

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

**Present:-**

Mr G N Cook in the Chair

Councillors Allan, Arnott, M Forbes, Wares, T Wright and Mr J P Paterson.

**Declarations of Interest**

The following Councillors declared personal interests in the report below for the reasons indicated:-

Item 8 – Property Services – Review of Lease Management Arrangements	Councillor Arnott	Rents car parking space from Local Authority
	Councillor T Wright	Rents two business units from Local Authority

**Apologies for Absence**

There were no apologies for absence.

**Minutes**

1. RESOLVED that the minutes of the meeting of the Committee held on 30 September 2008 be confirmed and signed as a correct record.

The Chairman highlighted that the objection to the accounts was still with the Audit Commission for determination and they were taking legal advice.

**Audit Commission Annual Audit and Inspection Letter and Comprehensive Performance Assessment (CPA) Scorecard 2008**

The Chief Executive and City Treasurer submitted a report summarising the findings of the Audit Commission's Annual Audit and Inspection Letter for 2007/2008 and appending it.

Lynn Hunt, the Audit Manager, introduced the Audit Commission's Letter which provided an overall summary of the Commission's assessment of the Council,

drawing on audit, inspection and performance assessment work. The Annual Audit and Inspection Letter confirmed the outcomes of the Comprehensive Performance Assessment (CPA) 2008; that Sunderland has maintained its rating as a Four Star Council and is 'improving well' in its Direction of Travel. It was also highlighted that the Council had scored 3 or 4 in all areas which were assessed as part of the CPA.

Lynn Hunt reported that the focus of the Audit Commission's work was on the issues raised in the Corporate Assessment two years ago and the Letter recognised the improvements made. The letter also outlined areas where the Audit Commission feel that the Council needs to take action. It states that the Council needs to:

- complete its whole city regeneration masterplan, including a focus on small and medium size businesses, reinvigorating the City Centre and key sites, and addressing the impact of the recession;
- ensure the actions it, and its partners, are taking to reduce the health inequalities experienced by people in Sunderland are effective through regular updates and monitoring of progress;
- ensure all scrutiny committees are able to demonstrate that they are making a clear contribution to performance management;
- further develop its asset management strategies to make clearer how assets are being used to deliver corporate priorities; and
- in providing equalities to develop local outcome targets with specific commitments to improve services for local people.

Councillor Allan stated that it was a very pleasing message from the Audit Commission particularly the score of 4 out of 4 for Use of Resources. The Council had shown a strong improvement from an already strong position but it was acknowledged that there were always areas which could be improved further and the review and key actions identified were welcome. Councillor Allan highlighted that the economic masterplan was being compiled and he was confident it would be strong and meet the approval of the Audit Commission. He also reported that major strides had been made in the approach to health inequalities although it was recognised that there was still more to do.

Councillor Allan thanked the Audit Commission and highlighted how useful it was to have this objective opinion.

The Chairman requested that the Committee be provided with details of the work being done on the economic masterplan and the asset management plan to see how things were being taken forward.

Councillor Wright supported Councillor Allan's comments that the Audit Commission's Letter was very pleasing and welcomed their focus on making scrutiny more effective. He supported the issues raised regarding the regeneration masterplan for the whole City and said that he took great pride in the regeneration of the City and believed the Council was getting it right.

Councillor Wright also welcomed the emphasis placed on reducing health inequalities and commented that there was a legacy of poor health from the shipyards and coalmines as well as problems generated by a culture of smoking and drinking. The Council and City Hospitals had a lot of work to do to address these issues.

With regard to the actions relating to scrutiny, Councillor Wright advised that the Council had recently appointed a 'Head of Scrutiny' who would be leading the development of this function. Councillor Wright commented that it was a pleasing report overall and all of the areas which had been identified for specific action were already being looked at by the Council. Any recommendations would be accepted and Officers would ensure that improvements would be made.

Councillor Arnott echoed the congratulations of Councillors Allan and Wright to Council Officers for maintaining the four star rating of the Council. He highlighted that there were many things that the Council did well but there were areas where they had not made progress such as the Vaux site and the seafront. He also made reference to the Scrutiny Working Party, of which he was a member, which was doing a lot of good work, however he expressed concerns about the failure to distribute scrutiny responsibility to Opposition Members.

Councillor Forbes concurred with the point raised about opposition involvement in scrutiny. She noted that reducing sickness absence had again been highlighted for action and queried how the Council could improve its performance in this area. Councillor Forbes commented that the user perception of the Council had improved but further work needed to be done to identify why the public were not fully satisfied with the Authority.

Councillor Forbes made reference to the BSF projects delivering expected outcomes and suggested that a strategy on this could be monitored through the scrutiny process. She also congratulated Officers on the maintenance of the four star rating, particularly the excellent score for Use of Resources. She expressed her wish that the Council would continue to improve and achieve highly under the new system and noted that this would lead to comparators being available with other Local Authorities.

In acknowledging that there would be an uphill struggle in relation to historical health issues, Councillor Forbes drew attention to the new 'timebomb' which existed in relation to drugs, alcohol and sexually transmitted infections. She agreed with the need to develop a regeneration masterplan for the whole City but observed that the current economic downturn may mean that some of the Council's priorities had to be revisited.

The Audit Commission's Audit Manager explained that it was intended that for future assessments, star ratings would be replaced with a flag system which would be more detailed. The idea behind this was to move away from an overall score to being able to concentrate on strengths and weaknesses. The Audit Commission was not intending to publish league tables but Comprehensive Area Assessment (CAA) reports would be published by Christmas each year. The Chairman commented that there had been a sea change in how these assessments would work and suggested it would be useful to have a document which clarified what would be happening.

With regard to sickness absence within the Authority, the City Treasurer reported that there had been a steady decline in the figures over the last four to five years and Health, Housing and Adult Services had reduced their figures considerably by the equivalent of two days per annum per employee. Additional resources had been put into the Occupational Health function and there was now a two week wait for an appointment where previously, this had been up to six weeks. There was also a pilot exercise in place involving 600 Council staff which identified staff likely to experience poor health and seek to put them in preventative programmes to achieve improvements to their future and current health. There was also an improvement group within the Council charged with identifying actions to improve sickness absence.

Councillor Allan added that he, the Chair and Vice-Chair of Personnel Committee and the Corporate Head of Personnel had been working on reducing absence and there were more initiatives in the pipeline. Attendance was improving steadily but not as quickly as the Authority would like. Investments had been made so that there were extra medical staff available to assess and support the return of staff to work.

The Chairman concluded by saying that the Audit and Inspection Letter was one of the best he had seen and showed how the Council responded to its population. It was beneficial for the Council to be tested in a number of ways to see how it was working and the Council should be congratulated on its performance.

Having considered the report, it was:-

2. RESOLVED that the Audit Commission's Annual Audit and Inspection Letter be received and noted.

### **Comprehensive Performance Assessment – Use of Resources – Auditors Judgement 2007/2008**

The City Treasurer submitted a report advising the Committee of the outcome of the Comprehensive Performance Assessment – Use of Resources – Auditors Judgement 2007/2008.

The current Use of Resources Judgement evaluates how well Councils manage and use their resources and covers five themes:-

- Financial reporting;
- Financial management;
- Financial standing;
- Internal control; and
- Value for money.

The Council had retained an overall score of 4 out of 4 with improvements made in the area of financial reporting. There had been a reduction in the score for the Council's arrangements for maintaining a sound system of internal control and this related to the consistency of scrutiny and the need to strengthen ICT disaster recovery arrangements.

The Audit Commission's Audit Manager advised that as part of the move towards the CAA, this would be the last Use of Resources Judgement in this format. The methodology and areas for assessment would change and the test would be tougher in the future.

Having considered the report, it was:-

3. RESOLVED that the Use of Resources Judgement be received and noted.

### **Internal Audit Operational Plan 2009/10**

The City Treasurer submitted a report presenting the proposed Internal Audit Operational Plan for 2009/10.

The Assistant City Treasurer (Audit and Procurement) provided an overview of the proposed Plan and highlighted key points within the Plan. He made particular reference to the increase in time allocated to counter fraud work within the Plan as historically, during periods of economic downturn there was an increase in fraud. Efforts would also be made to raise fraud awareness across the Council.

It was highlighted that a significant amount of work had been undertaken to improve the Council's ICT disaster recovery arrangements, which had previously been judged to be unsatisfactory. An update on this would be provided in the Internal Audit Annual Report for 2008/2009. It was also reported that an Audit Issues Bulletin would be circulated periodically highlighting some of the main issues (in general terms) that had been identified during audit work, to maximise any learning or improvements that could be made.

The Assistant City Treasurer (Audit and Procurement) drew attention to the Internal Audit Services Objectives Key Performance Indicators and Targets and highlighted that the target for number of days between the date of the end of fieldwork to issuing the draft report had been reduced from 15 to 10 days. A new target had also been added to improve the time taken from the start of an audit to its completion. The Assistant City Treasurer stated that he was confident that the Internal Audit Plan met the necessary statutory obligations and would provide sufficient coverage in order to allow him to provide an opinion to the Committee in the Annual Report.

Councillor Wright made reference to the work around ICT disaster recovery arrangements and enquired if someone who specialised in ICT would be responsible for auditing this area. The Assistant City Treasurer reported that internal auditors were not experts in all the Council does, but were experts in internal control and were all trained and qualified to different levels. However there were two trained specialist IT auditors who had a specialist qualification in computer auditing. If it was felt that there was any gap in competence or skills then resources would be made available to buy in external expertise.

Councillor Wright also asked if the Authority would carry out internal audits on the new Academies and it was stated that the Academies were separate to the Council but issues such as the transfer of assets were to be reviewed by the internal audit team as part of the planned work for 2009/2010.

The Chairman expressed an interest in the role of Internal Audit in looking at systems and the link with performance. The Assistant City Treasurer acknowledged that there was a tendency for auditors to focus on systems and controls which should lead to the expected performance and that he would reinforce with his staff the need to consider performance arising from these systems.

In relation to counter fraud work, Councillor Forbes expressed concerns that the amount of personal data held by the Council could offer opportunities for ID theft. The City Solicitor assured the Committee that the Council was alive to this issue and that a plan was being developed throughout the Council to respond to the recent guidelines issued by the Government on Data Protection. Internal Audit would review these processes.

Following discussion, it was:-

4. RESOLVED that the Internal Audit Operational Plan 2009/2010 be endorsed and noted.

### **Corporate Risk Profile**

The City Treasurer submitted a report detailing the current Corporate Risk Profile following an earlier review together with recommended amendments and the proposed actions.

The Head of Risk Management and Insurance Services highlighted aspects of the report and drew attention to a new risk issue being added for the 'Sunderland Strategic Transport Corridor'. It had also been recognised by the Corporate Risk Management Group that the global financial crisis could have major implications for the Council and the Risk Profile includes broad actions to monitor and review the ongoing position to identify possible service and financial impacts on the Council.

The Profile had also been amended to take into account previous comments by the Audit and Governance Committee and now more clearly identifies actions which have been completed, actions which are on target, actions which have not met deadlines and any new actions identified.

Councillor Arnott made an observation on the risk for 'failing to improve the City's image' was described in very general terms and he would feel more comfortable if this was tighter. The City Treasurer agreed that the evidence and views of Officers which had led to that statement were not shown. The Chairman commented that the Profile was a useful snapshot of what the Council does but it would be helpful if there was a key for the acronyms used in the Profile.

Councillor Allan congratulated the Risk Management Service on their contribution to the CPA Scorecard as the Council had been rated in the top two in the country for risk management since the CPA began.

It was noted by Councillor Wright that the Profile had been reviewed in November 2008 but was only being presented to the Committee now. The City Treasurer explained that this was due to the schedule of meetings for the Committee but if

there was a particular issue, a meeting would always be arranged so that Members could be made aware of it at the earliest opportunity.

Having considered the report, it was:-

5. RESOLVED that the Corporate Risk Profile be received and noted.

### **Property Services – Review of Lease Management Arrangements**

The Director of Development and Regeneration submitted a report outlining the improvements that have been put in place following the completion of a review by the Audit Commission into lease management arrangements.

The Audit and Governance Committee had considered a report at its meeting on 30 September 2008 which detailed the outcomes of the review by the Audit Commission into lease management arrangements. Outstanding items which were highlighted for improvement were:

- The adoption of a rent concession policy;
- The use of private sector rent comparators;
- Improved timescales for completing rent reviews and monitoring compliance with lease terms.

A policy for rent concessions was adopted by the Cabinet in October 2008 and written procedures have been updated to include the requirement to obtain private sector rent comparators where possible when completing rent reviews.

A system has been put in place to monitor progress relating to discrete stages of reviews to ensure improved performance in the time taken to complete rent reviews is achieved.

The extent to which these improvements have been embedded and realised will be assessed by the Internal Audit Service in 12 months time. The Chairman requested that this assessment be reported back to the Audit and Governance Committee in due course.

Councillor Forbes asked Officers to elaborate on the written procedures which have been developed for the review of compliance with lease terms. The Valuation Manager explained that rent reviews in respect of commercial leases were usually at three or five year intervals and compliance with lease conditions would be checked at each rent review. Rent reviews in respect of ground leases were usually at longer intervals, however the procedure would be re-visited to cater for a more frequent inspection regime.

Councillor Forbes highlighted that the particular lease which had led to these issues being brought to light was a ground lease and she was concerned that the new procedures would not address lack of compliance in a timely fashion with such leases. The City Treasurer advised that, whilst he had not seen the new procedures, it was the intention to avoid a situation where problems were occurring and then not being picked up and would ask the Head of Land and Property to consider the issue raised by Councillor Forbes. The Chairman stated that the Committee needed to be

assured that matters of compliance with the terms of longer leases were being dealt with.

It was:-

6. RESOLVED that the improvements put in place for lease management arrangements be noted and the Head of Land and Property be requested to provide assurances that the compliance with lease terms for ground leases was being monitored appropriately.

(Signed) G N COOK  
Chairman