

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on TUESDAY 30 JUNE 2009 at 1.30pm.

Present:-

Mr G N Cook in the Chair

Councillors M Forbes, Wares and Mr J P Paterson.

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

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

Minutes

5. RESOLVED that the minutes of the meeting of the Committee held on 22 May 2009 be confirmed and signed as a correct record.

Internal Audit Services Annual Report for 2008/2009

The Director of Financial Resources submitted a report which provided details of the performance of Internal Audit Services (IAS) during 2008/09 and an opinion on the overall system of control in place within the Council. The report also included performance information in relation to Internal Audit Services provided to associated bodies.

Tracy Davis, Audit and Counter Fraud Manager provided an overview of the report and stated that the Internal Audit Plan for the year had been agreed in March 2008. The Plan included 120 audits, of which 117 had been completed which was a performance of 97.5% against the target. A further nine unplanned audits were undertaken during the year, utilising the contingency time set side in the Plan.

Internal Audit recommendations were still categorised as high, medium or low risk, but a new category of "significant" had been introduced to reflect issues which could have a wider impact than on the service or area being audited but would not put at risk the achievement of the audited body's objectives. Two significant

recommendations were made during the year in relation to an audit of the Service Transformation Project.

Audits had been undertaken in relation to the Council's key financial and non-financial systems and opinions were either satisfactory or good. One exception was the ICT Disaster Recovery arrangements and the position in relation to this was outlined in the report.

The Internal Audit Annual Report for 2007/2008 had recorded an unsatisfactory opinion in respect of Disaster Recovery/Business Continuity arrangements in relation to ICT. Since this judgement was made, Internal Audit Services had been closely monitoring the work carried out by ICT Unit and this had steadily progressed. The overall position had improved over the last year, however the recovery of key applications was still unsatisfactory.

24 key applications had been defined by Directorates and the status of each had been analysed and rated as green, amber and red. As of March 2009, six applications were green, 16 were amber and two were red. Steve Leggetter, Corporate Head of ICT, was in attendance at the meeting and advised that the position was now that eight applications were green and 16 were amber. Work was continuing and it was expected that all applications would have a green status by the end of the financial year.

In respect of audits on the use of grants received, there was one target where evidence could not be provided for the Performance Reward Grant and a fresh claim was to be made, with evidence, in 2009/2010.

All schools were required to achieve the Financial Management Standard in Schools and Internal Audit had been charged with assessing the City's schools compliance with the standard. The service was on target to have assessed all 114 schools by the end of 2009/2010.

Further awareness raising had been done in relation to counter fraud work and an e-learning package had been introduced for employees. Work had also been done to identify potential fraudulent activity which had included a review of purchase orders, however no fraudulent activity had been discovered.

Follow up audits were conducted to ensure that agreed audit recommendations are implemented. The target was for 100% of high and significant risk recommendations and 90% of medium risk recommendations to be implemented in accordance with the agreed timescale. The performance stands short of the target at 84% excluding schools.

Internal Audit had also carried out investigation work in response to concerns raised by Internal Audit, management and by third parties but no issues investigated had an impact on the overall control environment.

Post Audit Questionnaires were issued to clients and average scores in all areas were between good and satisfactory. IAS also took part in a benchmarking survey where the overall average rating of the service was excellent. The Audit Commission had also given a positive opinion on the service.

Councillor Forbes queried if audits which had been planned but not completed during 2008/09 would be carried over to 2009/2010. Tracy Davis informed the Committee that it had been subsequently found that an audit certificate was not required for the Winter Festival Grant as no grant was to be received within 2008/2009. The other two outstanding audits had been rescheduled for 2009/2010.

In response to a question from the Chairman about the Performance Reward Grant, it was confirmed that there should be no loss to the Council and all the grant would be paid if the evidence to be provided was sufficient.

The Chairman drew attention to the breakdown of the implementation of risk recommendations by Directorate and commented that certain areas had a low implementation rate. He asked that this be monitored and brought back to the Committee as they would like to be assured that the work of Internal Audit was being respected by Council directorates. The Director of Financial Resources stated that he felt this had been the first backward step in terms of implementation and he would raise the issue with the Chief Executive.

Having considered the report, it was:-

6. RESOLVED that:-

- (i) it be noted that Internal Audit Service was being delivered in accordance with statutory responsibilities and was continually seeking to improve the standards of its service; and
- (ii) based upon the information provided within the report and other reports provided to the Committee throughout the year, which had drawn on the cumulative knowledge and experience of the systems and controls in place by Internal Audit including the results of previous audit work and work undertaken within 2008/2009, it was considered that overall throughout the Council there continued to be a sound internal control environment. Where areas of improvement had been identified, The Committee noted that recommendations had been made to minimise the level of risk, and action plans for their implementation had been drawn up and agreed by management.

Risk Management Annual Report 2008/2009 and Policy Statement and Strategy – Review and Update

The Director of Financial Resources submitted a report which set out arrangements for the management of risk in place during 2008/2009, proposals for future improvement and development and the outcome of a review and updating of the Risk Management Policy Statement and Strategy to reflect and respond to the latest

understanding, importance and demands of Risk Management within all types of organisations.

The Head of Risk Management and Insurance Services outlined the report and drew attention to the Risk Management Framework operating within the authority. A Corporate Risk Management Group operated across the authority comprising the Deputy Director of Financial Resources, Head of Risk Management and Insurance Services and the Chairs of Directorate Risk Management Groups. Each Directorate was required to establish a Risk Management Group in order to ensure and demonstrate adequate and effective risk management arrangements.

During 2008/2009, the Council undertook the process of producing a completely new Corporate Risk Profile. The Council and its external advisors, Marsh UK, are currently agreeing and finalising the document which would then be presented to the Executive Management Team, Cabinet and Audit and Governance Committee for consideration and approval in due course.

The British Standards Institute (BSI) had published guidance on risk management and whilst this was not statutory, the Council was checking that their risk management systems and processes were in alignment with the document. The report also highlighted the successful work done with schools in the area and the external recognition received through the CPA Assessment and the ALARM National Awards.

With regard to the review of the Corporate Risk Profile, the Chairman asked if by going back to basics, it was expected that anything surprising would come up outside what was already done. The Head of Risk Management and Insurance Services stated that although it could not be ruled out, he was confident there would be no major surprises. He advised that this was the reason for having independent advisors involved from the beginning of the process who had carried out interviews with elected Members, Officers and the Chair of the Sunderland Partnership.

Mr Paterson congratulated the Council for receiving the top score of 4 for the Risk Management element of the CPA Assessment and enquired which was the other authority who had also received this score from the inception of CPA. The Head of Risk Management and Insurance Services reported that the other authority was St. Helen's and Sunderland had taken the opportunity to have an exchange of views with them on the subject and their approach.

Councillor Forbes queried how the Risk Management Strategy would be rolled out across partnerships and how they would become aware of the necessary requirements. The Head of Risk Management and Insurance Services advised that each significant partnership had its own risk register which detailed areas of concern and the need for controls if required. The Director of Financial Resources added that the relationship between the Council and any third party had to be defined and officers work together to ensure that the relationships are defined and fully understood. Partnership Risk Registers would flag up issues of uncertainty over funding and are being rolled out to cover to all other partnerships across the Council.

Accordingly, it was:-

7. RESOLVED that:-

- (i) the Annual Report on the Corporate Risk Management arrangements in place during 2008/2009 be noted;
- (ii) the proposals for future improvement and development be noted;
- (iii) the Council's Risk Management Policy Statement and Strategy be noted; and
- (iv) on the basis of the report and the other reports made to the Committee, including evidence of the effectiveness of the arrangements in place, arrangements for managing risk within the Council are considered sound.

Annual Governance Review 2008/2009

The Director of Financial Resources and the Chief Solicitor submitted a joint report providing details of the findings of the 2008/2009 Annual Governance Review and to seek approval for the draft Annual Governance Statement, prior to its inclusion in the Statement of Accounts.

The Director of Financial Resources reported that the review sought to capture evidence, through the views of employees, stakeholders, third parties and inspectorates about internal control arrangements. The annual review was led by the Head of Audit and Procurement and the Corporate Governance Steering Group had drawn on all available intelligence to come to its findings. The most important element was the identification of areas where improvements were needed and an Improvement Plan had been drawn up for this and was included as Appendix 1 to the report. The progress made regarding the 2008/2009 Improvement Plan was shown at Appendix 3.

The Chairman referred to the action to facilitate the involvement of Councillors in the governance review process and asked how this was to be addressed. The Director of Financial Resources reported that member questionnaires did not have a good response rate and officers felt that they wanted to engage more with Members so that they could contribute to the process through working groups or other forms of consultation.

Councillor Forbes welcomed this action and said that it was difficult for many Councillors to understand how the system worked and the relevant linkages involved. She felt that a workshop to explain the whole basis of the system to Members would be useful. Councillor Wares agreed that this would be ideal for Members.

The Chairman commented that the report was very comprehensive and helpful and drew attention to the fact that the Audit and Governance Committee itself would be

under scrutiny at its workshop next month. He noted that the 'vision' of the Council was mentioned throughout the report and requested that the Committee receive more information about that vision at its next meeting in September.

Upon consideration, it was;-

8. RESOLVED that:-

- (i) the findings of the 2008/2009 Annual Governance Review be noted;
and
- (ii) the Annual Governance Statement be approved.

Audit Fees 2009/10 and 2008/09

Lynn Hunt, Audit Manager submitted a letter detailing the audit work proposed for the 2009/2010 financial year and the audit fees.

The Audit Commission had published its scales of fees for 2009/2010 and the scale fee for Sunderland City Council was £330,240. This was a 3% increase on 2008/2009, but actually represented 5% below the scale fee for an authority of Sunderland's size.

The scope of the audit work was governed by the Code of Audit Practice and Statement of Responsibilities and did not just cover the financial statements but also the Use of Resources and Value for Money elements which were gaining more prominence. In the forthcoming year, assessments would also be made of workforce planning and Human Resources Management and the increase in fees reflected that.

Due to there being a relatively small number of errors in Sunderland's financial statements, the Audit Commission's overall assessment was that it was a low risk audit and the Audit Manager indicated that she was confident that the work could be delivered for the stated fee. No changes were envisaged for the 2008/09 fee.

The Director of Financial resources noted that it was pleasing that the fee was below the scale fee.

It was:-

9. RESOLVED that the Audit Fees for 2008/09 and 2009/10 be noted.

Statement of Accounts 2008/2009 (Subject to Audit)

The Director of Financial Resources submitted a report presenting the Statement of Accounts for the year 2008/2009 to the Committee for approval, subject to audit.

The Director of Financial Resources drew attention to the timetable for the Audit of the Statement of Accounts and reported that the earlier closure of the accounts was driven by the requirement to more closely match those governing private sector audits and to enable the timely publication of the Whole of Government Accounts.

The Statement of Accounts had been prepared in line with the Statement of Recommended Practice (SORP) 2008 which had introduced some further changes to the accounting requirements.

Members were then referred to the main financial issues arising from the Statement of Accounts 2008/2009 (subject to Audit) and the Director of Financial Resources highlighted the following:-

Revenue Expenditure and Income Summary – the budget had originally been estimated at £243.153 million and the actual expenditure was £268.808 million.

General Reserve – this had decreased by £455,000.

Additions to balances had been achieved through the annual actuarial review of insurance provisions and reserves, debt charge savings, savings in relation to area based grants and unutilised contingencies. Balances had been earmarked to assist with addressing the economic downturn, £3m was to be transferred to the Strategic Investment Reserve and £2m to the Strategic Investment Plan to assist in funding capital investment needs associated with waste management.

Movement on Locally Managed Schools Reserve – this had been increased from £5.601 million to £5.771 million.

Capital Expenditure and Income – this had totalled £123.531 million.

Euro – it was highlighted that the Council's Financial Management System was euro compliant.

Comprehensive Performance Assessment – the Council had received the highest score of '4' and '4 out of 4' for its Use of Resources Assessment.

Building Schools for the Future – the total programme would cost £130 million with the majority of funding being spent in 2008/2009.

Cost of Pensions – this continued to increase year on year and the Council had little control over this as it was statutorily governed by the Local Government Pension Scheme (LGPS) statutes and regulations.

Efficiency – the Council continued to perform well in this area and was rising to the challenges which were being created by the current economic situation.

The Council's Improvement Agenda – there was a need to invest in technology to improve the position moving forward.

Major Acquisitions, Capital Works and Disposals during 2008/2009 – schemes highlighted included BSF projects at Washington, Castle View, Pennywell, Hylton Red House and Biddick and swimming pools at Hetton and Silksworth.

Tangible Fixed Asset Impairments – there had been a 13% reduction in the total land and buildings portfolio value.

Economic Downturn – this had affected the Council's ability to generate capital receipts. The Council was trying to maximise the take up of small business rate relief and was issuing advice to households on dealing with the downturn.

Capital Borrowing – statutory limits had not been exceeded.

Single Status – phase one had been implemented and phase two was progressing. Limited provision for the potential costs of the new scheme had been included within financial plans.

Equal Pay Claims – the Council was defending claims and these would be periodically reviewed to ensure timely and appropriate action was taken where necessary.

Insurance Provision – the Council continued to benefit from reduced insurance premia by successfully managing some risks itself and had been able to return provisions for insurance costs to Council balances in 2008/2009.

Airport Revaluation – this had taken place in the light of the economic downturn and was reflected in the Council's accounts. This was a technical rather than market valuation.

Area Based Grant – this consolidated a number of funding streams.

The Chairman referred to the Income and Expenditure Account for year ended 31 March 2009 and queried the large difference in the value of General Government Grants between 2007/2008 and 2008/2009. The Director of Financial Resources advised that this was a result of the Government amalgamating a number of specific grants into the Area Based Grant. This was now disclosed of as a general grant.

The Chairman noted that the value of long term investments had also increased considerably and the Director of Financial Resources reported that this was due to money previously held as short term investments being invested for longer periods in accordance with the approved Treasury Management Strategy.

Figures for long term borrowing had also decreased by £30m between 2008 and 2009 and it was reported that this was as a result of this borrowing being redeemed during the financial year.

Councillor Forbes asked about the ways Council buildings might be disposed of to another public body. The Director of Financial Resources stated that it was up to the Authority if it wished to dispose of property on a long or short term lease or by

freehold. The Council was under an obligation to get the best possible consideration for land.

Upon discussion, it was:-

10. RESOLVED that the Statement of Accounts for the financial year 2008/2009 be approved subject to audit.

(Signed) G N COOK
Chairman