

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on
Friday 14 December 2012 at 1.30pm

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1. Receipt of Declarations of Interest (if any)	
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3. Minutes of the Meeting of the Committee held on 28 September 2012	1
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7. Certification of Claims and Returns – Annual Report – 2011/12	57
Report of the Executive Director of Commercial and Corporate Services (copy attached).	

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| | Report of the Head of Corporate Assurance and Procurement (copy attached). | |

ELAINE WAUGH
Head of Law and Governance

Civic Centre
SUNDERLAND

6 December 2012

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

Present:

Mr G N Cook

Councillors Forbes, T Wright and Mr J P Paterson

In Attendance:

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

Declarations of Interest

There were no declarations of interest.

Apologies for Absences

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

Minutes

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate Assurance Map

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

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

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

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

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

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

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

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

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

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

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

Following discussion, it was: -

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

Treasury Management Review – Second Quarterly Review

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

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

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

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

Upon consideration of the report, the Committee

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

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

Audited Statement of Accounts 2011/2012

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

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

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

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

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

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

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

(a) Letter of Representation

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

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

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

(b) Letters of Assurance

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

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

(c) Annual Governance Report

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

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

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

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

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

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

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

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

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

Accordingly, the Committee: -

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

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

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

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

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

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

(Signed) G N COOK
Chair

AUDIT AND GOVERNANCE COMMITTEE

14 December 2012

CORPORATE ASSURANCE MAP - UPDATE

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 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 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 18th November 2012, 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 18 th November 2012) (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			
Strategic Risk Areas									
Economy	X				X			X	
Resources (external and internal)	X		X					X	X
Unable to meet needs of the community	X				X			X	
Reputation	X							X	
Social breakdown	X							X	
Lack of effective strategic partnerships	X				X			X	
Planning and responsiveness to national agenda	X				X			X	
Corporate Risk Areas									
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		X	
Partnerships	X							X	
Business Continuity Planning	X						X		
Procurement	X								X
Relationship and Contract Management	X	X	X					X	X
Financial Management	X		X					X	X
Human Resource Management						X		X	X
Information Governance	X	X						X	X
Performance Management	X				X			X	X
Asset Management	X							X	
ICT Strategy and Delivery	X			X				X	
Fraud and Corruption	X								X
Risk Management (Service Delivery)	X							X	
Housing Benefits	X								X
Schools	X		X					X	X

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

- 4.2 The top section of the Map relates to the management of strategic risks identified in the Corporate Risk Profile. A summary of the action areas that have been agreed are shown in Appendix 1, along with key actions taken to date. Progress against each of the actions 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

- 4.3 The detailed results of Internal Audit work are shown at Appendix 2, with the summary outcomes shown on the Map. The Map shows the ongoing opinion of Internal Audit from work undertaken within the last two years plus work completed in the current year.

Assurance from Risk and Assurance Team

- 4.4 Areas that the Risk and Assurance Team are currently involved in are shown at Appendix 3. 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:

- Continuing with support on the preparation for the procurement stage of the new Wear Bridge Crossing.
- Supporting the delivery of the severance project which resulted in a significant number of people leaving the employment of the Council in a very short period of time.
- Support to the development of alternative service delivery vehicles such as the Local Asset Backed Vehicle, Care and Support Project, Events Project and the future of ICT delivery.
- Work has also been undertaken regarding Equal Pay Claims.

- 4.5 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

- 4.6 Assurance provided from others within the Council is shown in the Corporate Assurance Map above. There are no specific issues to draw to Members' attention from this.

Assurance from Management

- 4.7 Arrangements have now been developed to obtain assurance from Management in a number of areas. Members will note that assurance in relation to Asset Management from management is considered to be Limited. This relates to comments returned from management regarding the recording of small value items of equipment in local inventories rather than the Council's major assets. Therefore, the overall assurance level for Asset Management continues to be Moderate.
- 4.8 From the management assurance received so far Members will see that a Moderate level of assurance was provided in relation to Customer Focus/Service, Service/Business Planning, Partnerships and Procurement. These are all important elements which contribute to effective commissioning. This theme will be fed back to senior management within the Council to discuss and identify improvements.
- 4.9 Whilst collecting assurance from management it has become clear that the level of assurance they can provide in relation to the Corporate Risk profile actions is limited due to the strategic and cross cutting nature of many of the issues. It is therefore more appropriate to gather this evidence from specialists within the Council and through the Risk and Assurance team. Therefore, management will not be requested to provide this in the future.
- 4.10 It is planned to further develop these arrangements by co-ordinating with the Council's corporate business planning and performance reporting arrangements to enable assurance from management to be gathered in a more efficient and streamlined way.

Assurance from External Sources

- 4.11 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.
- 4.12 The overall level of assurance for Business Continuity and Housing benefits has improved to Full/Substantial since the last update report, due to the results of internal audit work and the assurance from the other sources within the Council.

Appointment of Partner

- 4.13 At the end of October a Partner organisation, PricewaterhouseCoopers, was appointed to support the Council with the Integrated Assurance Framework and governance arrangements. The Partner has been appointed to:
- a) Provide high quality / professional advice, and support the Council on the development and implementation of its Integrated Assurance Framework.
 - b) Provide, as required by the Council, specialist capacity and capability with regard to governance, risk management, internal audit and assurance to the Council, including skills transfer.

5. Internal Audit Performance

5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 4. Performance is currently on target apart from:

- The current percentage of medium risk recommendations implemented is shown in the table below (excluding schools) against a target of 90%.

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

Directorate / Body	Implementation Rate
Children's Services (non schools)	79%
City Services	92%
Office of the Chief Executive	78%
Commercial and Corporate Services	91%
Health, Housing & Adult Services	93%
Implementation Rate (exc. Schools)	87%
Schools	89%
Total Implementation Rate	88%

Further work has been undertaken to assess the action taken to address issues raised in both the Adoptions and Personal Budgets audit reports. In both cases there has been significant improvement in the number of recommendations implemented which has resulted in an improved position overall, as shown in the table above.

7. Risk Management Policy and Strategy

- 7.1 The Risk Management Policy and Strategy has been updated to reflect the introduction of the Integrated Assurance Framework. The revised document is attached at Appendix 5 for Member's consideration and agreement. If agreed this will then be proposed to Cabinet.

8. Conclusions

- 8.1 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.
- 8.2 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.

9. Recommendations

- 9.1 The Audit and Governance Committee are asked to:
- Note the report and consider the updated Corporate Assurance Map.
 - Consider and comment upon the revised Risk Management Policy and Strategy, and agree it being proposed to Cabinet.

Corporate Risk Profile 2012/13 – Update

RISK 1

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
ECONOMY	Adverse market conditions may delay progress and reduce momentum in achieving the benefits of the Economic Masterplan	Janet Johnson, Deputy Chief Executive				<ul style="list-style-type: none"> Developing the Enterprise Zone Capital and Revenue Financial Incentives Policies Development of the Port Development of regeneration sites, e.g. Vaux site, Magistrates' Square and Stadium Village. Inward Investment Marketing Strategy Enterprise and Innovation Strategy Zero Carbon Futures and low carbon vehicle sector Investment corridors Implementation of the Sunderland Employment Strategy and Sunderland Skills Strategy
Context						
Further decline in the national economy and reduction in public sector budgets will adversely impact the ability to grow the local economy and impact on employment						
			3 Likely	4 Critical	12 High	<p>Progress</p> <ul style="list-style-type: none"> Approach to the feasibility study of Site 3 of the Enterprise Zone being considered, it is expected to be complete within 1 year. Risk register in place for the development of the Port, to be reviewed in light of future priorities for the Port. Procurement for Magistrates Square and St Mary's Boulevard has started, bidders shortlisted for the tender stage. Procurement underway in relation to the ICT Service provider for the Sunderland Software Centre. Regular meetings being held with Project Manager of the Vaux site to provide support as needed A new marketing strategy MAKE it Sunderland was launched in May with a new website "Sunderland is open for Business, Open to Business" Superfast broadband installed in large areas of the City with work ongoing

RISK 2

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
<p>REDUCED RESOURCES</p>	<p>Further significant budget cuts</p>	<p>Malcolm Page, ED of Commercial and Corporate Services</p>				<ul style="list-style-type: none"> • Delivery of key transformation projects • Delivery of Directorate based efficiency projects • Employee engagement regarding turnover and workforce reduction • Procurement of a Local Asset Backed Vehicle • Assessment of the savings requirements through update of the Medium Term Financial Plan
<p>Context</p>						
<p>The budget settlements, Local Government Resource Review and localisation of business rates may significantly impact on the council's financial position.</p>			<p>3 Likely</p>	<p>4 Critical</p>	<p>12 High</p>	<p>Progress</p> <ul style="list-style-type: none"> • Procurement phase for the Local Asset Backed Vehicle started. • Staff survey is planned to determine staff engagement levels has been undertaken. • Severance project completed, 561 people have left the employment of the Council • New approach to transformation being developed and work has been undertaken to identify savings across the Council for the medium term • High level budget planning guidance has also been issued • Budget for 2013/2014 considered with final settlement expected to be announced in late December • New Local Council Tax Benefit Scheme considered by Members • Work has begun to settle the equal pay claims in relation to single status • Commercial opportunities for use of the Council's Cloud technology being considered

RISK 3

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
<p>COMMUNITY NEEDS</p>	<p>The scale of the compound change in the short/medium term within the City is such that the Council is unable to effectively respond to the needs of people and communities</p>	<p>Keith Moore, ED of Children's Services & Neil Revely, ED of Health Housing & Adult Services</p>				<ul style="list-style-type: none"> • Analysis of the Joint Strategic Needs Assessment • Customer Insight group to develop engagement and participation strategies • Phase two of Responsive Local Services • Establish Area Children Boards • Establish Area People Boards • Deliver priorities set out in the Sunderland Child and Family Poverty Strategy, Health and Well-Being Strategy • Safeguarding of most vulnerable groups through responding to the findings of the Serious Case Review • Transfer of Public Health • Strengthening Families agenda
	<p>Context</p> <p>The Council has a community leadership role to identify and respond to changing community needs such as unemployment, health and housing.</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p>2 Possible</p>	<p>4 Critical</p>	<p>8 Medium</p>	<p>Progress</p> <ul style="list-style-type: none"> • Joint Strategic Needs Assessment used to develop the Health and Wellbeing Strategy • Work has started on the Customer Insight Group with reports produced for area committees • Initial work of phase two of Responsive Local Services completed around locality working in Children's Services and Health, Housing and Adults Services, next stages being considered • Risk register in place for the Transfer of Public Health with the high level risks reducing through co-operative working. Draft board is in place • Family Focus project - Strengthening families agenda being implemented • Target achieved in terms of the number of people with a personal budget but work still ongoing to deliver for all with ongoing care needs supporting themselves in the community

RISK 4

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
COMMUNITY NEEDS	The Council may not identify effective ways of influencing the school improvement agenda so that all children achieve their full potential	Keith Moore, ED of Children's Services				<ul style="list-style-type: none"> • Partnership between the Local Authority, schools and academies • Local Leaders in Education • Establish an excellence centre (Teaching School) • New Education Leadership Board to establish a city-wide education strategy • Traded services to schools • Young people who are a risk of becoming NEET • Raising Participation Age • Implementation of the Sunderland Employment Strategy • Implement the Sunderland Skills Strategy
Context						2 Possible
<p>Government policy changes have resulted in Local Authorities having reduced influence over schools. A reduction in Government grants has reduced funding for services such as school improvement.</p>						

RISK 5

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
REPUTATIONAL AND INFLUENCING	The reputation of the council may be seriously damaged through negative media coverage on a particularly sensitive issue	Deborah Lewin, Director of Communications	2 Possible	3 Significant	6 Medium	<ul style="list-style-type: none"> Sensitive media issues Court cases and serious case reviews Good relationship with Sunderland Safeguarding Children Board Positive media
Context	Council actions are under an increased level of publicity scrutiny and there has been a huge growth in online and digital media allowing media stories to be spread very quickly.					<p>Progress</p> <ul style="list-style-type: none"> Training provided for Key managers in the Council Arrangements are in place for dealing with sensitive media issues Good relationships are in place with the Sunderland Safeguarding Board

RISK 6

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
SOCIAL BREAKDOWN	Communities may be unable to positively respond to and cope with changes brought about by the Welfare Reforms and economic climate	Ron Odunaiya, ED of City Services Malcolm Page ED of Commercial and Corporate Services	2 Possible	3 Significant	6 Medium	<ul style="list-style-type: none"> Community resilience plan and the various areas of impact Programme of work in relation to Welfare Reforms
Context	Welfare reforms may adversely impact upon the quality of life within communities. There could be a lack of resilience and ability to maintain and/or improve standards of living.					<p>Progress</p> <ul style="list-style-type: none"> Action plan for the implementation of the Community resilience plan developed and ready for reporting Options regarding Local Scheme for Council Tax benefit and the Social Fund prepared and considered by members Range of engagement events undertaken with groups affected by the reforms, e.g. landlords Website created to provide information on the changes and potential impacts on individuals

RISK 7

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
<p>SOCIAL BREAKDOWN</p>	<p>If the City becomes unattractive to residents, businesses and visitors, this would adversely impact upon the ability to build lasting neighbourhoods</p>	<p>Ron Odunaiya, ED of City Services</p>				<ul style="list-style-type: none"> • Housing Development Strategy • Availability of Superfast Broadband • Seaburn Masterplan • Sunderland Strategic Transport Corridor • Local Transport Plan • Network Management Plan • Community Safety Plan • City Villages approach • Community Leadership Programme • Schools investment plan
	<p>Context</p> <p>Economic conditions make it more difficult to attract investors and developers. Reduction in public sector budgets will adversely impact on investment.</p>			<p>2 Possible</p>	<p>3 Significant</p>	<p>6 Medium</p>

RISK 8

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
<p style="text-align: center;">PARTNERSHIPS</p>	<p>Inadequate engagement with partners may lead to missed opportunities to co-design services and to share or transfer responsibilities for delivering successful outcomes</p>	<p>Sarah Reed, Assistant Chief Executive</p>	<p>2 Possible</p>	<p>3 Significant</p>	<p>6 Medium</p>	<ul style="list-style-type: none"> • Voluntary and Community Sector • Collaborative Leadership across the city • Health and Wellbeing Board • Promote the involvement of Partners with the proposed Place and People Boards • Review public sector finances across the City • Integrate family focus approach with Partners <p>Progress</p> <ul style="list-style-type: none"> • Health and Wellbeing Board and Family Focus project are considering how public sector funds in the city can be used more effectively to deliver outcomes • Family Focus project developed and will develop the Strengthening Families agenda
	<p>Context</p> <p>Financial pressures on Council and partners affecting local provision – varying standards of quality. Other organisations may develop joint working whilst the Council is developing its own business operating model.</p>					

RISK 9

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
<p style="text-align: center;">PLANNING AND RESPONSIVENESS</p>	<p>Unable to be responsive to changes in government policy direction and broader external environment in a timely way</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p style="text-align: center;">2 Possible</p>	<p style="text-align: center;">2 Moderate</p>	<p style="text-align: center;">4 Medium</p>	<ul style="list-style-type: none"> • Horizon scanning • Simplify and join up the major Council strategies • Peer review <p>Progress</p> <ul style="list-style-type: none"> • Horizon scanning ongoing by the Strategy, Policy and Performance Team • Work is ongoing regarding the review of Council Strategies • Peer Review scheduled to take place in May 2013
	<p>Context</p> <p>New government introducing a number of different policies in a short period of time.</p>					

Detailed Internal Audit Coverage

Corporate Risk Area	Audits Planned 2012/13	Assurance Provided (audits in 2012/13)	IA Overall Opinion (Assurance)
Customer Focus	Children's Services Admissions Area Arrangements for Children's Centres Children's Services – Safeguarding Personal Budgets		Moderate
Legality	Traffic Management and Road Safety Equality Impact Assessments Corporate Legality	Substantial Full	Substantial
Service / Business Planning	Corporate Service/Business Planning Children's Services Admissions Area Arrangements for Children's Centres Children's Services – Safeguarding Traffic Management and Road Safety		Moderate
Programme and Project Management	Implementation of the Economic Master Plan Landscape and Reclamation Service Programme and Project Management - support to major projects Operating Model – realisation of benefits	Moderate Substantial	Substantial
Change Management	Non Planned – to be covered by the Risk and Assurance Team		None (new risk area)
Partnerships	Non Planned – to be covered by the Risk and Assurance Team		Moderate
Business Continuity and Emergency Planning	Non Planned		Moderate
Procurement	Capital Procurement Unplanned Audit – Revenue Procurement	Substantial	Substantial
Relationship and Contract	Developments in relation provision of Events Care and Support Sunderland Ltd – contract management		None (new risk area)

Corporate Risk Area	Audits Planned 2012/13	Assurance Provided (audits in 2012/13)	IA Overall Opinion (Assurance)
Management	Corporate Contract Management Framework		
Financial Management	YPLA Schools Sixth Form Grant YPLA Young Apprenticeships Cohort 6 Grant YPLA Young Apprenticeships Cohort 7 Grant Department for Business Innovation & Skills – LEP Start Up Fund Department for Business Innovation & Skills – LEP Capacity Fund Deprived Areas Fund Grant Single Investment Programme Grant Local Transport Capital Block Funding Grant 1 Leisure Centre 35 Schools Home Improvement Agency – Loans and Mortgages Personal Budgets Direct Payments Care and Support Sunderland Ltd – compliance Landscape and Reclamation Service BACS Payments Cash Receipting checks Capital Procurement Payroll transactions checks Council transactions Tax checks Business Rates transactions checks Accounts Payable transactions checks Accounts Receivable transactions checks	Substantial Substantial Substantial Substantial Substantial Full Full Substantial Substantial Substantial Substantial Substantial Moderate Substantial Substantial	Substantial
Human Resource Management	Corporate Attendance Management Arrangements Management of SWITCH		Moderate
Information Governance	Vulnerable Adults Protection Arrangements Information Governance checks		Moderate
Performance Management	Corporate Performance Management Arrangements (new arrangements)	Substantial	Moderate

Corporate Risk Area	Audits Planned 2012/13	Assurance Provided (audits in 2012/13)	IA Overall Opinion (Assurance)
Asset Management	Unplanned Audit – Asset Management	Moderate	Moderate
ICT Strategy and Delivery	Non Planned – to be covered by the Risk and Assurance Team		Moderate
Fraud and Corruption	Counter Fraud Checks National Fraud Initiative checks Counter Fraud Checks – schools Home Improvement Agency – Loans and Mortgages Direct Payments Cash Receipting transactions checks Payroll transactions checks Council Tax transactions checks Business Rates transactions checks Housing Benefits transactions checks Accounts Payable transactions checks Accounts Receivable transactions checks	Substantial Substantial Substantial	Moderate
Risk Management (service delivery)	Non Planned – to be covered by the Risk and Assurance Team		Substantial
Housing Benefits	Housing Benefit transactions checks	Substantial	Substantial
Schools	18 school audits completed	7 - Full 10 - Substantial 0 - Moderate 1 - Limited 0 - No assurance	Substantial

Risk and Assurance Activity

Area of activity	Work ongoing
Corporate Risk Profile	<p>Mitigating actions agreed.</p> <p>Many of the mitigating actions are large and complex in nature and will be implemented over a period of time, or are part of work already ongoing within the Council such as projects and service reviews. Discussions have been held to obtain progress in relation to all mitigating actions in the Corporate Risk profile and detailed assurance plans have been developed to enable evidence to be obtained on the implementation of actions to address risks, for example, in relation to the procurement of the New Wear Crossing, settlement of equal pay claims, ICT developments such as the Corporate Computing Model and cloud infrastructure technology and the re-build of Washington Leisure Centre. Work is ongoing in all of these areas as well as others mentioned below.</p> <p>Although there is a significant amount of work being undertaken it is not possible to give a view of the assurance level against all mitigating actions, however, where assurance can be provided this is included in the overall position reported in the Corporate Assurance Map.</p> <p>An update of progress in all risk areas has been provided in Appendix 1.</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 is being linked to mitigating actions in the Corporate Risk Profile where appropriate. Assurance plans mentioned above are being developed based on the risks identified and actions agreed.</p>

Area of activity	Work ongoing
Service Reviews (including alternative service delivery models), Programmes and Projects (including ICT)	Major projects / service reviews being supported include: <ul style="list-style-type: none"> • SSTC - New Wear Crossing • Local Asset Backed Vehicle • Care and Support Services – Adults • Events Management • New arrangements for Design and Print • Transfer of Public Health • Smarter Working Phase 2 • St Mary’s Boulevard/Magistrates Square • Customer Service Network • Transport and Fleet Management • Family Focus – Supporting Families Agenda • ICT – Corporate Computing Model • ICT – Cloud development and strategic direction • Economic Master Plan • Workforce Development • Activities to reduce the size of the workforce • Welfare Reform • Customer Relationship Management system replacement • Safeguarding – Childrens • Personalisation – Adults • Settlement of Equal pay claims
Support to Schools	Support has been provided to 28 schools to date in relation to managing their risks Full – 3, Substantial – 20, Moderate – 5, Overall - Substantial
Partnerships	Support is being provided to the following specific Partnerships: <ul style="list-style-type: none"> • Sunderland Economic Leadership Board • Waste Management Partnership • Health and Wellbeing Board • Sunderland Safeguarding Adults Board
Governance Review	The results from Risk and Assurance activity feed into the Annual Governance Review and the Annual Governance Statement
Investigations	Four investigations are currently ongoing

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2012/13			
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 2) Percentage of draft reports issued within 15 days of the end of fieldwork 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 2) 90% 3) 70%	1) On target 2) Ahead of target - 92% 3) Ahead of target - 92%
Quality			
Objectives	KPI's	Targets	Actual Performance
1) To maintain an effective system of Quality Assurance 2) To ensure recommendations made by the service are agreed and implemented	1) Opinion of External Auditor 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	1) Satisfactory opinion 2) 100% for high and significant 90% for medium risk	1) Achieved 2) On target – significant 100% Behind target - Medium 87% (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 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) On target - 1.0 to date 2) Non undertaken 3) 8 compliments 0 complaints

DRAFT RISK MANAGEMENT POLICY AND STRATEGY

Sunderland City Council recognises that a positive and proactive approach to the management of risk is essential to enable the Council to take opportunities to improve the quality of life and improve services for all local people and ensure that risks to achieving its priority outcomes are successfully managed.

The purpose of this Policy and Strategy is to outline how the Council will manage risks and opportunities effectively.

Risk Management is defined by ISO 31000 Risk Management – Principles and guidelines as *“The co-ordinated activities to direct and control an organisation with regard to risk”* and the risk management process as the *“Systematic application of management policies, procedures and practices to the activities of communication, consulting, establishing the context, identifying, analysing, evaluating, treating, monitoring and reviewing risk.”*

Given its importance all councillors, employees, service providers, partners, and stakeholders are expected to play a positive role in embedding the culture, ethos and practice of effective Risk Management in all activities.

Objectives of Risk Management

Objective 1

Ensure there is an effective corporate risk profiling process in place to identify, assess, manage, review and report on the management of risks to the Council achieving its outcomes and the risks to managing its business.

Objective 2

Enable the Council to successfully identify, assess, manage, review and report on risks and opportunities at a service / operational, programme, project and partnership level.

Objective 3

Embed the effective management of risk into the culture, ethos, policies and practices of the Council.

Objective 4

Provide assurance on the effectiveness of risk management within the Council through the Corporate Assurance Map, which is reported to the Audit and Governance Committee.

Integrated Assurance Framework

The Council has established an Integrated Assurance Framework to provide assurance on how effectively risks are managed across the organisation. The Framework sets out what assurance is required in relation to risks to the Council delivering its corporate outcomes and risks inherent in running its business. The key feature of the Framework is that assurance is co-ordinated and gathered from many different sources from within and outside of the Council to provide a single view in an efficient manner. The assurance gathered is collected together and reported to the Audit and Governance Committee through a Corporate Assurance Map.

Governance

The Cabinet Secretary is the Member Champion for Risk Management.

The Financial Procedure Rules state that the Executive Director of Commercial and Corporate Services is responsible for the development, monitoring and review of the Council's risk management policy and strategy, which will be approved by Cabinet and shall be the Council's principal risk management adviser and co-coordinator.

Roles and responsibilities within the Council in relation to risk management are set out in Annex A.

The Accounts and Audit Regulations 2011, require the Council to produce an Annual Governance Statement and the arrangements for managing risk are an integral part of the internal control framework. Heads of Service are required to confirm the effectiveness of their systems for identifying profiling, controlling and managing all significant corporate and operational risks. This is confirmed by each Director/Chief Officer.

Specialist corporate functions are required to confirm the effectiveness of the arrangements in place within the Council in relation to their areas of specialism.

Risk Profiling

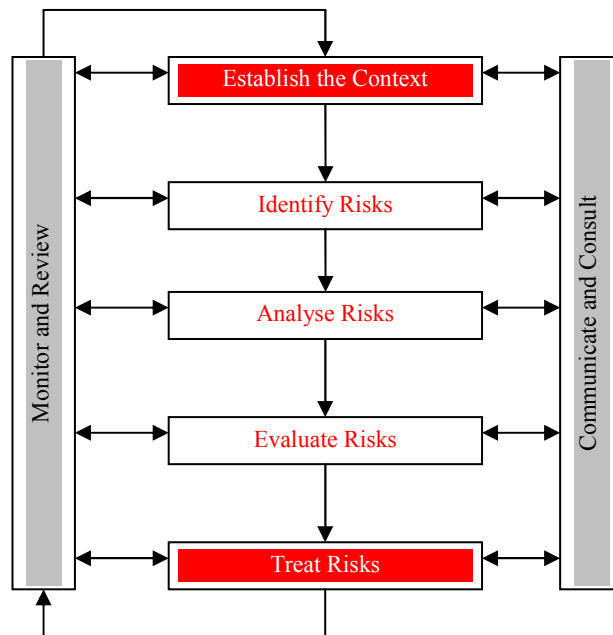
The Council will maintain a Corporate Risk Profile, and a range of other risk profiles for Directorates, programmes, projects and partnerships, where considered necessary.

Risk Appetite

Given the breadth of services and functions the Council undertakes there will be a variable appetite to risk in different areas. Decisions will depend on the context, on the nature of the potential losses or gains, and the extent to which information regarding the risks is complete, reliable and relevant. Risk appetite will be evaluated to aid the assessment of risks and the development of appropriate mitigating actions.

Risk Management Process

The overall process followed for risk management is set out below.



The process above provides a systematic, effective and efficient way by which risks can be managed at different levels throughout the organisation.

Reporting

The Risk Management Policy and Strategy will be periodically reviewed and approved by the Audit and Governance Committee and Cabinet. The effectiveness of risk management within the Council will be reported to the Audit and Governance Committee.

The Corporate Risk Profile will be reviewed quarterly and progress reported to the Audit and Governance committee through updates on the Corporate Assurance Map.

Risk Management - Roles and Responsibilities

Councillors

- Ensure that an effective policy and strategy is in place to manage risks throughout the Council;
- Be aware of the risk management implications of decisions;
- Approve a Member Champion.

Member Champion

- Alongside the Executive Director of Commercial and Corporate Services embed effective risk management throughout the Council.

Cabinet

- Consider reports relating to the Council's Corporate Risk Profile;
- Consider reports containing a risk analysis of the major issues which could impact on policy decisions.

Audit and Governance Committee

- Agree and consider the Corporate Assurance Map;
- Consider progress relating to the Council's Corporate Risk Profile;
- Discuss or report any issues of concern to Chief Officers, Cabinet or Council.

Executive Director of Commercial and Corporate Services

- Ensure an effective framework for the management of risks and opportunities; throughout the Council is in place;
- Embed effective risk management throughout the Council.

Executive Management Team

- Agree and contribute to the development of the Corporate Risk Profile based on the Corporate Outcomes Framework;
- Receive reports relating to the Corporate Risk Profile;
- Ensure that the actions contained in the Corporate Risk Profile are completed as appropriate;
- Ensure that an effective framework is in place to manage risks faced by their Directorate / service areas;
- Ensure that reports to support strategic or policy decisions and project proposals include a risk assessment, including a sustainability impact appraisal, where appropriate;
- Ensure staff are aware of key risk management processes and their responsibilities.

Corporate Assurance Group

The group is made up of senior managers from all Directorates and oversees the Risk Management process throughout the Council. The group is chaired by the Head of Corporate Assurance and Procurement. The group has responsibility for:

- Contributing to the development and deployment of the Integrated Assurance Framework
- Contributing to the development of the Corporate Risk Profile;
- Monitoring and reviewing progress against the Corporate Risk Profile;
- Considering updates to the Corporate Assurance Map.

Risk and Assurance Team

- Spreading the ethos of effective Risk Management throughout the Council;
- Supporting the activities of the Corporate Assurance Group;
- Assisting Directorates in identifying, analysing and controlling the risks that they encounter;
- Providing guidance and support to Directorates in relation to risk management generally;
- Organising and promoting risk management awareness and development;
- Liaising with both internal and external audit with regard to risk management.

Programme Boards

- Provide leadership and direction for risk management;
- Understand and agree the nature and level of risk acceptable within the programme and associated projects;
- Clarify rules of escalation from projects to the programme and delegation from programme to projects relating to the risk register;
- Identify how inter-project dependencies / cross programme risks will be identified and managed.

Project Boards

- Provide leadership and direction for management of risks to the project;
- Notifying the Project Manager of any external risk exposure to the project;
- Agreeing key actions to mitigate risk;
- Striking a balance between the level of risk and the potential benefits that the project may achieve;
- Notifying corporate or programme management of any risks that affect the project's ability to meet corporate or programme objectives.

Employees

- Being risk aware and having a proportionate approach to managing risks.

AUDIT AND GOVERNANCE COMMITTEE

14 December 2012

TREASURY MANAGEMENT – THIRD QUARTERLY REVIEW 2012/2013

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 third quarter of 2012/2013.

2. Description of Decision

- 2.1 The Committee is requested to note the positive progress in implementing the Treasury Management Strategy and performance for Quarter 3 of 2012/2013.
- 2.2 To note amendments to the Approved Lending List at Appendix C.

3. Introduction

- 3.1 This report sets out the Treasury Management performance to date for the third quarter of the financial year 2012/2013, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Review of Treasury Management Performance for 2012/13 – Quarter 3

- 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 re-scheduling, however no rescheduling has been possible in 2012/13 as rates have not been considered sufficiently favourable. It should be noted that the Council's interest rate on borrowing is very low, currently averaging 3.51%, and as such the Council continues to benefit from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises. Where any new borrowing is undertaken this is reported as soon as possible after the event in accordance with the Council's agreed Treasury Management Policy and Strategy Statement for 2012/13.
- 4.2 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 £377.324m for 2012/2013 and the Council is well within this limit at £217.581m. More details of all of the TM Prudential Indicators are set out in section A2 of Appendix A for information.
- 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 30th November 2012, the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.90% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.42%. Performance is very positive and is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.
- 4.5 More detailed Treasury Management information is included in Appendix A for Members' information.
- 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 C has been updated to reflect this.

5. Recommendation

- 5.1 Members are requested to note the Treasury Management (TM) performance for the third quarter of 2012/2013.

Detailed Treasury Management Performance – Quarter 3 2012/13

A1 Borrowing Strategy and Performance – 2012/13

- A1.1 The Borrowing Strategy for 2012/13 was reported to Cabinet on 15th February 2012 and approved by full Council on 7th March 2012.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2012, when 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.

Following August's sharp cut in forecast medium-term growth, the Bank of England continues its pessimistic mood about the speed and strength of recovery; now only forecasting growth of around 1% in 2013 and 2% in 2014. However, there is some concern that even these modest figures may be overstated. The radical cut in the Bank Rate to 0.5% in March 2009 has failed to stimulate a consistently strong recovery in economic growth, with options limited by the government's determination to tackle the budget deficit. The Council's economic advisors believe there is little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth. Furthermore, they project that growth will be held back for the next couple of years due to continued difficulties in the Eurozone, the UK's largest export market.

Economists are united in their forecasts for the Bank Base Rate, with no change to the current 0.5% predicted until after the December 2014 quarter at the earliest. PWLB rates and bond yields remain extremely unpredictable and there are still exceptional levels of volatility which are highly correlated to the sovereign debt crisis and to political developments in the Eurozone. This uncertainty is expected to continue into the medium term.

The following table shows the average PWLB rates for Quarter 1 to 3.

2012/2013	Qtr 1 (Apr - June) %	Qtr 2 (July – Sept) %	Qtr 3 (Oct – Nov) %
7 days notice	0.35	0.34	0.31
1 year	1.26	1.09	1.02*
5 year	1.96	1.66	1.61*
10 year	3.01	2.66	2.54*
25 year	4.18	3.91	3.78*
50 year	4.27	4.11	3.91*

*Qtr 3 rates reflect the position at 30th November 2012 and take account of the 0.20% discount to PWLB rates available to eligible authorities that came into effect on 1st November 2012.

- A1.2 The strategy for 2012/2013 is to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow and to respond to any changing

circumstances to seek to secure benefit for the Council. A benchmark financing rate of 4.50% for long-term borrowing was set for 2012/2013. Due to high levels of volatility in the financial markets, with borrowing rates still forecast to remain low over the short term, no new borrowing has been undertaken in the current financial year up to 30th November 2012.

- A1.3 The Borrowing Strategy for 2012/2013 made 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 rescheduling in 2012/2013 and the Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities arise. Any rescheduling undertaken will be reported to Cabinet in line with the current Treasury Management reporting procedures.

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 1st November 2012 and eligibility lasts until 31st October 2013 when authorities must reapply to access the PWLB certainty rate for the following 12 months.

- A1.4 The Council's treasury portfolio position at 30th November 2012 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	142.9		
	Market	24.5		
	Other	0.3	167.7	3.90
Variable Rate Funding	Market	15.0		
	Temporary / Other	29.2	44.2	2.01
Total Borrowing			211.9	3.51

A2 Treasury Management Prudential Indicators – 2012/2013

- A2.1 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 TM Prudential Indicators.
- A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2012/2013 as follows:

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

The Operational Boundary for External Debt was set as shown below:-

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

The maximum external debt in respect of borrowing in 2012/13 (to 30th November 2012) 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.

A2.3 The table below shows that all other Treasury Management Prudential Indicators have been complied with:

Prudential Indicators	2012/2013 (to 30/11/12)	
	Limit £'000	Actual £'000
P10 Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	130,000	42,735
P11 Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	60,000	13,902
P12 Maturity Pattern Under 12 months 12 months and within 24 months 24 months and within 5 years 5 years plus A lower limit of 0% for all periods	Upper Limit 50% 60% 80% 100%	16.02% 2.38% 4.81% 79.02%
P13 Upper limit for total principal sums invested for over 364 days	75,000	20,000

A3 Investment Strategy – 2012/2013

A3.1 The Investment Strategy for 2012/2013 was approved by Council on 7th 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

A3.2 As at 30th November 2012, the funds managed by the Council's in-house team amounted to £239.078 million and all investments complied with the Annual Investment Strategy. This includes monies invested on behalf of the North Eastern Local Enterprise Partnership for whom Sunderland City Council is the accountable body. The table below shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	2012/2013 Actual to 30/11/12 %	2012/2013 Benchmark to 30/11/12 %
Return on investments	1.90	0.42

A3.3 Investments placed in 2012/2013 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix B, that is used to identify organisations on the Approved Lending List.

A3.4 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 Council's advantage.

A3.5 Investment rates available in the market have continued at historically low levels.

A3.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisors (which we are in agreement with) is to continue to restrict investments with all financial institutions for shorter term periods.

A3.7 Advice also continues that the above guidance 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) or in respect of Money Market Funds which are also AAA rated.

A3.8 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 is shown in Appendix C and has been updated with changes to credit ratings since submission of the Quarter 2 performance report.

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 advisors.

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.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	<u>Maximum Deposit</u> £m	<u>Maximum Duration</u>
AAA	F1+	A1+	Aaa	P-1	90	2 Years
AA+	F1+	A1+	Aa1	P-1	50	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
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					90	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £80m with a maximum of £40m in any one fund.					80	Liquid Deposits

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AAA 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 £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 £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 AAA; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

Approved Lending List

Appendix C

	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	
UK	AAA				Aaa			AAA		350	2 years
Lloyds Banking Group (see Note 1)										Group Limit 90	
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
Royal Bank of Scotland Group (See Note 1)										Group Limit 90	
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
Santander Group *										Group Limit 40	
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 *	AA	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+	40	364 days

Appendix C

	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	BBB+	F2	bbb+	3	A3	P-2	C-	-	-	0	
Virgin Money ***	BBB	F3	bbb	5	-	-	-	BBB+	A-2	0	
Top Building Societies (by asset value)											
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 ***	BBB-	F3	bbb-	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	
Foreign Banks have a combined total limit of £40m											
Australia	AAA	-	-	-	Aaa	-	-	AAA		40	364 Days
National Australia Bank	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	40	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+	40	364 Days
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	40	364 Days

	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	
Canada	AAA				Aaa			AAA		40	364 Days
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	20	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	Aaa	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		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 AAA 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.

AUDIT AND GOVERNANCE COMMITTEE

14 December 2012

AUDIT COMMISSION ANNUAL AUDIT LETTER 2011/2012

Report of the Executive Director of Commercial and Corporate Services

1.0 Purpose of Report

- 1.1 The report details the Audit Commission's (AC) Annual Audit Letter (AAL) covering the year 2011/2012. A copy is attached.

2.0 Description of Decision

- 2.1 The Audit and Governance Committee is recommended to note and comment on the contents of this positive report.

3.0 Introduction

- 3.1 The Audit Commission's Code of Audit Practice requires auditors to prepare an AAL and issue it to each audited body. The purpose of preparing and issuing AALs is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from the auditors' work, which auditors consider should be brought to the attention of the audited body.
- 3.2 The AAL summarises the findings of the 2011/12 audit, which comprises two elements:
- An audit of the Council's financial statements
 - An assessment of the Council's arrangements to achieve value for money in the use of resources
- 3.3 The AAL, because of the date it was received by the council, has already been formally reported to Cabinet at its meeting held on 10th October 2012 but is also presented to this committee for information.

4.0 Summary Position

- 4.1 The AAL is extremely positive overall providing a strong endorsement of the financial management and planning and governance arrangements in place across the Council.

4.2 The District Auditor issued an unqualified audit opinion on the Council's financial statements and an unqualified Value for Money conclusion. The report confirms that the Council:

- Has proper arrangements in place to ensure its financial resilience.
- Has successfully delivered one of the most significant financial challenges that it has ever faced in delivering a 2011/2012 budget containing £58m cuts in government funding and other cost pressures without the need for redundancies.
- Has closely monitored its budget during the year to ensure that savings and efficiencies were delivered effectively.
- Has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources
- Is continuing to identify ways of improving service efficiencies and new ways of working and to improve service delivery and outcomes with fewer resources.

5. Alternative Options

5.1 Not applicable as the report is for information only.

6. List of Appendices

Appendix A - Sunderland City Council Annual Audit Letter 2011/2012

1 October 2012

Members
Sunderland City Council
Civic Centre
Burdon Road
Sunderland
SR2 7DN

Direct line 0844 798 1621
Email s-nicklin@audit-
commission.gov.uk

Dear Member

Sunderland City Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Sunderland City Council.

Financial statements

On 28 September 2012 I presented my Annual Governance Report (AGR) to the Audit and Governance Committee outlining the findings of my audit of the 2011/12 financial statements. I will not replicate those findings in this letter.

Following the Audit and Governance Committee on 28 September 2012 I:

- issued an unqualified opinion on the Council's 2011/12 financial statements included in the Statement of Accounts;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources;
- concluded that there are no matters arising from my value for money work that I need to report; and
- certified completion of the audit.

Value for money

I have concluded that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council has successfully met one of the most significant financial challenges that it has ever faced. The 2011/12 budget reflected a £58m cut in central Government funding and other cost pressures compared with the previous year. The outturn for 2011/12 achieved the savings required to balance the budget and also enabled further additions to

reserves. However, further cuts of £28m were required in the 2012/13 budget and more financial pressures are likely to arise in future years.

The Council continues to look for ways of improving service delivery and outcomes with less money at its disposal. Further service reviews are taking place and the Council is exploring alternative options for service delivery.

I have summarised my findings in the Appendix to this letter.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and Executive Director of Commercial and Corporate Services. This has been another challenging year for the Council and I wish to thank your officers for the positive and constructive approach they have taken to my audit. Also, as this is the last audit carried out by the Audit Commission's Audit Practice, I would like to take the opportunity to thank senior management and Members for their support and co-operation during this year's audit and also over the many years previously.

Yours sincerely

Steve Nicklin
District Auditor

Appendix - Value for money

I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

On 28 September 2012, I issued an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

Table 1 Value for money conclusion criteria and my findings

Criteria	Risks	Findings and conclusions
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<ul style="list-style-type: none"> • Delivery of the improvements through the Sunderland Way of Working and Corporate Transformation Programmes. • Close monitoring of the budget position to ensure the delivery of actual savings and efficiencies, given the tight financial settlement, particularly the SWITCH process. 	<p>Sunderland City Council has proper arrangements in place to secure financial resilience.</p> <p>The Council has successfully delivered one of the most significant financial challenges that it has ever faced. The 2011/12 budget included a £58m cut in central Government funding and other cost pressures. The outturn for 2011/12 delivered the savings required to balance the budget and also enabled further resources to be added to reserves in recognition of the very challenging financial context the Authority is facing.</p> <p>The budget was closely monitored during the year to ensure that savings and efficiencies were delivered effectively.</p> <p>The Council has managed to make its savings to date without the need for redundancies and has made a commitment to try to avoid mass redundancies. This approach has been successful so far, although the Council recognises that it needs to monitor its SWITCH (Staff Working in Transition and Change) programme very closely.</p> <p>Further cuts of £28m are required in 2012/13 and more are expected in future financial settlements. In addition, Government reforms, such as those in relation to business rates and the localisation of council tax benefits and potential financial pressures arising from equal pay cases are likely to add to the demands on the Council's resources in the years ahead.</p>

Criteria	Risks	Findings and conclusions
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<ul style="list-style-type: none"> • Maintenance of good governance during a period of major change – evidence of the maintenance and/or improvement of service delivery, despite the difficult financial position. • Review of any further measures to make savings required in future years. • The exploration of alternative models for service delivery. 	<p>Sunderland City Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>The savings delivered in 2011/12 included service efficiencies and new ways of working. Further service reviews are in hand and the Council is exploring alternative, more cost effective options for service delivery.</p> <p>The Council continues to identify ways of improving service delivery and outcomes with less resources. This includes considering new and different service delivery models and proposals for a Local Asset Backed Vehicle (LABV) to promote and accelerate economic regeneration.</p> <p>The Council recognises the risks of change, and has introduced a new integrated framework for governance, risk management and corporate assurance, including Internal Audit.</p> <p>The Council is making changes to its Executive and Committee arrangements to help it better meet the future challenges it faces. It continues to develop and enhance its arrangements for monitoring performance to ensure that cost reductions and new ways of working lead to improvement and do not impact adversely on overall service quality and outcomes.</p> <p>We followed up our previous work in relation to natural resources, and found that progress has been slower than anticipated and there remains scope for improvement.</p>

AUDIT AND GOVERNANCE COMMITTEE

14 DECEMBER 2012

CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT 2011/12

Report of Executive Director of Commercial and Corporate Services

1. Purpose of the Report

- 1.1 This report details the Audit Commission's (AC) work that they carried out for all grant claims and returns made by the council for the financial year 2011/2012, which according to government regulations required an external audit opinion and/or an audit certificate. Please note that from 1st November Mazars LLP replaced the Audit Commission as the Council's external auditors and as such a representative from Mazars will be presenting the report.

2. Summary of the Report

- 2.1 The attached document (Appendix 1) advises members of the main coverage and findings of the audit work carried out on all grant claims and returns subject to external audit for 2011/12.

- 2.2 The report is positive in that the council suffered no loss of grant in 2011/2012 for the total amount of almost £245 million of grant claims / returns covered by the audit.

- 2.3 Amendment to grant claims / returns

There was only one amendment made from the audit work carried out which is referenced in the report at Appendix 1 (Pages 4 and 5) and was in respect the National Non Domestic Rates Return. This resulted in the Council recovering an additional £1.921m from the NNDR pooling arrangement in correcting 2 separate issues explained in the report, both of which were amended and also improved systems and processes have been put in place to prevent a re-occurrence.

It should be noted that the above amendment meant that the council suffered no loss in funding in 2011/12. The amendment was also reflected in the Audited Statement of Accounts 2011/12 (although the changes mainly affected the Collection Fund Account), which members approved on 28th September 2012.

- 2.4 The level of testing is determined by the grant awarding body itself or alternatively is informed by the level of risks involved. In the case for the Housing and Council Tax Benefit grant the DWP agreed that all claims

nationally should follow a standard audit process that can not rely on the Council's control environment.

- 2.5 It is pleasing to report that the Housing and Council Tax Benefit with a total value of £148.550m had no amendments.
- 2.6 The cost of the work in 2011/12 was £36,945 compared to £40,460 for the previous year and this cost was £1,125 under budget (Page 7).
- 2.7 An officer from Mazars LLP will be in attendance to outline the content of the Report and to answer members questions.

3 Description of Decision

- 3.1 The Committee is recommended to note the contents of this report

Certification of claims and returns - annual report

Sunderland City Council

Audit 2011/12



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Results of 2011/12 certification work.....4

Summary of certification fees6

Introduction

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2011/12 claims and returns.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I would have undertaken limited tests to agree form entries to underlying records, but there were no such claims in 2011/12; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data. There were three of these claims and returns in 2011/12.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions. This year there were no qualification letters.

Results of 2011/12 certification work

The 2011/12 certification work for the Council comprised checking three major claims. Our work was completed within budget and all of the claims were successfully certified. Notably our work resulted in the Council's contribution to the national NNDR pool being reduced by £1.9m.

Grant claims and returns continue to be supported by good working papers. The Council's grants coordinator monitors the submission of grant claims and provides a quality review to ensure that suitable working papers are presented to us. Officers are experienced in claim preparation and have a good knowledge of grant schemes. Our good working relationships with officers have helped us meet certification deadlines.

Table 1: Claims and returns above £500,000

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Housing and Council Tax Benefit Scheme	148,550	Our approach to this claim does not allow reliance.	None	No
National Non-Domestic Rates Return	79,376	No	Significant reduction of £1.921m in the amount due to the NNDR pool (explained below table).	No

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Teachers' Pensions Return	16,888	No	Very minor amendment of less than £1k.	No

National Non-Domestic Rates Return

We planned to spend additional time on the NNDR return this year given the implementation of a new Civica computer system.

Two significant issues arose during the audit that required amendment to the return:

- an error in the treatment of the bad debt provision which led to an adjustment of £950k;
- revisions to reductions in gross rates payable relating to previous years transactions and some adjustments to discretionary reliefs, which led to a £971k reduction in the amount due to the NNDR pool. These arose due to issues experienced by officers in identifying the correct figures within the new Civica system.

The combined effect of the amendments was a £1.921m reduction in the amount payable by the Council to the NNDR pool.

In addition, the Council's financial statements were amended to reflect the revised NNDR return.

Summary of certification fees

This section summarises the fees arising from my 2011/12 certification work and highlights the reasons for any significant changes in the level of fees from 2010/11.

Table 2: Summary of certification fees

Claim or return	2011/12 fee	2010/11 fee	Reasons for changes in fees
Housing and council tax benefit scheme	£23,822	£20,733	Additional work undertaken to explore whether an error that had been identified was isolated or not.
National non-domestic rates return	£10,395	£4,425	Additional work planned due to new Civica NNDR system implementation, plus two errors which resulted in a £1.921m reduction in the amount payable by the Council to the NNDR pool.
Teachers' pensions return	£2,728	£2,430	Further exploration of issues that resulted in a relatively minor amendment to the claim of less than £1k.
Other claims and returns	£0	£12,872	No other returns required our audit certification this year.

Claim or return	2011/12 fee	2010/11 fee	Reasons for changes in fees
Total Fee (the sum of fees from individual claims identified on the previous page)	£36,945	£40,460	The 2011/12 total fee was £3.5k / 8.7% less than 2010/11
Estimated Fee in the Audit Plan 2011/12	£38,070	£43,960	The estimated fee in the Audit Plan issued in January 2012 was based on previous work undertaken but then adjusted for: <ul style="list-style-type: none"> • Fewer claims expected in 2011/12 • More time on the NNDR return to take account of the implementation of the new Civica system
Variance against Estimated Fee	-£1,125	-£3,500	In 2011/12 the total fee was just over £1k less than that estimated in the Audit Plan

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



www.audit-commission.gov.uk

September 2012

AUDIT AND GOVERNANCE COMMITTEE

14 December 2012

COUNTER FRAUD STRATEGY

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 To agree a Counter Fraud Strategy to support the delivery of the aims of the Anti Fraud and Corruption Policy.

2. Background

- 2.1 Over recent years the profile of fraud has been raised both at a national level and within the public sector. As the country tries to reduce the deficit tackling fraud is an integral part of putting public finances back on a stable footing and ensuring that tax-payers hard earned money is used to protect resources for frontline services.

- 2.2 The Audit Commission has also recently published its 2012 report, Protecting the Public Purse. From its survey of fraud detected in local government in 2011/12, it has identified:

- £179m worth of fraud;
- Comprising £117m relating to housing benefit fraud, £21m relating to Council tax discounts and £41m relating to other frauds;
- £24m of other frauds are related to procurement, abuse of position, payroll/pensions/expenses, disabled parking concessions, false insurance claims, and social care.

- 2.3 The change of emphasis from local government being a provider to a commissioner of services changes the risk profile of fraud, as well as the control environment in which risk is managed. More arms length delivery of services by third parties in the private, voluntary and not-for-profit sectors will mean that more public money is entrusted to more parties, whilst the controls local authorities previously exercised will be removed or reduced. Without new safeguards, preventing, detecting and investigating fraud will become more difficult.

- 2.4 Recognising the importance of maintaining good anti-fraud arrangements is recognised in the Corporate Assurance Map. The Internal Audit team maintain a Fraud Risk Assessment and undertake pro-active fraud work, and the Risk and Assurance team in advising and supporting the delivery of new models of service delivery will assist managers in identifying, assessing and putting in place effective arrangements to counter the risk of fraud. The attached

Counter Fraud Strategy is designed to enhance the arrangements already in place given the changing nature of the risks.

3. Recommendation

- 3.1 The Committee is asked to consider and agree the Counter Fraud Strategy.

Sunderland City Council

Counter Fraud Strategy

Sunderland City Council

Counter Fraud Strategy

1 Introduction

1.1 Over recent years the profile of fraud has been raised both at a national level and within the public sector. As the country tries to reduce the deficit tackling fraud is an integral part of putting public finances back on a stable footing and ensuring that tax-payers hard earned money is used to protect resources for frontline services. Fraud has a serious effect on all parts of the economy, as shown below:

a) The estimated levels of fraud, and resultant losses, suggest that the occurrence of fraud overall is increasing. Recent national reports put the threat into context:

i) The National Fraud Authority have announced this year (2012) that:

- Each year, private and public sector organisations, as well as individuals, lose over £73bn to fraud;
- fraud costs every adult in the country about £1,460 a year, and
- fraud against public sector organisations costs £20.3bn, with fraud against local government costing more than £2.2bn a year.

ii) The Audit Commission has also recently published its 2012 report, Protecting the Public Purse. From its survey of fraud detected in local government in 2011/12, it has identified:

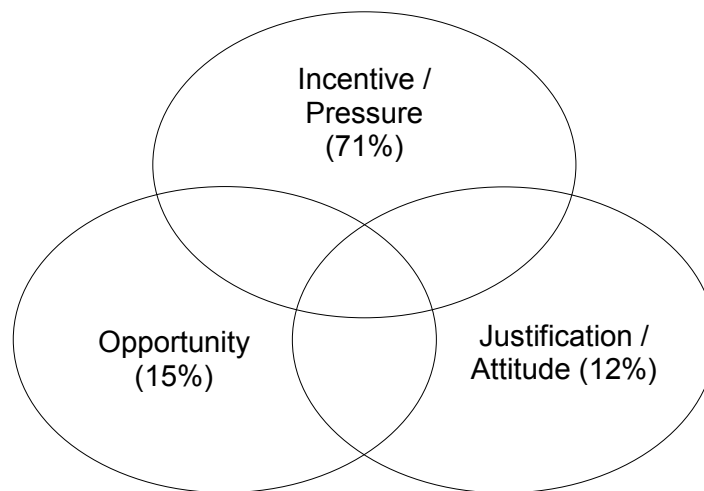
- £179m worth of fraud;
- Comprising £117m relating to housing benefit fraud, £21m relating to Council tax discounts and £41m relating to other frauds;
- £24m of other frauds are related to procurement, abuse of position, payroll/pensions/expenses, disabled parking concessions, false insurance claims, and social care.

b) The 2010/11 Audit Commission's National Fraud Initiative resulted nationally in fraud and overpayments amounting to £229 million being identified amongst public bodies.

1.2 The change of emphasis from local government being a provider to a commissioner of services changes the risk profile of fraud, as well as the control environment in which risk is managed. More arms length delivery of services by third parties in the private, voluntary and not-for-profit sectors will mean that more public money is entrusted to more parties, whilst the controls local authorities previously exercised will be removed or reduced. Without new safeguards, preventing, detecting and investigating fraud will become more difficult.

- 1.3 The Council currently spends approximately £700 million on the services it provides. The size and nature of the Council's role and activities puts it at risk from losses due to fraud, e.g. the number of services, service users, employees, partners, and suppliers. Whilst in recent times there has been very few recorded occurrences of fraud, the Council needs to continue to be vigilant and not be complacent as to the risk of fraud, especially given the level of change that has been ongoing and will continue in the coming years.
- 1.4 A report issued by PriceWaterhouseCoopers, Fraud in the Public Sector, highlighted the 3 main contributing factors to why people commit fraud, as set out below.

Fraud Risk - Contributing Factors



The report highlighted that the most significant contributing factor, under 'incentive / pressure', relating to the public sector at this time was the fear of unemployment.

- 1.5 Fraud committed against the Council can have a significant and negative effect in respect of service delivery and reputation. This could include, for example:
- a) Decrease the service provision due to loss of funds.
 - b) A loss of trust with external bodies, partners and the public.
 - c) Financial and resource costs of investigative work, including costs in relation to any employee suspensions and impact upon service delivery.

2. Background

- 2.1 The Council's Anti Fraud and Corruption Policy Statement (Appendix 1) sets out the Council's commitment to having a 'zero-tolerance' stance against fraud, corruption and financial impropriety, as follows:

"The Council will not tolerate dishonesty on the part of any Councillor or its employees or any person or organisation involved in any way with the Council."

2.2 The Policy Statement also states that:

“The Council is committed to establishing and maintaining effective arrangements to prevent fraud, corruption and financial impropriety.”

2.3 The current arrangements in place are set out at Appendix 2.

2.4 These arrangements have been accompanied by ongoing work to raise the awareness of the Council’s Anti Fraud and Corruption Policy as well as to emphasise the responsibilities each individual has to protect the Council against fraud (see Appendix 3 for a description of these responsibilities).

3. Changing Context

3.1 The fight against fraud locally needs to be seen in the context of a number of changes affecting local authorities. Financial constraints, the move towards localism, plus the introduction of local auditing arrangements and a single fraud investigation service to tackle benefit fraud could all make the environment for tackling fraud more challenging. To respond to this challenge it is necessary for the Council to ensure that its strategic arrangements address these issues.

3.2 The changing landscape and delivery of services by third parties requires an assessment of new fraud risks. The response should include fraud proofing of new policies, systems and delivery models so that fraud risks can be designed out at the earliest opportunity, ensuring that counter fraud practitioners are consulted at an early stage.

3.3 The first line of defence in preventing fraud is consistent application of internal controls.

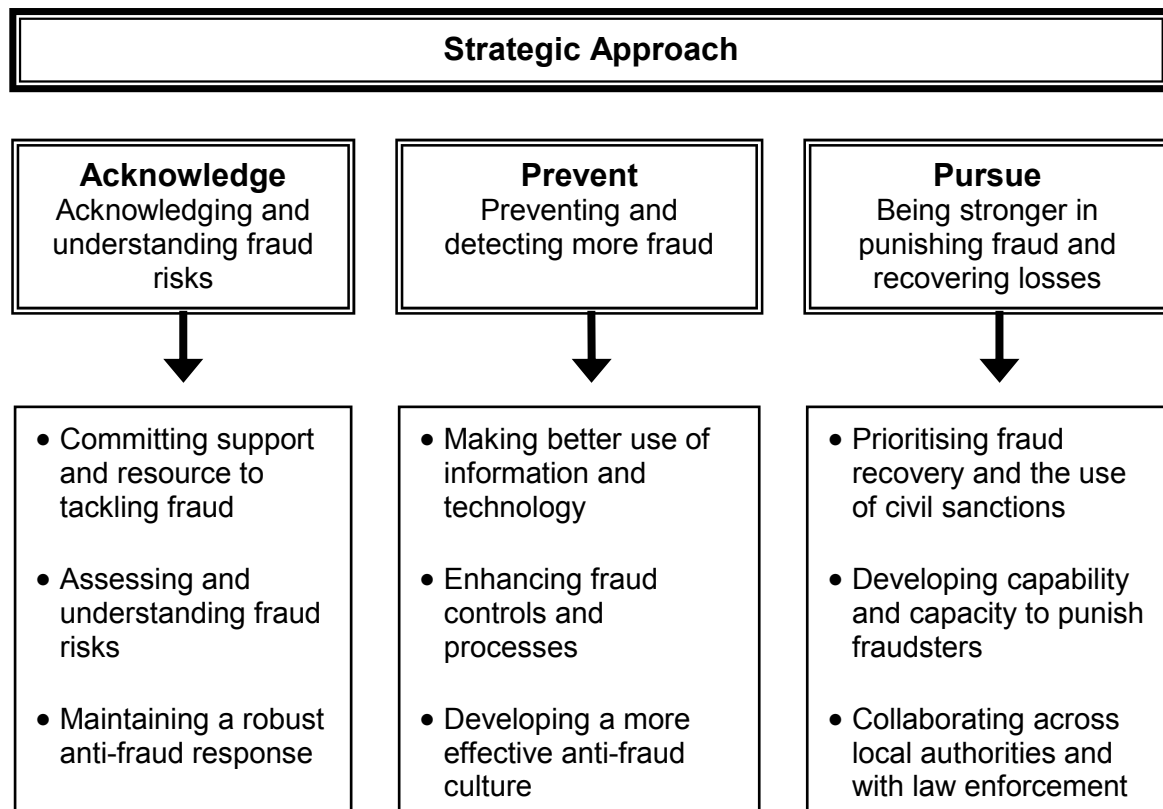
4. New Approach

4.1 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.

4.2 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.

4.3 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.

- 4.4 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.
- 4.5 To embed a collaborative approach to tackling fraud the following approach will be adopted:



4.6 Scope and Definitions

4.6.1 This Strategy relates to 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.

4.6.2 For the purpose of clarity the following definitions are relevant:

Fraud

Fraud is defined as any dishonest act perpetrated in order to seek actual or attempted gain and/or cause actual or potential loss in money or other property (whether temporary or permanent). The Fraud Act 2006 provides for the offence of fraud and various ways of committing it, as follows:

- a) A dishonest act made by way of false representation.
- b) A dishonest act made by way of failure to disclose information.
- c) A dishonest act made by way of abuse of position.

There are also offences of fraud specific to particular activities:

- a) Possessing/controlling any item for use in the course of or in connection with any fraud.
- b) Making or supplying items for use in fraud (e.g. forgery).
- c) Participating in a fraudulent business.
- d) Obtaining services dishonestly.

Corruption

Corruption is defined as “receiving or giving any gifts, loan, fee, reward or advantage for doing, or not doing, anything or showing favour or disfavour to any person in their official capacity.”

Financial Impropriety

This is defined as any other wilful act which is not fraud or corruption but which leads to financial loss to the Council, e.g. the theft of cash, property (including equipment, time, data etc), forgery, the making of overpayments or duplicate payments or participating in money laundering activity.

5. Acknowledge

5.1 *Committing support to tackling fraud*

5.1.1 It is recognised that for counter fraud work to be effective it needs ongoing support both from Members and the Senior Management Team. This support includes:

- a) active endorsement of the Council’s Anti Fraud and Corruption Policy, and this Counter Fraud Strategy, by involvement in identifying fraud risks, providing an example to others, visibly taking allegations seriously, raising concerns where appropriate, supporting counter fraud work, adopting a series of policies, codes and arrangements designed to foster a counter fraud culture;
- b) providing a level of investment and resource to the Council’s counter fraud work that is proportionate to the risk which has been identified and which will enable the Council’s Counter Fraud Strategy to be delivered;
- c) providing appropriate authority and support to the Internal Audit team to allow them to pursue their remit, for example, by adopting clear written formal powers of access both within the Council and partner organisations via Financial Procedure Rules, partnership agreements etc.

5.1.2 The Council’s Cabinet, Audit and Governance Committee, and Standards Committee are key Member forums from which to seek political support for counter fraud work within the Council.

5.2 *Assessing and understanding fraud risks*

- 5.2.1 It is important that the Council has a good understanding of the fraud threat, emerging risks and the savings that can be made from investing in countering fraud. A risk-based approach to fraud will enable the Council to manage the risk more effectively and target its resources more efficiently.
- 5.2.2 The most efficient approach is to target counter fraud to areas where fraud is most likely to occur. In order to achieve this it is essential that the Council has a clear ongoing understanding of the fraud risk it faces and the adequacy and effectiveness of procedures and controls to manage those risks. Consequently, the Council will develop further its fraud risk assessment which will allow the Council to gain a better understanding of the types of fraud risk the Council faces and allow the size of the fraud threat to be assessed.
- 5.2.3 For each key area, the fraud risk assessment takes account of the fraud risks in the area, the likelihood of fraud occurring and the impact it may have as well as the effectiveness of internal control arrangements in place and the level of fraud which has occurred in the past.
- 5.2.4 A framework will be set up to allow appropriate intelligence to be gathered on an ongoing basis with the fraud risk assessment being reviewed periodically. Based on the fraud risk assessment a plan of counter fraud activity will be developed and included within the Internal Audit plan.
- 5.2.5 The Audit and Governance receive regular updates in relation to the Corporate Assurance Map, which includes Fraud and Corruption as one of the Corporate Risk Areas. The updates will include information on the level of fraud detected in the Council and opinions on the effectiveness of the arrangements in place.

5.3 *Maintaining a robust anti-fraud response*

Awareness and communication

- 5.3.1 It is important that potential fraudsters believe that they will be caught and punished, if they attempt or commit fraud.
- 5.3.2 Awareness campaigns have already been undertaken with officers and the public to raise awareness of the Council's attitude to fraud and corruption and how to raise concerns.
- 5.3.3 It is considered appropriate to reinforce the message by developing an ongoing programme of activity to reach all Council stakeholders, including those difficult to reach. This will consider the most appropriate way to communicate efficiently and effectively with stakeholders, and will incorporate ongoing evaluation to ensure that the message is being understood and a real anti fraud culture is being developed.

Appropriate Skills

- 5.3.4 Counter fraud work will be carried out by officers with the appropriate skills, knowledge and experience. Due the nature and variety of activity that constitutes counter fraud work an assessment will be maintained of the skills and expertise needed to carry out counter fraud activity. Where there is absence of the relevant skills and knowledge an appropriate training and development programme will be developed which is relevant to the Council's needs.
- 5.3.5 It is acknowledged that the Council's anti fraud arrangements and the delivery of its counter fraud strategy/plans will involve co-operation between individuals from different parts of the Council.
- 5.3.6 Officers involved in counter fraud 'assurance' work and 'detection' work will be:
- a) professionally trained for their role, and
 - b) undertake this work in accordance with a clear ethical framework and standards of personal conduct laid down by professional bodies and the Council, e.g. Code of Conduct.
- 5.3.7 It may be appropriate for the Council to employ the services of outside agencies or professionals to assist with or carry out counter fraud work, e.g. the Audit Commission (NFI) or private sector parties.

6. Prevent

6.1 *Making better use of information and technology*

- 6.1.1 The most efficient way to tackle fraud is preventing it from happening in the first place. Prevention extends beyond making sure that there are appropriate system and process controls in place. It depends on the development of an effective anti-fraud culture. Fraud prevention is closely linked to the early recognition of fraud, clear reporting processes and access to a whistle blowing helpline.
- 6.1.2 A key preventative measure to counter fraud is to take effective steps to ensure that people working for the Council (e.g. employees, agency workers, consultants) are people of integrity. Consequently, the Council's procedures should ensure that appropriate checks are undertaken before they start working for the Council and where their role significantly changes.
- 6.1.3 Whilst the Council takes part in the Audit Commission's National Fraud Initiative, it is acknowledged that, where it is appropriate, the Council should use, gather and share a range of information to help identify potential fraud that is occurring. This usually involves the sharing of information between various bodies (e.g. insurance claims).

- 6.1.4 In addition to participation in the Audit Commission's National Fraud Initiative, the Internal Audit team will, based upon the fraud risk assessment:
- a) Identify areas where data / intelligence gathering or sharing could assist with the detection of potential fraud.
 - b) Use IT and analytical techniques to interrogate, collate and analyse data to identify potential fraud.
 - c) Reviewing higher risk areas to pro-actively seek to identify potential fraud.
 - d) Make use of fraud alert services such as those from the National Anti Fraud Network.

6.2 *Enhancing fraud controls and processes*

- 6.2.1 The Risk and Assurance team specialise in aiding the development of arrangements as they are being established which includes the development of controls to prevent fraud. Risk registers also take into account the risk of fraud and set out mitigating actions.
- 6.2.2 The fraud risk assessment developed by Internal Audit includes setting out the risks and tests which can be carried out to detect whether the fraud risks are being realised. The key controls within each risk area are agreed with managers and a programme of testing will be developed to test compliance with the controls and the effectiveness of them. Any concerns identified will be investigated by the Risk and Assurance team.
- 6.2.3 Counter fraud activity undertaken by other parts of the Council will also be co-ordinated and the results reported to the Audit and Governance Committee through the Corporate Assurance Map updates.

6.3 *Developing a more effective anti-fraud culture*

- 6.3.1 As previously mentioned, arrangements to publicise the risk of fraud and how it will be addressed will be further developed. Staff and members of the public need to be motivated to tackle fraud, understand their responsibilities under the Council's arrangements and understand what they can do to raise their concerns.
- 6.3.2 The Council's anti fraud and corruption documents set out how concerns can be raised and to whom they should be directed. This sets out a variety of methods depending in the circumstances.
- 6.3.3 All potential fraud cases are to be reported to the Executive Director of Commercial and Corporate Services through the Head of Corporate Assurance and Procurement, so that an assessment can be made as to whether the Risk and Assurance team should carry out an investigation or whether the cases should be investigated by appropriate officers within the Directorate concerned.

6.3.4 Concerns regarding housing benefit or council tax benefit fraud will be referred to the Benefits Investigation Unit who are appropriately trained and qualified to handle them.

6.3.5 Whilst the Council has its own Disciplinary Procedure which provides general guidance as to the steps that should be undertaken during an employment investigation there is no specific guidance or training provided to investigating officers with regard to general fraud investigations.

6.3.6 The Risk and Assurance team will:

- Lead higher risk / complex fraud investigations;
- Liaise with the Director of HR&OD in relation to the investigation of fraud involving employees;
- Liaise with the Head of Law and Governance in relation to the investigation of fraud, where appropriate;
- Provide guidance and support to managers on undertaking fraud investigations for lower risk investigations (where they are the lead).

7. Pursue

7.1 *Prioritising fraud recovery and the use of civil sanctions*

7.1.1 Enforcement covers the investigation, punishment and recovery of assets and funds. Punishing fraudsters acts as a powerful deterrent. Where fraud is discovered the full range of sanctions should be deployed, including civil, disciplinary and criminal action.

7.1.2 Fraud is a crime against the public and as such those who attempt or are caught committing fraud should be appropriately punished. This needs to be fair and consistent in order to maximise its impact on deterring future fraud. Although the Council routinely considers disciplinary and criminal action where appropriate, there is an opportunity for the recovery of assets to be used more frequently to ensure that the public and potential fraudsters are made aware that every effort will be made to recoup losses and confiscate assets gained as a result of criminal activity. The Council will need to consider the most appropriate option for accessing the skills of a financial investigator through which assets can be recovered.

7.1.3 Whilst undertaking or advising on investigations, the Risk and Assurance team will:

- Liaise with managers within higher risk areas to ensure that appropriate measures are in place to punish fraudsters.
- Support management within Disciplinary Procedures.
- Provide advice and access to the Police where criminal activity is suspected.
- Consider circumstances, in liaison with Law and Governance, where the proceeds of crime may be recovered.

7.2 *Developing capability and capacity to punish fraudsters*

- 7.2.1 Criminal prosecutions are an important part of a counter fraud policy and can serve to deter offenders and reinforce a culture of zero tolerance to fraud. Developing in-house capability for investigating and prosecuting fraud or ensuring access to specialised investigative resource is the first step in developing an effective fraud enforcement response.
- 7.2.2 Appropriate training must be provided to those involved in investigating potential fraud and corruption. The Council needs to consider the most appropriate option for accessing these skills, whether it be through the training of their own in-house staff or through accessing them through a third party or a partner arrangement.

7.3 *Collaborating across local authorities and with law enforcement*

- 7.3.1 Local government is not immune from organised fraud. Recent years have seen a number of fraud cases where perpetrators have been part of a larger criminal network. Organised frauds often cross local authority boundaries and investigations tend to be complex requiring the deployment of specialist resources, such as computer forensics or surveillance capability. Such resources are expensive.
- 7.3.2 Effective co-operation and joint working between local authorities and with other agencies is essential as there are often links between frauds against local authorities and benefit frauds, immigration offences and shadow economy tax evasion. The Council currently undertakes joint working with the Department of Work and Pensions to investigate benefit fraud. Working with the Police is also undertaken in appropriate cases where criminal activity is suspected.
- 7.3.3 Although the National Fraud Initiative compares transactions between local authorities to identify any potential cases of fraud this is not enough to identify cases of organised crime. Further work will be undertaken to consider how this can be developed and embedded within the Council's arrangements.

8. *Defining Success (including performance measures)*

- 8.1 It is important that the Council seeks to assess how effective its arrangements are for managing the risk of fraud and corruption. Currently there is work being undertaken and reported in various parts of the Council which is not all co-ordinated to make sure that it is appropriate and effective. Therefore there is no corporate performance framework in place to measure, report and assess the results of counter fraud work and their effectiveness.
- 8.2 The Council will gather the relevant data in order to be able to assess the effectiveness of its counter fraud arrangements. Therefore it is necessary to develop a corporate performance framework in relation to countering fraud, including key performance measures.

- 8.3 In order to develop an effective performance framework it is essential that:
- a) Measures are adopted that will focus on outcomes, i.e. the results of the activity undertaken and not just activity or inputs.
 - b) The results of counter fraud work are appropriately reported, including an assessment of the effectiveness of the Council's arrangements.
 - c) Corrective actions are identified and monitored to inform decision making in relation to future developments in the overall arrangements.

8.4 In order to be able to demonstrate that the overarching objectives of the counter fraud strategy are being achieved and that continuous improvement is sought, performance will be monitored using the following key measures:

- Level of awareness amongst employees regarding the Council's counter fraud arrangements
- Number of whistleblowing reports relating to fraud
- Percentage of recommendations implemented to improve controls relating to fraud
- Number of fraud investigations resulting in sanction and/or redress
- Reported financial losses due to fraud, corruption or financial impropriety

9. Benefits of implementing the strategy

9.1 By adopting this strategy the following benefits will be realised:

- a) The Council will be in a better position to understand current and emerging fraud risks and to direct appropriate resources in a timely manner to effectively manage the risks and any impact.
- b) Improved co-ordination of counter fraud work will result in a more focussed approach and efficient use of resources.
- c) The extent and effectiveness of counter fraud work taking place across the Council will be more transparent and be able to be identified and measured.
- d) Greater assurance will be provided to the Council as to the effectiveness of the Council's arrangements to prevent and detect fraud. There will also be a greater chance that any losses by the Council due to fraud may be detected and stopped.
- e) The profile of the fraud risk facing the Council will be raised as will the importance of the role that Councillors, managers and employees, and other third parties play to ensure that the Council's Anti Fraud and Corruption Policy is implemented effectively.

9.2 This Strategy and supporting arrangements shall be reviewed annually.

10. Improvement Plan

10.1 The Council has in recent years made good progress in relation to managing the fraud risks faced. However, changes in the environment in which the Council operates, developments in the way the Council delivers its services and recent legal and professional guidance mean that further improvements should be made, as set out in the attached Improvement Plan.

Sunderland City Council

Corporate Counter Fraud Strategy - Improvement Plan

1 Committing Support to Tackling Fraud

Ref	Action	Target Completion Date	Responsibility	Success Criteria
1.1	Develop and deliver a communication plan to ensure the newly adopted Counter Fraud Strategy and its implications are understood. As part of this plan Senior Managers will be briefed on the salient points of the anti-fraud and corruption arrangements and of their responsibilities.	May 2013	Audit, Risk and Assurance Manager	Communication Plan Strategy published on intranet Record of briefing sessions and presentations held
1.2	Complete the process for adopting the Council's Anti Fraud and Corruption documentation and approach within schools. Ensure appropriate anti fraud and corruption arrangements extend to partnerships	May 2013	Lead Risk and Assurance Specialist in liaison with the Executive Director of Children's Services	School anti fraud documentation published and adopted by schools after consultation with unions/head teachers

2 Assessing and understanding fraud risks

Ref	Action	Target Completion Date	Responsibility	Success Criteria
2.1	Use the CIPFA Fraud Loss Profile tool to establish the likely level of loss suffered by the Council	December 2012	Audit, Risk and Assurance Manager	Level of loss identified and reflected in anti-fraud and corruption arrangements
2.2	Update the fraud risk assessment to identify risks and key controls for each area. Ensure the assessment is updated on an ongoing basis and is used inform the counter fraud strategy and counter fraud plans and activity	Assessment updated November 2012 Fully developed by March 2013	Audit Manager	Risk assessment document. Management trail showing link between risk assessment and corporate counter fraud work plans

Ref	Action	Target Completion Date	Responsibility	Success Criteria
2.3	Perform a resilience check of the current capabilities through the NAFN resilience tool.	March 2013	Audit, Risk and Assurance Manager	Understanding of how resilient the Council's is Identification of improvement action required
2.4	Review new policies and procedures, where appropriate, to evaluate the risk of fraud and build in fraud prevention controls	Ongoing	Audit, Risk and Assurance Manager	Robust policies which protect the Council from potential fraud
2.5	Ensure an appropriate level of reporting on counter fraud activity and on the effectiveness of the Council's anti-fraud and corruption arrangements to the Audit and Governance Committee.	Ongoing	Head of Corporate Assurance and Procurement	Assurance in relation to the Council's arrangements

3 Maintaining a robust anti-fraud response

Ref	Action	Target Completion Date	Responsibility	Success Criteria
3.1	Review the developments in training and accreditation for those involved in counter fraud work and corruption, including investigation work. Carry out an assessment of skills held by the Council and plan and meet any needs.	September 2013	Audit, Risk and Assurance Manager in conjunction with Director of HR and OD	Training Plan Training needs met
3.2	Review and further develop the current partners and partnership arrangements the Council has with other organisations fighting fraud, e.g. CIFAS, NAFN etc. to enhance the anti fraud and corruption work both within and outside the Council e.g. intelligence sharing, training, investigation, benchmarking etc.	June 2013	Lead Risk and Assurance Specialist	Formal agreements where appropriate Records showing exchange of information
3.3	Ensure that the Council fraud response plan is aligned to this strategy and remains appropriate	May 2013	Head of Corporate Assurance and Procurement	Fraud response plan which is effective and is appropriately resourced
3.4	Review key systems that may be vulnerable to fraud and ensure that key fraud risks are managed effectively	Ongoing	Audit, Risk and Assurance Manager	High level of compliance with controls

4 Making better use of information technology

Ref	Action	Target Completion Date	Responsibility	Success Criteria
4.1	Further develop the network of fraud intelligence sources, improve capacity and arrangements to analyse the data held across all activities	Develop capacity and introduce improved arrangements by July 2013	Audit Manager	Reports analysing data for evidence of fraud.
4.2	Develop the use of analytical tools to analyse large amounts of data to identify potential fraud, including the use of third party specialists	July 2013	Audit, Risk and Assurance Manager	Larger amounts of data analysed leading to increased assurance

5 Enhancing fraud controls and processes

Ref	Action	Target Completion Date	Responsibility	Success Criteria
5.1	Implement a programme of compliance checks, based on the fraud risk assessment, to determine if fraud controls are being complied with and are effective	March 2013	Audit Manager	High level of assurance that fraud controls are working
5.2	Develop and implement a corporate planning methodology to ensure all counter fraud work within the Council as a whole is identified and coordinated.	July 2013	Audit Manager	Annual Corporate counter fraud work plan linked to directorate plans

6 Developing a more effective anti-fraud culture

Ref	Action	Target Completion Date	Responsibility	Success Criteria
6.1	Develop a corporate scheme for a) measuring the effectiveness of investigation work and b) monitoring the outcomes of fraud investigation work	July 2013	Audit, Risk and Assurance Manager in conjunction with Director of HR and OD	Published scheme and appropriate supporting records
6.2	Continue to improve and implement the anti fraud and corruption awareness-raising plan to Council stakeholders. This will include deterrent messages.	July 2013	Lead Risk and Assurance Specialist	Awareness aids and tools
6.3	Develop and implement appropriate arrangements to evaluate the extent to which an anti-fraud culture exists, e.g. use of Employee Attitudes Survey, number of whistle blowing allegations received, result of e – learning awareness tests , number of advice requests re fraud	September 2013	Audit, Risk and Assurance Manager in conjunction with Director of HR and OD	Results of tests, surveys, questionnaires etc.
6.4	Develop and implement measures aimed at employees which will allow intelligence to be gained as to the nature of fraud risk the Council faces and promote awareness	September 2013	Audit, Risk and Assurance Manager	Intelligence gathered from employees
6.5	Review the arrangements to allow stakeholder to report concerns re fraud and corruption promptly e.g. widen use of IT	July 2013	Lead Risk and Assurance Specialist	Published reporting arrangements

7 Prioritising fraud recovery and the use of civil sanctions

Ref	Action	Target Completion Date	Responsibility	Success Criteria
7.1	Review the Council's policy on applying appropriate sanctions and recovering the proceeds of crime	July 2013	Head of Corporate Assurance and Procurement	Published and agreed policy
7.2	Review and adopt revised procedures to monitor: a) the extent to which the application of sanctions for fraud is successful b) the recovery of losses incurred as a result of fraud or corruption including the use of civil or criminal law.	September 2013	Head of Corporate Assurance and Procurement	Results reported

8 Developing capability and capacity to punish fraudsters

Ref	Action	Target Completion Date	Responsibility	Success Criteria
8.1	Review the Council's investigation procedures and guidance to ensure they are in line with good practice, they promote value for money and they reflect the Council's revised Disciplinary Procedures. All appropriate staff should be briefed.	September 2013	Audit, Risk and Assurance Manager in conjunction with the Director of HR and OD	Published revised documents

9 Collaborate across local authorities and with law enforcement

Ref	Action	Target Completion Date	Responsibility	Success Criteria
9.1	Develop a protocol for taking parallel sanctions against fraudsters (disciplinary, civil, criminal) and for working closely with law enforcement agencies	August 2013	Head of Corporate Assurance and Procurement	Agreed protocol and working arrangements

Sunderland City Council Anti-Fraud and Corruption Policy

Background

The United Kingdom public sector maintains high standards of probity and has a good reputation for protecting the public purse. Sunderland City Council shares these high standards and reputation and is committed to protecting the public funds entrusted to it so that the maximum amount of resources can be used for their intended purpose, that of providing services to the citizens of Sunderland.

Sunderland City Council currently spends approximately £700 million on the services it provides. As part of the Council's commitment to protecting public funds, and to make the most efficient and effective use of the resources it is responsible for, it is essential that the risk to the Council of financial losses due to fraud, corruption and financial impropriety are minimised. The size and nature of the Council's role and activities puts it at risk from losses due to fraudulent or corrupt activity.

Commitment

Sunderland City Council is committed to ensuring that the citizens of Sunderland have complete confidence that the affairs of the City Council are conducted in accordance with the highest standards of probity and accountability. As part of this commitment the City Council is committed to combating fraud, corruption and other financial impropriety (e.g. theft) wherever it may arise in relation to any of the Council's activities or services and, in achieving this aim, realises this involves any Councillor or Officer of the Council or member of the public or any other third party associated with the Council's activities.

Standards

The Council expects Councillors and its employees to demonstrate the highest standards of honesty, probity, openness and integrity in the discharge of their functions. This includes:

- a) compliance with appropriate legislation, Codes of Conduct, Rules of Procedure, Procurement and Financial Procedure Rules, Conditions of Service, standards of appropriate professional bodies, and any other standards, guidelines or instructions which are relevant to the particular service or activity,
- b) providing a corporate framework within which counter fraud arrangements will flourish, and
- c) promoting an anti fraud and corruption culture across the whole of the Council.

Likewise the Council expects that all external individuals and organisations that it deals with, e.g. suppliers, contractors, partners, bodies funded by the Council, agents for the Council, service providers, clients, customers, claimants and members of the public etc., will act with honesty and integrity and without thought or actions involving fraud, corruption or financial impropriety. In such relationships the principles outlined in this Policy must be applied. Where external third parties become aware of any fraud and corruption they should report their concerns promptly to the Council.

Implementation

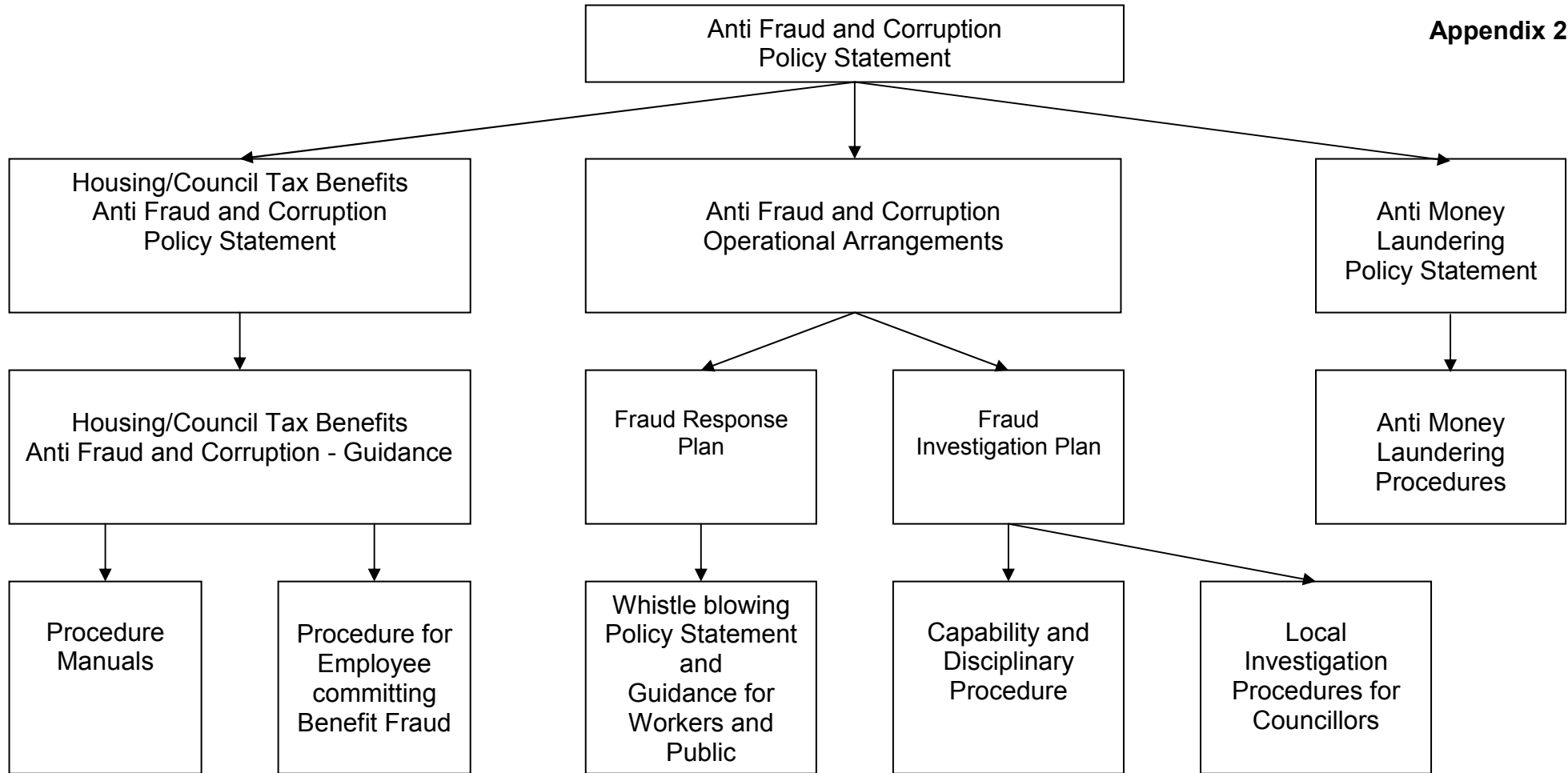
The Council is committed to establishing and maintaining effective arrangements to prevent fraud, corruption and financial impropriety. The Council recognises, however, that these cannot always be prevented and so effective arrangements have been established to detect, report and investigate all incidents or situations where they are suspected.

The Council is committed to creating and maintaining an anti fraud and corruption culture which promotes the highest standards of conduct and which enables Councillors, its employees and other external parties to express concerns and suspicions without fear of repercussion or intimidation and in the knowledge that the information will be treated confidentially and will be investigated fully and rigorously. This includes established reporting arrangements through the Council's Whistle-blowing Policy.

The Council will not tolerate dishonesty on the part of any Councillor or its employees or any person or organisation involved in any way with the City Council. Where fraud or corruption is detected the City Council will rigorously pursue appropriate action against the persons concerned including legal and/or disciplinary action, and wherever possible and deemed appropriate, will take action to recover any losses suffered.

Awareness

The Council will seek to ensure that its stance on anti fraud and corruption is widely publicised both internally and externally to the Council. All Councillors, employees and other associated bodies/persons with whom the Council conducts its business will be appropriately briefed as to this Policy and the supporting framework.



To be most effective, the Anti Fraud and Corruption Policy and supporting arrangements need to apply within an overall culture of zero tolerance to fraud. To foster this culture the Council has also adopted a range of interrelated policies, codes and arrangements including: Codes of Conduct for both Employees and Councillors, Financial Procedure Rules, Procurement Procedure Rules, effective recruitment, selection and vetting procedures, Grievance Procedures, Harassment at Work Policy, Delegation Scheme, effective internal audit function, sound internal control systems, customer Feedback arrangements and effective induction and training.

Sunderland City Council

Anti-Fraud and Corruption Policy

**Organisation and Management Arrangements
(Roles and Responsibilities)**

The organisation and management of the Policy involves an element of responsibility for everyone from Councillors to individual employees. These are set out below:

1. Councillors

- a) The City Council's Cabinet formally approve the Council's Anti-Fraud and Corruption Policy and any subsequent changes.
- b) Councillors should act as an example to others by ensuring adherence to legal requirements and internal Council regulations, e.g. codes of conduct.
- c) Councillors, where they suspect fraudulent or corrupt activity, have a duty to promptly report the matter to the Council in line with the Council Policy.

2. Chief Executive

The Chief Executive is responsible on behalf of the Authority for ensuring that the Council's Anti Fraud and Corruption Policy is complied with at all times.

3. Executive Director of Commercial and Corporate Services

- a) The Executive Director is responsible for ensuring that all Directors are made aware of the Anti-Fraud and Corruption Policy and of any amendments which are made to it.
- b) The Executive Director will be responsible for monitoring the effectiveness of the procedures and the periodic review of the Council's Anti Fraud and Corruption Policy and associated documentation and arrangements.
- c) The Executive Director has overall responsibility for the Council's response to fraud, corruption or financial impropriety.

4 Directors / Chief Officers

- a) Each Director / Chief Officer is responsible for the implementation and operation of the Council's Anti Fraud and Corruption Policy within his/her Directorate.
- b) Each Director / Chief Officer is responsible for implementing and maintaining an adequate system of internal control within their Directorate. This includes the responsibility for the prevention and detection of fraud, corruption and financial impropriety.
- c) Each Director / Chief Officer shall put in place procedures to ensure that employees within the Directorate are informed of, and understand, the standards of conduct expected of them, the relevant provisions of the Council's Anti Fraud and Corruption Policy and their responsibilities in this regard.

These procedures should include the dissemination of the relevant documentation to employees, e.g. Code of Conduct, Whistleblowing Policy, Anti Fraud and Corruption Policy, Fraud Response Plan and the maintenance of an effective induction and training programme which includes briefings regarding the documentation described.

- d) Directors / Chief Officers should act as an example to others by ensuring adherence to legal requirements and internal Council regulations, e.g. codes of conduct.
- e) Directors / Chief Officers are to foster a culture of openness and honesty within their respective Directorates.

5. Managers and First Line Supervisors

- a) Managers are directly responsible for the establishment, implementation and operation of the Authority's Anti Fraud and Corruption Policy within their area of responsibility.
- b) Managers are responsible for implementing and maintaining an adequate system of internal control within their area of responsibility. This includes the responsibility for the prevention and detection of fraud, corruption and financial impropriety.
- c) Managers should act as an example to others by ensuring adherence to legal requirements and internal Council regulations, e.g. codes of conduct, and fostering a culture of openness and honesty.
- d) Managers should be familiar with the relevant sections of the Council's Anti Fraud and Corruption Policy and Operational Arrangements, in particular the Fraud Response Plan for Managers.
- e) Managers should promptly report any suspicions of fraud, corruption or financial impropriety to the Executive Director of Commercial and Corporate Services via Internal Audit.

6 All Employees

- a) Employees must adhere to legal requirements, internal Council regulations, e.g. Codes of Conduct, and internal control procedures for which they are responsible.
- b) Each employee should make themselves familiar with and comply with the relevant sections of the Anti Fraud and Corruption Policy, including the Fraud Response Plan for Employees and the Council's Whistleblowing Policy.
- c) It is the responsibility of each employee to assist in the prevention and detection of fraud, corruption and financial impropriety within the Council.
- d) Where an employee suspects fraud, corruption or financial impropriety they should immediately report the matter to the Council in accordance with the provisions of the Council's Fraud Response Plan for Employees.
- e) Employees must co-operate with any investigation into allegations of fraud, corruption or financial impropriety.
- f) It is the responsibility of all employees to comply with working procedures laid down within systems and relevant Council procedures and codes of practice.

AUDIT AND GOVERNANCE COMMITTEE

14 December 2012

CORPORATE ASSURANCE MAP - CONSULTATION FOR 2013/2014

Report of the Head of Corporate Assurance and Procurement

1. Purpose of Report

- 1.1 Previously the Audit and Governance Committee has been consulted at an early stage on the development of the Internal Audit Plan for the forthcoming year to give members the opportunity to raise any issues which they feel should be considered.
- 1.2 The internal audit plan and the allocation of resources will need to be more flexible than in previous years given the increased level of changes that will occur across the Council. Based on knowledge of the work of the Council currently, there are a number of areas that are expected to be a priority for 2013/14. These are as follows:
 - Significant support and guidance will be required to help the Council manage risks in developing new service delivery models, including new commercial models.
 - Ongoing support and audit work in relation to new service delivery models following their implementation and their relationship with the Council.
 - Contract management during the construction phase of the New Wear Crossing (SSTC).
 - ICT Cloud development and deployment / trading.
 - Operation of the Corporate Computing Model.
 - Developments in relation to the personalisation agenda.
 - Support plans to address the Council's budget pressures.
 - Establishment of the Local Asset Backed Vehicle.
 - New Public Health responsibilities.
 - Family Focus and the development of the Strengthening Families agenda.
 - Operation of the local schemes for Council Tax Support and Business Rates.
 - Migration of services to the Customer Service Network.
 - Projects to support economic development.
- 1.3 A discussion will be held at the Committee to seek its input for the Corporate Assurance Map, and the plans of work for Internal Audit and Risk and Assurance for 2013/14.

2. Recommendation

- 2.1 The Committee is asked to consider and comment on the areas mentioned above and any additional areas which should be considered.