance with Provision of Services Regulations 2009)              | N                         |  |   |   |
|                             |                             | Corporate Legality  | F                         |  |   |   |
| Service / Business Planning | Responsive Local Services   |   |                           | Corporate Service/ Business Planning           | Review of corporate process   | Moderate  |
|                             | Facilities Management       | Children's Services – Safeguarding – follow up of inspectorates recommendations | L                         | Derwent Hill                                   | Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.               |   |
|                             | Reablement at Home - Adults |   |                           | Out of Area Placements                         | Review implementation of new Placements Strategy.   |   |
|                             | Business Support            |   |                           | Building Management                            | Assess arrangements in place to manage portfolio of operational buildings   |   |
|                             |                             |   |                           | Early Intervention and Locality Based Services | Review the governance arrangements for multi agency working, information sharing & performance management.  |   |

| Key Risk Area                              | 2011/12 Audits / Opinions                                  | 2012/13 Audits / Opinions                                    | 2013/14 Audits / Opinions | Scope of 2013/14 Audit                     | Overall Opinion   |                      |
|--|--|--|---------------------------|--|---|----------------------|
| Programme and Project Management           | Project Management Information Governance (Project Server) |  |                           | Implementation of the Economic Master Plan | Review progress against Business Investment Team projects within the plan   | Substantial          |
|  |  | Landscape and Reclamation Service                            | M                         |  |   |                      |
|  |  | Programme and Project Management - support to major projects | M                         |  |   |                      |
|  |  | Operating Model – realisation of benefits                    | S                         |  |   |                      |
| Change Management                          |  |  |                           | Payroll                                    | Verification of input of new pay and grading information to SAP HCM.  | None (new risk area) |
|  |  |  |                           | Health and Wellbeing Partnership Board     | A review of governance arrangements and transaction checks on public health activity payments.  |                      |
| Partnerships                               |  |  |                           | Health and Wellbeing Partnership Board     | As above  | Moderate             |
| Business Continuity and Emergency Planning | Major Incident Planning                                    |  |                           | HHAS Business Continuity Planning          | Examination of the process for determining the level of criticality of each function, and the arrangements for recovery of non critical functions on a service by service basis. (Business recovery for critical functions is currently being reviewed by the Corporate Business Continuity Officer). | Moderate             |
|  | Business Continuity Planning - Children's Services         |  |                           |  |   |                      |
| Procurement                                | Purchasing Card Arrangements                               | Capital Procurement  | S                         | Derwent Hill                               | Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.   | Substantial          |

| Key Risk Area                        | 2011/12 Audits / Opinions               | 2012/13 Audits / Opinions                                       | 2013/14 Audits / Opinions | Scope of 2013/14 Audit                            | Overall Opinion  |   |   |
|--------------------------------------|---|---|---------------------------|---|--|---|---|
| Procurement (continued)              | Capital Procurement                     | Unplanned Audit – Revenue Procurement                           | S                         | Out of Area Placements                            | Review implementation of new placements strategy.  |   |   |
|                                      | Revenue Procurement                     |   |                           | Building Management                               | Assess arrangements in place to manage portfolio of operational buildings  |   |   |
|                                      |   |   |                           | Revenue Procurement                               | Transaction Testing  |   |   |
| Relationship and Contract Management |   | Care and Support Sunderland Ltd – contract management           | M                         | Corporate Contract Management Arrangements        | Assess the robustness of the new Corporate Contract Management Framework and the arrangements for its implementation.        | Insufficient work to enable opinion to be given |   |
|                                      |   | Housing Related Support   | L                         | Events Company Contract Management                | Review the arrangements for ensuring that Sunderland Live fulfils contractual requirements and examine payment arrangements. |   |   |
| Financial Management                 | Corporate Budget Setting and Management | YPLA Schools Sixth Form Grant                                   | S                         | EFA Funding                                       | Grant Certification work   | Substantial                                     |   |
|                                      | Adoption Allowances                     | YPLA Young Apprenticeships Cohort 6 Grant                       | S                         | DECC Fuel Poverty Grant                           | M  |   | Grant Certification work  |
|                                      | Social Care Resource Agency             | YPLA Young Apprenticeships Cohort 7 Grant                       | S                         | Foster Care Allowances                            |  |   | Review the robustness of the arrangements for payment of allowances.  |
|                                      | Personal Budgets - Adults               | Department for Business Innovation & Skills – LEP Start Up Fund | S                         | Out of Area Placements                            |  |   | Review implementation of new placements strategy.   |
|                                      | Port Governance Arrangements            | Department for Business Innovation & Skills – LEP Capacity Fund | S                         | Direct Payments                                   |  |   | Assessment of the effectiveness of the arrangements for monitoring use of Direct Payments following implementation of a risk based verification system. |
|                                      | Treasury Management                     | Deprived Areas Fund Grant                                       | F                         | Charging for Non Residential Adults Care Services |  |   | Review of the arrangements for determining and collecting charges from service users.   |
|                                      | 1 Leisure Centre                        | Single Investment Programme Grant                               | F                         | Personal Budgets                                  |  |   | Transaction Testing (to include verification of Direct Payments)  |

| Key Risk Area                    | 2011/12 Audits / Opinions                  | 2012/13 Audits / Opinions                     | 2013/14 Audits / Opinions | Scope of 2013/14 Audit   | Overall Opinion  |
|----------------------------------|--|---|---------------------------|--|--|
| Financial Management - continued | Accounts Payable                           | Local Transport Capital Block Funding Grant   | S                         | Local Transport Capital and Integrated Transport Grants  | Grant Certification work   |
|                                  | Accounts Receivable - Collection           | Growing Places Funds 2, 3 and 7               | F                         | Growing Places Funds 2, 3 and 7  | Grant Certification work   |
|                                  | Periodic Income - Recovery and Enforcement | 1 Leisure Centre                              | S                         | SAP Organisation Structures  | Review of staffing structures as recorded on SAP HCM, and assessment of the adequacy of the arrangements for amendments and updates.   |
|                                  | Cash Receipting - Central System           | 35 Schools                                    | S                         | Building Management  | Assess arrangements in place to manage portfolio of operational buildings  |
|                                  | Council Tax - Setting                      | Home Improvement Agency – Loans and Mortgages | S                         | Asset Register / Capital Accounting  | Review of the arrangements to ensure that all capital assets are recorded in the asset register, valuations are correct, and capital accounting rules have been complied with.       |
|                                  | Council Tax - Billing                      | Personal Budgets                              | L                         | Capital Programme Funding and Monitoring   | Review of the arrangements for developing and financing the Capital Programme, and for monitoring expenditure against plans.   |
|                                  | Council Tax - Valuation                    | Direct Payments                               | L                         | BACS Processing  | Assessment of the effectiveness of the arrangements for monitoring use of Direct Payments following implementation of a risk based verification system.                              |
|                                  | Council Tax - Recovery                     | Care and Support Sunderland Ltd – compliance  | S                         | Treasury Management  | Review of borrowing and lending arrangements, and compliance with the Prudential Code.   |
|                                  | Business Rates – Recovery & Enforcement    | Landscape and Reclamation Service             | M                         | Cash Receipting  | Transaction Testing, including a review of the arrangements for providing telephone facilities in Customer Service Centres to enable payments to the Council by credit / debit card. |
|                                  | BACS Arrangements                          | BACS Payments                                 | S                         | External Funding   | A review of the arrangements that are in place to ensure that all possible sources of external funding are utilised and access to available funding is maximised.                    |
| Charging for Services - HHA      | Cash Receipting checks                     | S   | Insurance Claims Handling | Review of the arrangements for dealing with insurance claims against the Council and South Tyneside Council. |  |



| Key Risk Area                    | 2011/12 Audits / Opinions                                    | 2012/13 Audits / Opinions                    | 2013/14 Audits / Opinions          | Scope of 2013/14 Audit   | Overall Opinion   |          |
|----------------------------------|--|--|------------------------------------|--|---|----------|
| Financial Management - continued | Future Jobs Fund Grant                                       | Capital Procurement                          | S                                  | Payroll  | Verification of input of new pay grades to SAP HCM, following the Workforce Transformation Project.   | Moderate |
|                                  | Deprived Areas Fund Grant                                    | Payroll transactions checks                  | M                                  | Council Tax Support Scheme   | A review of the arrangements for implementing the new Council Tax Support Scheme.   |          |
|                                  | Payroll Processing and Payment                               | Council Tax Transactions checks              | S                                  | Council Tax  | Transaction Testing   |          |
|                                  | Unplanned Audit – SIB and Community Chest Grants             | Business Rates transactions checks           | S                                  | Local Business Rates Scheme  | A review of the arrangements for implementing the new Local Business Rates Scheme.  |          |
|                                  | Unplanned Audit – Future Jobs Fund – final audit certificate | Accounts Payable transactions checks         | S                                  | Business Rates   | Transaction Testing   |          |
|                                  | Unplanned Audit – SWITCH Modelling                           | Accounts Receivable transactions checks      | S                                  | Crisis Loans / Social Fund   | Review the arrangements for implementing the new Local Welfare Provision Scheme, and delivery of the new Crisis Support and Community Care Support, Services. |          |
|                                  |  |  |                                    | Accounts Payable   | Transaction Testing   |          |
|                                  |  |  |                                    | Accounts Receivable and Periodic Income  | Review of key controls in income collection arrangements, together with transaction testing   |          |
|                                  |  |  |                                    | Troubled Families Performance Reward Grant   | Grant certification work  |          |
|                                  |  |  |                                    | Derwent Hill   | Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.               |          |
|                                  |  |  | Aquatic Centre                     | Examination of the arrangements for budget management, cash collection and purchasing.                                       |   |          |
|                                  |  |  | Events Company Contract Management | Review the arrangements for ensuring that Sunderland Live fulfils contractual requirements and examine payment arrangements. |   |          |
| Human Resource Management        | Corporate Training and Development Arrangements              | Corporate Attendance Management Arrangements | L                                  | SAP HCM Organisation Structures  | Verification of input of new pay grades to SAP HCM, following the Workforce Transformation Project.   | Moderate |

| Key Risk Area                         | 2011/12 Audits / Opinions  | 2012/13 Audits / Opinions                               | 2013/14 Audits / Opinions | Scope of 2013/14 Audit                         | Overall Opinion  |          |
|---------------------------------------|--|---|---------------------------|--|--|----------|
| Human Resource Management (continued) | Personnel Administration Arrangement                                       | Management of SWITCH                                    | S                         | Corporate HR Management                        | Review of compliance with corporate HR procedures  |          |
|                                       | Management of Employees in SWITCH  |   |                           |  |  |          |
| Information Governance                | Corporate Information Governance (including procedures for remote working) | Vulnerable Adults Protection Arrangements               | S                         | Corporate Information Governance Arrangements  | A survey of managers is to take place together with a general employee survey to gauge awareness and understanding of, and compliance with information governance policies and procedures. | Moderate |
|                                       | Email Security   | Information Governance compliance checks                | L                         |  |  |          |
|                                       | Smarter Working – Remote Working in Children's Services                    |   |                           |  |  |          |
|                                       | Document Management  |   |                           |  |  |          |
|                                       | Corporate Data Protection Arrangements                                     |   |                           |  |  |          |
|                                       | Follow Up – Customer Services Network Info Gov (2010/11)                   |   |                           |  |  |          |
| Performance Management                | Responsive Local Services  | Design of corporate performance management arrangements | S                         | Building Management                            | Assess arrangements in place to manage portfolio of operational buildings  | Moderate |
|                                       | Port Governance Arrangements   |   |                           | Early Intervention and Locality Based Services | Review the governance arrangements for multi agency working, information sharing & performance management  |          |
|                                       | Customer Services Network  |   |                           |  |  |          |
|                                       | Reablement at Home - Adults  |   |                           |  |  |          |
|                                       | Social Care Resource Agency  |   |                           |  |  |          |
|                                       | Follow up – Sunderland Compact   |   |                           |  |  |          |

| Key Risk Area             | 2011/12 Audits / Opinions                         | 2012/13 Audits / Opinions          | 2013/14 Audits / Opinions | Scope of 2013/14 Audit                        | Overall Opinion  |             |
|---------------------------|---|------------------------------------|---------------------------|---|--|-------------|
| Asset Management          | Asset Register/Capital Accounting                 | Asset management                   | M                         | Derwent Hill                                  | Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.                                | Moderate    |
|                           | Unplanned Audit - Technoforge                     |                                    |                           | Technology Forge                              | Examine progress in implementing the Technology Forge property management software.  |             |
|                           |   |                                    |                           | ICT Asset Management                          | Review arrangements for identifying, recording and controlling ICT equipment.  |             |
|                           |   |                                    |                           | Asset Register / Capital Accounting           | Review of the arrangements to ensure that all capital assets are recorded in the asset register, valuations are correct, and capital accounting rules have been complied with. |             |
| ICT Strategy and Delivery | ICT Remote Access Threats                         |                                    |                           | ICT Asset Management                          | Review arrangements for identifying, recording and controlling ICT equipment.  | Moderate    |
|                           | Information Technology Infrastructure Library     |                                    |                           | ICT Strategy                                  | Review of the ICT Strategy to assess whether that it supports delivery of Council Objectives   |             |
| Fraud and Corruption      | Counter Fraud Testing (including in schools)      | Counter Fraud Testing              |                           | Counter Fraud Testing                         |  | Substantial |
|                           | Access to IT systems - with movement of employees | National Fraud Initiative checks   |                           | National Fraud Initiative Case Investigations |  |             |
|                           | 1 Leisure Centre                                  | Home Improvement Agency            | S                         | Direct Payments                               | Transaction Testing  |             |
|                           | Asset Management - ICT Equipment                  | Direct Payments                    | L                         | Personal Budgets                              | Transaction Testing  |             |
|                           | Unplanned Audit – SIB and Community Chest Grants  | Cash Receipting Transaction checks | S                         | BACS Processing                               | Transaction Testing  |             |
|                           | Social Care Resource Agency                       | Payroll transaction checks         | M                         | Cash Receipting                               | Transaction Testing  |             |
|                           |   | Council Tax transaction checks     | S                         | Payroll                                       | Verification of input of new pay grades to SAP HCM after Workforce Transformation Project.   |             |

| Key Risk Area                    | 2011/12 Audits / Opinions                             | 2012/13 Audits / Opinions   | 2013/14 Audits / Opinions | Scope of 2013/14 Audit  | Overall Opinion  |   |             |
|----------------------------------|---|---|---------------------------|---|--|---|-------------|
| Fraud and Corruption (continued) |   | Business Rates transaction checks   | S                         | Council Tax   | Transaction Testing  |   |             |
|                                  |   | Housing Benefit transaction checks  | S                         | Business Rates  | Transaction Testing  |   |             |
|                                  |   | Accounts Payable transaction checks   | S                         | Benefits  | Transaction Testing  |   |             |
|                                  |   | Accounts Receivable transactions  | S                         | Accounts Payable  | Transaction Testing  |   |             |
|                                  |   |   |                           | Accounts Receivable and Periodic Income                           | Review of key controls in income collection arrangements, together with transaction testing. |   |             |
| Risk Management                  | Port Governance Arrangements                          |   |                           |   |  | Substantial   |             |
|                                  | 1 Leisure Centre                                      |   |                           |   |  |   |             |
|                                  | Insurance Policies                                    |   |                           |   |  |   |             |
| Housing Benefits                 | Housing Benefit Administration                        | Housing Benefit transaction checks  | S                         | Benefits  | Transaction Testing  | Substantial   |             |
|                                  |   |   |                           | Council Tax Support Scheme  | A review of the arrangements for implementing the new Council Tax Support Scheme.            |   |             |
| Schools                          | 38 schools audits completed – 35 good, 3 satisfactory | 29 schools audits completed – 7 full, 20 substantial, 1 moderate, 1 limited | S                         | 34 schools<br>2 schools completed to date – 2 full, 1 substantial | S  | Review of governance and financial management arrangements at 34 schools. | Substantial |

## Risk and Assurance Activity

| Area of activity  | Work ongoing  |
|---|---|
| Strategic Risk Profile  | <p>Mitigating actions being agreed.</p> <p>A review of the strategic risks affecting the Council is being finalised with EMT. The risk areas have been categorised into People, Place, Economy and Organisational, in line with the Council's Outcomes Framework. The proposed risks and scores are being agreed and mitigating action areas are being identified. The new Profile and progress in relation to the action areas will be reported to the next Committee meeting.</p>   |
| Transformation Programme  | <p>Ongoing assurance work is being undertaken in relation to progress in delivering the projects within the Transformation Programme and the related efficiency savings target. A progress report is presented to the Transformation Board on a monthly basis setting out the progress in relation to key project deliverables and the achievement of efficiency savings targets. Work is ongoing with Project Executives, Project Managers and Heads of Service to report the position and address any change control issues required.</p> |
| Supporting Executive Directors and Heads of Service to manage risks | <p>Activity is ongoing in all Directorates to aid the managing of risks through service planning, programmes and key projects and partnerships. This will be linked to mitigating actions in the Strategic Risk Profile where appropriate.</p>  |
| Support to Schools  | <p>A new approach to supporting schools will be introduced in the current year. The intention is to work with Schools in their cluster groups to help them identify and manage their risks more effectively. This will allow Schools to support each other and manage their risks on a more ongoing basis, as well as reducing the resources required from the Risk and Assurance Team.</p>   |

| Area of activity   | Work ongoing   |
|--|--|
| Service Reviews (including alternative service delivery models), Programmes and Projects (including ICT) | <p>Major projects / service reviews being supported include:</p> <ul style="list-style-type: none"> <li>• SSTC - New Wear Crossing</li> <li>• Local Asset Backed Vehicle</li> <li>• Care and Support Services – Adults</li> <li>• Smarter Working Phase 2</li> <li>• St Mary’s Boulevard/Magistrates Square</li> <li>• Customer Service Network</li> <li>• Transport and Fleet Management</li> <li>• Changing electoral Registration system</li> <li>• ICT – Corporate Computing Model</li> <li>• ICT – Cloud development and strategic direction</li> <li>• Economic Master Plan</li> <li>• Adult Social Care</li> <li>• Workforce Transformation Project</li> <li>• Activities to reduce the size of the workforce</li> <li>• Development of the Intranet</li> <li>• Safeguarding – Childrens</li> <li>• Personalisation – Adults</li> <li>• Settlement of Equal pay claims</li> <li>• Streetscene projects</li> <li>• Development of the Voluntary and Charitable Sector</li> </ul> |
| Partnerships   | <p>Support is being provided to the following specific Partnerships:</p> <ul style="list-style-type: none"> <li>• Sunderland Economic Leadership Board</li> <li>• Waste Management Partnership</li> <li>• Health and Wellbeing Board</li> <li>• Sunderland Safeguarding Adults Board</li> </ul>  |
| Governance Review  | <p>The results from Risk and Assurance activity feed into the Annual Governance Review and the Annual Governance Statement</p>   |
| Investigations   | <p>Two investigations are currently ongoing</p>  |

## Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2013/14

| Efficiency and Effectiveness  |  |   |   |
|---|--|---|---|
| Objectives  | KPI's  | Targets   | Actual Performance  |
| 1) To ensure the service provided is effective and efficient.                               | 1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council<br>2) Percentage of draft reports issued within 15 days of the end of fieldwork<br>3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report) | 1) All key risk areas covered over a 3 year period<br>2) 90%<br>3) 70%  | 1) On target<br>2) Ahead of target - 100%<br>3) Ahead of target - 100%              |
| Quality   |  |   |   |
| Objectives  | KPI's  | Targets   | Actual Performance  |
| 1) To maintain an effective system of Quality Assurance                                     | 1) Opinion of External Auditor   | 1) Satisfactory opinion   | 1) Achieved   |
| 2) To ensure recommendations made by the service are agreed and implemented                 | 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented   | 2) 100% for high and significant<br>90% for medium risk   | 2) Significant – N/A<br>Behind target - Medium 89% (excluding schools)              |
| Client Satisfaction   |  |   |   |
| Objectives  | KPI's  | Targets   | Actual Performance  |
| 1) To ensure that clients are satisfied with the service and consider it to be good quality | 1) Results of Post Audit Questionnaires<br>2) Results of other Questionnaires<br>3) Number of Complaints / Compliments   | 1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)<br>2) Results classed as 'Good'<br>3) No target – actual numbers will be reported | 1) On target - 1.1 to date<br>2) Non undertaken<br>3) 4 compliments<br>0 complaints |





**AUDIT AND GOVERNANCE COMMITTEE**

**28 June 2013**

**External Auditor - Audit Progress Report to June 2013**

**Report of the Executive Director of Commercial and Corporate Services**

**1. Purpose of Report**

- 1.1 To enable the Committee to consider and comment upon the external auditors' (Mazars) regular Audit Progress Report covering the period up to June 2013.
- 1.2 The report will be presented by Gavin Barker, the Senior Engagement Manager from Mazars.
- 1.3 The reports are a regular feature on this agenda and are aimed at providing updates of the progress made by our external auditor in meeting and fulfilling their role and responsibilities to the Council.
- 1.4 It is pleasing to note that the preliminary audit work carried out to date on both the Council's key financial systems and the substantive testing on financial data that forms the basis of the accounts for 2012/13 has revealed no significant issues.
- 1.5 The reports also aim to highlight emerging issues and developments that may be of interest to members in their role on the Audit and Governance Committee.

**2. Recommendations**

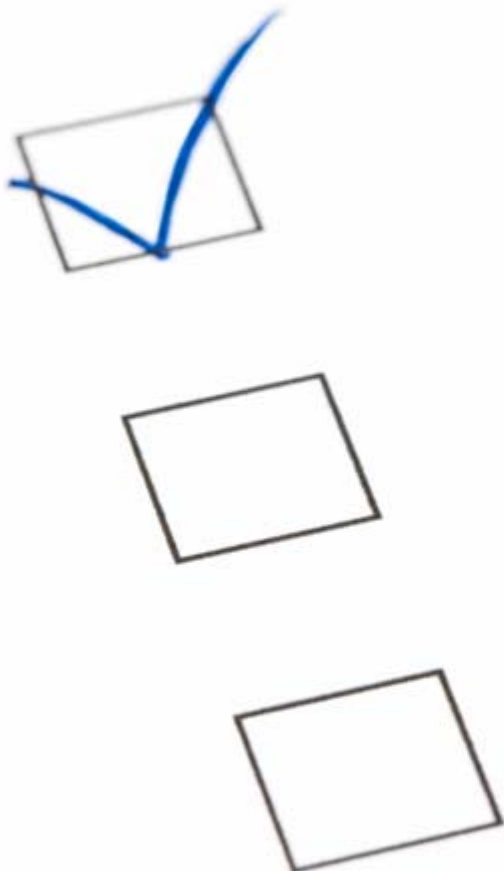
- 2.1 Members are asked to note the attached report.



# Sunderland City Council

## Audit Progress Report

June 2013



# Contents

- 01 Purpose of this paper
- 02 Summary of audit progress
- 03 Emerging issues and developments
- 04 Contact details

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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# 01



## Purpose of this paper

This paper updates the Audit and Governance Committee on our progress in meeting our responsibilities as your external auditor. It also highlights key emerging national issues and developments which may be of interest to you.

If you require any further information please contact your Engagement Lead or Senior Manager using the contact details at the end of this update.

Finally, please note the website address [www.mazars.co.uk](http://www.mazars.co.uk) which sets out the range of work Mazars carries out across the UK public sector. It also details the wider services provided within the UK and abroad.

# 02

## Summary of audit progress



Good progress on the 2012/13 audit has continued.

### Interim work

- Work is now nearing completion on each of the key financial systems – this covers the main accounting system, payroll, accounts payable, accounts receivable, periodic income, cash receipting, council tax, NNDR, benefits, capital accounting, loans and investments, SWIFT (adult social care) and building maintenance – in addition, we consider general ICT controls.
- We have almost completed our initial substantive testing on income and expenditure up to and including month 11, this will be topped up with coverage of the final part of the year in our final accounts work.
- No significant issues have arisen from our work to date.

## The financial statements

- We maintained a dialogue with officers as they prepared your financial statements. This has included discussing emerging technical issues and acting as a sounding board for proposed accounting treatments.
- This process has operated well, and is designed to avoid difficulties during the later stages of the audit.

## VFM conclusion

- We have completed our initial assessment of the Council's arrangements for value for money, focusing on financial resilience and arrangements to secure economy, efficiency and effectiveness.
- We have reviewed VFM profiles, the Council's financial position and the many projects designed to promote future savings and improvements in service delivery.
- No significant issues have arisen from our work to date.

## Advisory work

- We have completed the Review of Internal Audit commissioned by the Executive Director of Commercial and Corporate Services. This has been reported elsewhere on the agenda:

# 03

## Emerging issues and developments



The following pages outline some significant emerging issues and developments that Members and officers will be considering over the coming months.

- A Practical Guide for Local Authorities on Income Generation (2013 Edition), CIPFA
- National Fraud Initiative, Audit Commission, March 2013
- Public Sector Internal Audit Standards, CIPFA, April 2013
- Local Audit and Accountability Bill, May 2013



# Emerging issues and developments

## Issue / development

### **A Practical Guide for Local Authorities on Income Generation (2013 Edition), CIPFA**

CIPFA have published an update of their guide on income generation, which is aimed at helping local authorities to make the most of their fees and charges potential. It provides a full update of the charging opportunities available as at January 2013, reflecting recent legislation and regulations.

### **National Fraud Initiative, Audit Commission, March 2013**

This data matching exercise is mandatory for all local government and health bodies and is undertaken every two years, with the Audit Commission reporting the results of these matches at the end of each cycle.

The outcomes, in England, from the most recent exercise include the prevention and detection of £103 million pension overpayments, £79 million council tax single person discounts incorrectly awarded and £42 million housing benefit overpayments. Others include:

- 164 employees identified as having no right to work in the UK;
- 321 false applications removed from housing waiting lists;
- 1,031 prosecutions, 921 of them for housing benefit fraud; and
- 32,633 blue badges and 52,635 concessionary travel passes cancelled.

The next NFI report is due in June 2014.

# Emerging issues and developments

## Issue / development

### **Public Sector Internal Audit Standards, CIPFA, April 2013**

On 1 April 2013 a common set of standards came into effect for Internal Audit across the UK public sector. The Public Sector Internal Audit Standards (PSIAS) apply the mandatory elements of the Institute of Internal Auditors (IIA) International Standards.

Adoption of a consistent framework is designed to bring benefits for partnership working and working across the different parts of the public sector. The standards are also designed to drive improvement, leading to better public financial management. The new standards replace the existing ones in local government, central government and the NHS.

### **Local Audit and Accountability Bill, May 2013**

The effect of the Local Audit and Accountability Bill is to abolish the Audit Commission and to establish new arrangements for the audit and accountability of local public bodies in England.

The bill also confirms proposal for Local Authorities to appoint their own external auditor in future on the recommendation of an independent appointment panel, but no date as yet has been specified for when this is likely to come into effect and further guidance is likely to support its implementation.

The Bill also amends the legislative framework for council tax referendums and provides for measures which can ensure local authority compliance with the Code of Recommended Practice on Local Authority Publicity.

# 04

## Contact details



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**AUDIT AND GOVERNANCE COMMITTEE**

**28 June 2013**

**TREASURY MANAGEMENT – FIRST QUARTERLY REVIEW 2013/2014**

**Report of the Executive Director of Commercial and Corporate Services**

**1. Purpose of Report**

- 1.1 To report on the Treasury Management (TM) performance for the first quarter of 2013/2014.

**2. Description of Decision**

- 2.1 The Committee is requested to note the Treasury Management performance during Quarter 1 of 2013/2014.
- 2.2 To note amendments to the Lending List Criteria at Appendix A and the Approved Lending List at Appendix B.

**3. Introduction**

- 3.1 This report sets out the Treasury Management performance to date for the first quarter of the financial year 2013/2014, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

**4. Review of Treasury Management Performance for 2013/14 – Quarter 1**

- 4.1 The Council's Treasury Management function continues to look at ways of maximising financial savings and increase investment return to the revenue budget. One option to make savings is through debt rescheduling, however no rescheduling has been possible in 2013/14 as rates have not been considered sufficiently favourable. It should be noted the Council's interest rate on borrowing is very low, currently 3.49%, and as such the Council continues to benefit from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises.
- 4.2 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its TM Prudential Indicators. The statutory limit under section 3(1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £398.602m for 2013/2014 and the Council is well within this limit.

- 4.3 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.
- 4.4 As at 31<sup>st</sup> May 2013, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 1.07% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.36%. Performance is very positive and is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.
- 4.5 The rate of return on investments has fallen markedly in recent months as UK-based financial institutions access funding from alternative sources such as the Government's Funding for Lending Scheme to increase their capital/cash reserves in line with recent regulatory requirements. The result is that investment rates have reduced since April 2013 and are following a downward trend at the moment. Even special tranche investment rates (which offer better than market average returns) have reflected this downward trend. The implication is that returns on investments will reduce from those achieved in recent years.
- 4.6 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings. The Approved Lending List as shown in Appendix B has been updated to reflect this.

## **5. Recommendation**

- 5.1 Members are requested to note the Treasury Management (TM) performance for the first quarter of 2013/2014.
- 5.2 Members are requested to note amendments to the Lending List Criteria at Appendix A and the Approved Lending List at Appendix B.

**Counterparty Criteria**

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

| <b>Fitch / S&amp;P's Long Term Rating</b>  | <b>Fitch Short Term Rating</b> | <b>S&amp;P's Short Term Rating</b> | <b>Moody's Long Term Rating</b> | <b>Moody's Short Term Rating</b> | <b>Maximum Deposit<br/>£m</b> | <b>Maximum Duration</b> |
|--|--------------------------------|------------------------------------|---------------------------------|----------------------------------|-------------------------------|-------------------------|
| AAA  | F1+                            | A1+                                | Aaa                             | P-1                              | 110                           | 2 Years                 |
| AA+  | F1+                            | A1+                                | Aa1                             | P-1                              | 90                            | 2 Years                 |
| AA   | F1+                            | A1+                                | Aa2                             | P-1                              | 40                            | 364 days                |
| AA-  | F1+ / F1                       | A1+ / A-1                          | Aa3                             | P-1                              | 20                            | 364 days                |
| A+   | F1                             | A-1                                | A1                              | P-1                              | 10                            | 364 days                |
| A  | F1 / F2                        | A-1 / A-2                          | A2                              | P-1 / P-2                        | 10                            | 364 days                |
| A-   | F1 / F2                        | A-2                                | A3                              | P-1 / P-2                        | 5                             | 6 months                |
| <b>Local Authorities</b> (limit for each local authority)  |                                |                                    |                                 |                                  | 30                            | 2 years                 |
| <b>UK Government</b> (including debt management office, gilts and treasury bills)  |                                |                                    |                                 |                                  | 90                            | 2 years                 |
| <b>Money Market Funds</b><br>Maximum amount to be invested in Money Market Funds is £80m with a maximum of £40m in any one fund. |                                |                                    |                                 |                                  | 80                            | Liquid Deposits         |
| <b>Local Authority controlled companies</b> (# duration limited to 20 years in accordance with Capital Regulations)              |                                |                                    |                                 |                                  | 20                            | # 20 years              |

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of **AA+** will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

Where any banks / building societies are part of the UK Government's Credit Guarantee scheme (marked with \* in the Approved Lending List), these counterparties will have an AA rating applied to them thus giving them a credit limit of £40 million for a maximum period of 364 days

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above, these new limits are as follows:

### Country Limit

It is proposed that only countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £40 million which can be invested in other countries provided they meet the above criteria. A separate limit of £350m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

| Country | Limit<br>£m |
|---------|-------------|
| UK      | 350         |
| Non UK  | 40          |

### Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

| Sector                | Limit<br>£m |
|-----------------------|-------------|
| Central Government    | 350         |
| Local Government      | 350         |
| UK Banks              | 350         |
| UK Building Societies | 150         |
| Money Market Funds    | 80          |
| Foreign Banks         | 40          |

### Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the government's guarantee scheme is still in place;
- the UK continues to have a sovereign credit rating of **AA+**; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix B.



Approved Lending List

Appendix B

|   | Fitch      |        |            |         | Moody's    |        |                     | Standard & Poor's |        |                       | Max Deposit Period |
|---|------------|--------|------------|---------|------------|--------|---------------------|-------------------|--------|-----------------------|--------------------|
|   | L Term     | S Term | Individual | Support | L Term     | S Term | Fin Strength Rating | L Term            | S Term | Limit £m              |                    |
| <b>UK</b>   | <b>AA+</b> |        |            |         | <b>Aa1</b> |        |                     | AAA               |        | 350                   | 2 years            |
| <b>Lloyds Banking Group</b><br>(see Note 1)         |            |        |            |         |            |        |                     |                   |        | <b>Group Limit 90</b> |                    |
| Lloyds Banking Group plc                            | A          | F1     | bbb        | 1       | A3         | -      | -                   | A-                | A-2    | 90                    | 2 years            |
| Lloyds TSB Bank Plc                                 | A          | F1     | bbb        | 1       | A2         | P-1    | C-                  | A                 | A-1    | 90                    | 2 years            |
| Bank of Scotland Plc                                | A          | F1     | -          | 1       | A2         | P-1    | D+                  | A                 | A-1    | 90                    | 2 years            |
| <b>Royal Bank of Scotland Group</b><br>(See Note 1) |            |        |            |         |            |        |                     |                   |        | <b>Group Limit 90</b> |                    |
| Royal Bank of Scotland Group plc                    | A          | F1     | bbb        | 1       | Baa1       | P-2    | -                   | A-                | A-2    | 90                    | 2 years            |
| The Royal Bank of Scotland Plc                      | A          | F1     | bbb        | 1       | A3         | P-2    | D+                  | A                 | A-1    | 90                    | 2 years            |
| National Westminster Bank Plc                       | A          | F1     | -          | 1       | A3         | P-2    | D+                  | A                 | A-1    | 90                    | 2 years            |
| Ulster Bank Ltd                                     | A-         | F1     | ccc        | 1       | Baa2       | P-2    | D-                  | BBB+              | A-2    | 90                    | 2 years            |
| <b>Santander Group *</b>                            |            |        |            |         |            |        |                     |                   |        | <b>Group Limit 40</b> |                    |
| Santander UK plc                                    | A          | F1     | a          | 1       | A2         | P-1    | C-                  | A                 | A-1    | 40                    | 364 days           |
| Cater Allen   | -          | -      | -          | -       | -          | -      | -                   | -                 | -      | 40                    | 364 days           |
| Barclays Bank plc *                                 | A          | F1     | a          | 1       | A2         | P-1    | C-                  | A+                | A-1    | 40                    | 364 days           |
| HSBC Bank plc *                                     | <b>AA-</b> | F1+    | <b>a+</b>  | 1       | Aa3        | P-1    | C                   | AA-               | A-1+   | 40                    | 364 days           |

## Appendix B

|  | Fitch       |           |             |         | Moody's    |           |                     | Standard & Poor's |        |           | Max Deposit Period |
|--|-------------|-----------|-------------|---------|------------|-----------|---------------------|-------------------|--------|-----------|--------------------|
|  | L Term      | S Term    | Individual  | Support | L Term     | S Term    | Fin Strength Rating | L Term            | S Term | Limit £m  |                    |
| Nationwide BS *  | A+          | F1        | a+          | 1       | A2         | P-1       | C                   | A+                | A-1    | 40        | 364 days           |
| Standard Chartered Bank *                                | AA-         | F1+       | aa-         | 1       | A1         | P-1       | B-                  | AA-               | A-1+   | 40        | 364 days           |
| Clydesdale Bank / Yorkshire Bank **/**                   | A           | F1        | bbb         | 1       | A2         | P-1       | C-                  | BBB+              | A-2    | 0         |                    |
| Co-Operative Bank Plc                                    | <b>BBB-</b> | <b>F3</b> | <b>bbb-</b> | 3       | <b>Ba3</b> | <b>NP</b> | <b>E+</b>           | -                 | -      | 0         |                    |
| Virgin Money ***   | BBB         | F3        | bbb         | 5       | -          | -         | -                   | BBB+              | A-2    | 0         |                    |
| <b>Top Building Societies (by asset value)</b>           |             |           |             |         |            |           |                     |                   |        |           |                    |
| Nationwide BS (see above)                                |             |           |             |         |            |           |                     |                   |        |           |                    |
| Yorkshire BS ***   | BBB+        | F2        | bbb+        | 5       | Baa2       | P-2       | C-                  | A-                | A-2    | 0         |                    |
| Coventry BS  | A           | F1        | a           | 5       | A3         | P-2       | C                   | -                 | -      | 5         | 6 Months           |
| Skipton BS ***   | <b>BBB-</b> | F3        | <b>bbb-</b> | 5       | Ba1        | NP        | D+                  | -                 | -      | 0         |                    |
| Leeds BS   | A-          | F2        | a-          | 5       | A3         | P-2       | C                   | -                 | -      | 5         | 6 Months           |
| West Bromwich BS ***                                     | -           | -         | -           | -       | B2         | NP        | E+                  | -                 | -      | 0         |                    |
| Principality BS ***                                      | BBB+        | F2        | bbb+        | 5       | Ba1        | NP        | D+                  | -                 | -      | 0         |                    |
| Newcastle BS ***   | BB+         | B         | bb+         | 5       | -          | -         | -                   | -                 | -      | 0         |                    |
| Nottingham BS ***  | -           | -         | -           | -       | Baa2       | P-2       | C-                  | -                 | -      | 0         |                    |
| <b>Foreign Banks have a combined total limit of £40m</b> |             |           |             |         |            |           |                     |                   |        |           |                    |
| <b>Australia</b>   | AAA         | -         | -           | -       | Aaa        | -         | -                   | AAA               |        | 40        | 364 Days           |
| National Australia Bank                                  | AA-         | F1+       | aa-         | 1       | Aa2        | P-1       | B-                  | AA-               | A-1+   | <b>20</b> | 364 Days           |
| Australia and New Zealand Banking Group Ltd              | AA-         | F1+       | aa-         | 1       | Aa2        | P-1       | B-                  | AA-               | A-1+   | 20        | 364 Days           |
| Commonwealth Bank of Australia                           | AA-         | F1+       | aa-         | 1       | Aa2        | P-1       | B-                  | AA-               | A-1+   | <b>20</b> | 364 Days           |
| Westpac Banking Corporation                              | AA-         | F1+       | aa-         | 1       | Aa2        | P-1       | B-                  | AA-               | A-1+   | <b>20</b> | 364 Days           |
|  |             |           |             |         |            |           |                     |                   |        |           |                    |

## Appendix B

|                               | Fitch  |        |            |         | Moody's |        |                     | Standard & Poor's |        |          | Max Deposit Period |
|-------------------------------|--------|--------|------------|---------|---------|--------|---------------------|-------------------|--------|----------|--------------------|
|                               | L Term | S Term | Individual | Support | L Term  | S Term | Fin Strength Rating | L Term            | S Term | Limit £m |                    |
| <b>Canada</b>                 | AAA    |        |            |         | Aaa     |        |                     | AAA               |        | 40       | 364 Days           |
| Bank of Nova Scotia           | AA-    | F1+    | aa-        | 1       | Aa2     | P-1    | B-                  | A+                | A-1    | 10       | 364 Days           |
| Royal Bank of Canada          | AA     | F1+    | aa         | 1       | Aa3     | P-1    | C+                  | AA-               | A-1+   | 20       | 364 Days           |
| Toronto Dominion Bank         | AA-    | F1+    | aa-        | 1       | Aa1     | P-1    | B                   | AA-               | A-1+   | 20       | 364 Days           |
| Money Market Funds            |        |        |            |         |         |        |                     |                   |        | 80       | Liquid             |
| Prime Rate Stirling Liquidity | AAA    |        |            |         |         |        |                     | AAA               |        | 40       | Liquid             |
| Insight Liquidity Fund        | AAA    |        |            |         | AAA     |        |                     | AAA               |        | 40       | Liquid             |
| Ignis Sterling Liquidity      | AAA    |        |            |         |         |        |                     | AAA               |        | 40       | Liquid             |

### Notes

#### Note 1

#### **Nationalised / Part Nationalised**

The counterparties in this section will have the UK Government's AA+ rating applied to them thus giving them a credit limit of £90m.

\* Banks / Building Societies which are part of the UK Government's Credit Guarantee scheme

The counterparties in this section will have an AA rating applied to them thus giving them a credit limit of £40 million

\*\* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

\*\*\* These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the FSA is classed as a UK bank for the purposes of the Approved Lending List.

