

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on FRIDAY 22 MAY 2009 at 1.30pm.**

**Present:-**

Mr G N Cook in the Chair

Councillors Allan, M Forbes and Mr J P Paterson.

**Declarations of Interest**

There were no declarations of interest.

**Apologies for Absence**

Apologies for absence were received from Councillors Arnott, Wares and T Wright.

**Minutes**

1. RESOLVED that the minutes of the meeting of the Committee held on 27 March 2009 be confirmed and signed as a correct record.

The Head of Land and Property advised that he had written to Members confirming and clarifying matters relating to lease management.

**Annual Review of Effectiveness of Internal Audit**

The City Treasurer and City Solicitor submitted a report setting out the findings of the Annual Review of the Effectiveness of Internal Audit as required by the Accounts and Audit Regulations 2003.

The methodology for the review was approved by the Committee in March 2007 and was as follows:-

- Internal Audit Services undertake an annual self-assessment based on a checklist within the CIPFA Code;

- The self- assessment is independently reviewed by the Council's external auditors; and
- The City Treasurer and City Solicitor jointly consider the findings of the self-assessment and Audit Commission review and report their findings to the Audit and Governance Committee.

The self-assessment concluded that the Council's internal audit arrangements continued to comply with the CIPFA Code, however, as the Audit and Governance Committee has been in place since 2006 it was now considered appropriate that the Committee undertake a formal review of its remit and how effective it has been in fulfilling its role.

Lynn Hunt, Audit Manager for the Audit Commission reported that their review of the effectiveness of Internal Audit Services (IAS) included an assessment of the IAS Quality System, consideration of the CIPFA Standards for Internal Audit and a review of a sample of audit files.

The Audit Commission believe that it is the role of Internal Audit to provide assurances to management that controls are operating well and the Commission were satisfied that Internal Audit do a good job in that respect. The programme was focused on governance arrangements and probity and the breadth of work undertaken was impressive. The service was well resourced and complied with the vast majority of a demanding set of performance targets.

Lynn Hunt added that whilst the Internal Audit Plan was considered by members of the Committee at its meetings in March each year she suggested that the Committee should consider how they may be more involved in shaping the Internal Audit programme. The Chair commented that this issue would be considered at the proposed workshop session.

Mr Paterson drew attention to the section of the self-assessment relating to the responsibilities of the individual auditor and queried which mechanisms could identify compliance with the standards. The City Treasurer explained some of the methods used to assess compliance and stated that a conclusion was reached based on the information and evidence available. The Assistant City Treasurer (Audit and Procurement) stressed that in relation to these standards the assessment that they were being met (or otherwise) was his opinion based upon the information available.

Councillor Forbes referred to standards relating to partnership arrangements and asked how the Council was satisfied that assurances provided by other auditors for external partnerships were appropriate.

The Assistant City Treasurer (Audit and Procurement) advised that where the Council was a member of a Partnership where audit work was carried out by another body, then a third party assurance could be sought. In relation to the South Tyne and Wear Waste Management Partnership such an assurance had been sought and received from the Head of Internal Audit at Gateshead. This assurances would have to be provided by a professionally qualified person as they were bound by their

professional institute's standards but there was also scope for the Council's Internal Audit to carry out some work of its own, if deemed appropriate.

The City Treasurer stated that a Partnership Code of Practice existed to govern how the Authority engaged with Partnerships and listed the responsibilities of each partner and what the internal checks and balances would be. Partnership arrangements allow rights of access to inspect books and other documentation and following an offer to make this available, Councillor Forbes asked for this to be made available to her.

Turning to the proposal to hold a workshop for the Audit and Governance Committee, the Chairman suggested that he prepare a paper to use as a basis for discussion at the event. Members of the Committee felt this would be a good way to proceed.

Having considered the report, it was:-

2. RESOLVED that:-

- (i) the outcomes of the review of the effectiveness of the internal audit arrangements be noted; and
- (ii) the holding of a workshop in July in order to review the remit and effectiveness of the Committee be agreed.

### **Treasury Management in Local Authorities**

The City Treasurer presented a report which summarised the key findings of the report 'Risk and Return' issued by the Audit Commission in relation to treasury management practices in Local Authorities, the summary position in relation to the City Council and recent draft guidance issued by CIPFA in this regard.

Following the collapse of the Icelandic banks in October 2008, the large sums of public money on deposit within financial institutions in and outside the UK was highlighted. The Audit Commission had responded to this by undertaking a review of Local Authority treasury management practices in a document titled 'Risk and Return: English Local Authorities and the Icelandic banks'.

The recommendations of the Audit Commission in relation to treasury management were outlined and the City Treasurer highlighted Sunderland's current position and the action which was proposed in response to the recommendations. Actions which related directly to the Audit and Governance Committee included revising the Committee's terms of reference to include treasury management and for Members to receive specialist training on the subject. The Chairman suggested that this training could be done at the same time as the workshop for the Audit and Governance Committee.

In response to a query from Councillor Forbes, it was confirmed that the management of the investments made in relation to the Tyne and Wear Local

Government Pension Scheme was governed by a different set of regulations to those for Local Authorities.

Having considered the report, it was:-

3. RESOLVED that:-

- (i) the information provided in relation to the current position within the Council and the recommendations from the Audit Commission be noted;
- (ii) the provision of additional specialist training on Treasury Management for Members of the Audit and Governance Committee be noted;
- (iii) the Committee agrees to the inclusion of Treasury Management in its revised Terms of Reference; and
- (iv) further reports be received on Treasury Management in due course.

### **Review of Asset Management**

Lynn Hunt, Audit Manager and Victor Gallant, Performance Specialist with the Audit Commission presented a report on the review of asset management they had recently undertaken.

In the future, the Comprehensive Area Assessment (CAA) and Use of Resources methodology puts more emphasis on how the Council manages its assets. The Chief Executive had identified this as an area for possible review and the Audit and Governance Committee had also flagged it up as an issue following reports they had received on property issues. The review had an inward and outward looking dynamic, inward towards Council buildings which house services and outward towards how the Council acquires land and uses its property portfolio. The Audit Commission had produced an action plan and discussed it with the Head of Land and Property and he had been satisfied with the content of the report and plan.

Victor Gallant presented the main conclusions of the report which found that the Council was making good progress in developing asset management and highlighted that it was undertaken on a firm corporate basis and there had been some impressive achievements in the area particularly on a partnership basis.

There was more to be done in some areas, and the Audit Commission found that the Council does not have an overall economic plan or clear city-wide strategy for the acquisition of land. There were no area based strategies, worked out with partners, to inform asset management plans. The report also highlighted that the Council's estate is in good condition and meets legislative requirements but some of the information held was not as comprehensive as it could be and it highlighted instances of inefficient asset usage and unsuitable properties. One significant area was non-operational property which it was felt had not been reviewed in a thorough

enough way. The high priority recommendations from the review were outlined as follows:-

- The Council should ensure that a more specific asset strategy is developed based on:
  - an overall assessment of accommodation requirements arising from key service requirements and aspirations over five to ten years;
  - an overall area delivery strategy, developed in conjunction with partners; and
  - regeneration and economic development needs across the City.
- The Council should undertake a strategic review of land acquisition requirements and opportunities.
- The Council should ensure that a comprehensive and robust review of all assets is undertaken. This should be based on up to date data.

There were ten other recommendations in the action plan with low and medium priority ratings.

Colin Clark, Head of Land and Property advised that he broadly concurred with the conclusions of the report and felt a lot of the strands were genuinely corporate and the action plan would be taken forward with the support of the Audit Commission. The Chairman requested that progress against the action plan be reported back to the Committee.

Councillor Forbes enquired if there would be a register of all land and buildings available once the asset base had been identified. The Head of Land and Property stated that the Council holds a land terrier which was a record of the Council ownership of land and an exercise had recently been completed with the land registry which confirmed the Council's land title in the City.

The Chairman highlighted that what was done with the land was the most important factor and whether the existence and location of Council owned land was flagged up at the right time. Councillor Forbes also said it would be helpful if Members could have knowledge of when assets were disposed of for less than best consideration. The City Solicitor advised that he and the City Treasurer monitored Cabinet reports and would scrutinise any such proposal and that specifically, the reasons for a disposal of assets must be clearly stated and the benefits be proportionate to the value gained.

Councillor Forbes went on to enquire whether, in relation to maintenance, priority was given to unused buildings. The Head of Land and Property replied that the first priority was health and safety and the main focus was on buildings used by the public. Listed buildings in the main were in a fit state and the service was hoping to focus on certain issues and bring them further up the priority list. The City Treasurer added that in relation to the recommendations from the Audit Commission, the Council would be looking at rationalisation and the policy direction would be towards

a more effective use of existing property and a reduced reliance on office accommodation including through adopting more flexible ways of working.

Upon discussion, it was:-

4. RESOLVED that the Review of Asset Management be noted and a further report detailing progress made against the action plan recommendations be presented to a future meeting of the Committee.

(Signed) G N COOK  
Chairman