

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on
Friday 29 June 2012 at 1.30pm

ITEM		PAGE
1.	Receipt of Declarations of Interest (if any)	
2.	Apologies	
3.	Minutes of the Meeting of the Committee held on 23 March 2012 (Copy attached.)	1
4.	Review of Internal Audit 2011/2012 Report of the Executive Director of Commercial and Corporate Services (copy attached).	7
5.	Annual Report – Internal Audit and Risk Management Report of the Head of Corporate Assurance and Procurement (copy attached).	9
6.	Treasury Management Review of Performance 2011/2012 Report of the Executive Director of Commercial and Corporate Services (copy attached).	21
7.	Annual Report - Review of Corporate Governance Arrangements Report of the Executive Director of Commercial and Corporate Services (copy attached).	29

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8.	Annual Report on the Work of the Committee	45
	Report of the Executive Director of Commercial and Corporate Services (copy attached).	
9.	Corporate Assurance Map – Update	49
	Report of the Head of Corporate Assurance and Procurement	
10.	Treasury Management– First Quarterly Review 2012/2013	69
	Report of the Executive Director of Commercial and Corporate Services (copy attached).	
11.	Member Training and Development	83
	Report of the Executive Director of Commercial and Corporate Services (copy attached).	
12.	National Fraud Initiative	85
	Report of the Executive Director of Commercial and Corporate Services (copy attached).	
13.	Single Fraud Investigation Service – High Level Proposals	89
	Report of the Executive Director of Commercial and Corporate Services (copy attached).	
14.	Audit Commission - Interim Opinion Report for 2011/2012	93
	Report of the Executive Director of Commercial and Corporate Services (copy attached).	
15.	Annual Audit Fee 2012/2013 – Update	105
	Report of the Executive Director of Commercial and Corporate Services (copy attached).	

16. **Statement of Accounts 2011/2012 (Subject to Audit)** 117

Report of the Executive Director of Commercial and Corporate Services (copy attached).

Please note that the Statement of Accounts and appendices will be printed separately.

ELAINE WAUGH
Head of Law and Governance

Civic Centre
SUNDERLAND

21 June 2012

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the
CIVIC CENTRE on Friday 23 March 2012**

Present:

Mr J P Paterson in the Chair

Councillor Tate.

In Attendance:

Malcolm Page (Executive Director of Commercial and Corporate Services), Paul Davies (Head of Corporate Assurance and Procurement), Jonathan Rowson (Assistant Head of Law and Governance), Tracy Davis (Audit, Risk and Assurance Manager), John Jordan (Corporate Risk Manager), Ian Rutter (Audit Commission) and Gillian Warnes (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillors Forbes, Rolph, Speding, T Wright and Mr G N Cook.

Minutes

44. RESOLVED that the minutes of the meeting of the Committee held on 10 February 2012 be confirmed and signed as a correct record.

Internal Audit Progress Report

The Head of Corporate Assurance and Procurement submitted a report detailing the performance of Internal Audit up to 24 February 2012, the areas of work undertaken and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

All of the Key Performance Indicators were on target with two exceptions. One of these was the percentage of audits completed by the target date which stood at 74% against a target of 80%, however this was not considered to be of any concern. The percentage for implementation of medium risk recommendations was below target with a specific issue in Health, Housing and Adult Services. The Head of Corporate Assurance and Procurement advised that there were six follow up audits taking place within Health, Housing and Adult Services which were due to be completed by the end of March. These would identify if the overall picture within the Directorate was improving and if this was not the case, senior officers would again be asked to attend the next committee to provide explanations.

Members' attention was drawn to the audit coverage of Key Risk Areas at Appendix 2 of the report and the Committee was informed that the Internal Audit service was on target to complete sufficient work in these areas by the end of the financial year to be able to provide an opinion on each.

Councillor Tate queried the unsatisfactory conclusion on the audit of Access to IT Systems with movement of employees. The Head of Corporate Assurance and Procurement advised that this reflected the fact that there had been occasions whereby ICT equipment had been reissued without being cleansed properly. There were some issues with regard to ICT asset management, i.e. the quality of the ICT inventory. Issues had also been noted with the registering of new equipment on inventories and the security of the ICT build room at Moorside. However, improvements had been made since the audit and the actions agreed would be followed up.

Having considered the report, the Committee: -

45. RESOLVED: -
- (i) that the information regarding progress against the planned audit work for the year and performance targets be noted; and
 - (ii) the opinion that the Council continues to have an adequate system of internal control be noted.

Corporate Risk Profile

The Executive Director of Commercial and Corporate Services presented a report outlining the findings of the most recent review of the Corporate Risk Profile which had been agreed by the Executive Management Team on 13 March 2012.

The new Corporate Risk Profile covered seven strategic risk areas which relate to the delivery of the Council's strategic priorities. These risks were all challenging areas which the Executive Management Team had identified and that would be subsequently monitored to ensure mitigating actions were in place.

Councillor Tate asked about the localisation of business rates within the 'Reduced Resources' risk area and the Executive Director of Commercial and Corporate Services stated that it was likely to be the end of the Autumn before the full information was available. Until it was clear how the system would work, it was not possible to engage with members on the detail of the new arrangements. The Council was in a similar situation with the localisation of council tax and formula grant.

Councillor Tate also made reference to the plan for the armed forces to have a 100% grant for council tax and the Executive Director noted that this would have to be included in any specific considerations. It was already known that 10% would be sliced off the resources available for council tax benefit for the 2013/2014 financial year.

Following discussion it was: -

46. RESOLVED: -
- (i) that the Corporate Risk Profile be endorsed; and
 - (ii) the inclusion of the strategic risk areas within the Corporate Assurance Map be noted.

Corporate Assurance Map 2012/2013

The Head of Corporate Assurance and Procurement presented the proposed Corporate Assurance Map and supporting plans for the Internal Audit and Risk and Assurance teams for 2012/2013.

The Committee had previously approved the introduction of an Integrated Assurance Framework which aimed to co-ordinate the sources of assurance within the Council and identify a clear corporate lead.

Turning to the Corporate Assurance Map, the Head of Corporate Assurance and Procurement explained that the map was split into strategic risks, which were risks to the priorities of the Council, and corporate risks, which were inherent risks that the Council would face, regardless of its priorities.

The Corporate Risk areas were mainly the key audit areas and were colour coded (green, amber and red) to indicate the starting opinion for each area. Where the map was white, this indicated that no work had yet been done to generate an opinion. Management assurance was to be provided by self certification and other assurance would be received from key areas across the Council. The Risk Assurance team would look at systems development and carry out some fraud work and the new Internal Audit team would focus on co-ordinating activity within the Corporate Assurance Map and carrying out audits where an independent level of assurance was required.

The plans of work for the Risk and Assurance and Internal Audit teams were set out in Appendices 1 and 2 of the report and Key Performance Indicators and Targets were at Appendix 3.

Progress would be reported on a quarterly basis and if work carried out altered the starting audit opinion then this would be highlighted in the report to the Audit and Governance Committee. An Annual Report would be provided at the end of the financial year.

The Executive Director of Commercial and Corporate Services commented that the strength of the new system was its proactive and dynamic approach which also enabled the assurance position of the whole organisation to be viewed on one sheet of paper.

Councillor Tate queried if the issue of devolving power to area committees would be added as a risk area. The Head of Corporate Assurance and Procurement advised that the corporate risk areas on the map covered areas such as legality and procurement and these were the cross cutting risk themes which underpinned all parts of the Council, including area committees. These themes would be looked at as a whole and then individual issues highlighted separately.

The Chair asked if there was a timetable for the work within the Corporate Assurance Map and it was explained that the Committee would be able to monitor the progress of work by looking at the areas which were completed on the map at each quarterly update.

47. RESOLVED that the Corporate Assurance Map and supporting plans for the Internal Audit and Risk Assurance teams be received and noted.

Local Public Audit – Update on Auditor Appointment

The Executive Director of Commercial and Corporate Services submitted a report providing an update on the appointment of the external auditor to the Council.

The procurement exercise had been completed and the contract for the North East region awarded to the DA Partnership which would be a wholly owned subsidiary of Mazars and would trade as Mazars DA. The contracts had been awarded for five years and would start in September 2012.

The Audit Commission envisaged that the appointment of external auditors and other efficiencies would generate significant reductions in audit fees for local public bodies. Details of the how the fee reductions would impact on Sunderland would be provided at a later date.

48. RESOLVED that the report be noted.

Proposed Forward Plan of Reports

The Executive Director of Commercial and Corporate Services submitted a report presenting the proposed Forward Plan of reports for 2012/2013.

The Committee were informed that there would be four quarterly meetings at which the Committee would consider the Corporate Assurance Map alongside other reports. An additional meeting was scheduled for February 2013 in order to consider the Treasury Management Policy and Strategy so that it can then be agreed by the Cabinet in February and Council in March, in line with best practice.

Having considered the report, the Committee: -

49. RESOLVED that the Forward Plan of reports for 2012/2013 be agreed.

(Signed) J P PATERSON
Chairman

AUDIT AND GOVERNANCE COMMITTEE

29 June 2012

REVIEW OF INTERNAL AUDIT 2011/12

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 The purpose of this report is to provide members of the Committee with an overview of the Audit Commission's Review of Internal Audit for 2011/12.

2. Description of Decision

- 2.1 Members are asked to note the report.

3. Background

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

4. Findings of the Review

- 4.1 The findings of the review for 2011/12 are attached in the Audit Commission's report. The approach used by the Audit Commission was to conduct a review of Internal Audit's quality system against the requirements of the CIPFA Code and to review a sample of audit files to assess how well the standards are complied with.

- 4.2 The Audit Commission's review highlighted only one recommendation which is shown on page 10 of the attached report. The review concluded that:

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

4.3 The review has confirmed that appropriate arrangements are in place for the provision of Internal Audit in the Council. This is a particularly positive outcome given the amount of change and restructure that the team has been going through recently to enable the Council's new Integrated Assurance Framework to be implemented.

5. Recommendations

5.1 Members are asked to note the contents of the attached report.

AUDIT AND GOVERNANCE COMMITTEE

29 June 2012

ANNUAL REPORT – INTERNAL AUDIT AND RISK MANAGEMENT

Report of the Head of Corporate Assurance and Procurement

1. Purpose of Report

- 1.1 To consider the performance of the Internal Audit and Risk Management teams for 2011/12, and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

2. Description of Decision

- 2.1 The Audit and Governance Committee is asked to consider the report.

3. Internal Audit Performance

- 3.1 Performance against the agreed KPIs is shown in Appendix 1.

- 3.2 All KPI's were met with the following 2 exceptions:

- Percentage of audits completed by the target date (from scoping meeting to issue of draft report). The actual performance was 74% against a target of 80%. This is mainly due to support work being required by managers across the Council due to the amount of change that is currently underway and the availability of clients. It is not of concern.
- The percentage of medium risk recommendations implemented as at the end of the year stood at 87% (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 - Feb	Implementation Rate - Mar
Children's Services (non schools)	88%	88%
City Services	90%	94%
Office of the Chief Executive	82%	85%
Commercial and Corporate Services	97%	93%
Health, Housing & Adult Services	56%	74%

Implementation Rate (exc. schools)	80%	87%
Schools	85%	86%
Total Implementation Rate	82%	86%

It can be seen that Health, Housing and Adult Services have improved their rate significantly since the last report. As has previously been mentioned, the Directorate has put new monitoring arrangements in place in relation to the implementation of recommendations, the results of which are now starting to materialise. The implementation rate is calculated based on the last 10 follow ups undertaken. From these 10, nine follow ups now have a 100% implementation rate. The remaining one relates to Personalisation and work is ongoing with the client to address this.

4. Summary of Internal Audit Work

4.1 The audit opinion for the audits completed within the year is shown in Appendix 2 along with the overall opinion based on the current and 2 previous years audit work. Of the 100 planned audits, 93 audits were completed. Three have been cancelled as they were no longer required, they are ICT Procurement, Stroke Care Grant and Information Governance at Beamish Museum, therefore 96% of the audit plan has been completed. The remaining four audits have been deferred and will be completed in 2012/13. In addition, five unplanned audits have been completed.

4.2 Internal Audit previously carried out proactive advice and guidance work in many areas across the Council where procedures and arrangements were being developed or changed. This work is important in helping the Council build appropriate controls into new systems or procedures and helps to provide assurance that risks are being considered and managed, where appropriate. Guidance has been provided in relation to the following key areas:

- Advice was provided in relation to the new procedures implemented in relation to the new cashiers service which opened in the new customer Service Centre on 4th July 2011.
- A review of the implementation of the action plans in response to the Safeguarding Serious Case Review in Children Services has been completed. The Executive Director of Children's Services wrote to pass on his thanks for the "robust" and "helpful" work.
- Advice was provided during the development of procedures to manage employees who were or would be working in the SWITCH team.
- Support is continuing with the implementation of the Local Authority Controlled Company, Care and Support Sunderland Limited.

- Internal Audit are advising the project board which is assessing options for the future delivery of care and support services to adults.
- Support for the future arrangements for managing Events within the City is being provided.
- Proposed changes to the way personal budgets are administered in relation to social care are being reviewed.
- Support has been provided for the project to facilitate savings through staff taking early retirement. This work will continue to ensure that robust arrangements are in place.
- The Council has purchased a replacement customer relationship management system for which support is being provided regarding its implementation.
- The Council is currently implementing a new Corporate Computing Model (CCM) involving the planning, design, and implementation of an end to end solution for server and end-user computing delivery. Internal Audit staff are working in conjunction with ICT, Risk Management and 3rd party partner organisation staff in supporting the implementation of this major project.

4.3 Specific work aimed at detecting fraud, misappropriation or errors which may have resulted in financial loss has been completed in the following areas, with no areas of concern being identified:

- Follow up of the National Fraud Initiative (NFI) 2010, resulting in:
 - ◆ 22 housing benefit overpayments of £149,163.26, which is now in the process of being recovered. Six further cases are also ongoing.
 - ◆ Nine duplicate creditor payments were found totalling £20,683.78, and the resulting overpayments have all been recovered.
 - ◆ No other concerns were highlighted in the other areas reviewed.
- Payment of honoraria and acting up allowances
- Foster care payments
- Gifts and hospitality
- Income arrangements at the Aquatic Centre
- Processes to obtain low value goods / services
- Use of grant monies awarded
- Arrangements for accounting for cash and bank balances
- The Council's arrangements to respond to the Bribery Act 2010
- Use of agency workers
- Security and use of fuel / vehicles
- Legal agreements for ICT hosting arrangements

5. Summary of Risk Management Work

- 5.1 The Committee agreed the first formal Risk Management Annual Plan for 2011/2012 in March 2011. This Plan set out how the Corporate Risk Management team would seek to fulfil its role within 2011/2012 and meet the 3 new agreed objectives (as set out below), whilst recognising the need to remain flexible given the level of expected changes within 2011/2012 and onwards. Outlined below are the actions that have been taken to achieve the 3 objectives.

Objective 1

Ensure there is an effective corporate risk profiling process in place to identify, assess, manage, review and report on strategic and corporate risks and opportunities.

- 5.2 The Council's Corporate Risk Profile provides an overall picture of the strategic and corporate risks facing the whole organisation. It conveys the nature and level of risks the organisation faces, the impact and likelihood of risk incidents on the Council and its stakeholders and the actions to be taken to manage those risks.
- 5.3 Progress in relation to implementing the actions within the Profile is shown below.

	Number	%
Actions as at 1 April 2011	75	
Actions Added since 1 April 2011	7	
Less: Actions not due by 31 March 2011	(9)	
Actions due to be completed within the year	73	
Number of Actions Completed	64	88
Number of Actions Delayed	9	12
	73	100

- 5.4 The Corporate Risk Profile (the Profile) was reviewed by EMT within the year and a new Profile created, including seven strategic risk areas, as shown below.

Strategic Risk Area	Risk Rating
Economy	High
Reduced Resources	High
Community Needs	Medium
Social breakdown	Medium
Reputational and Influencing	Medium
Partnerships	Medium
Planning and Responsiveness to national agenda	Medium

- 5.5 The revised Profile was endorsed by the Committee in March 2012. Progress against the detailed actions will be reported to the Committee through the quarterly updates of the Corporate Assurance Map during 2012/13.

Objective 2

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

- 5.6 The risk management support work undertaken in respect of this objective is shown below, and was broadly in line with that planned.
- Support was provided to Executive Directors and Heads of Service during the year in relation to their service planning and delivery, including the completion and review of risk registers.
 - Risk management was embedded into the business planning process and advice and guidance was provided within the planning framework. Specific support has been provided to Heads of Service as part of this process.
 - The plan included a total of 15 programmes / projects, all of which were supported with the exception of the ICT SWIFT enhancements, which had been delayed. The resource was allocated to the implementation of the Corporate Computing Model project.
 - Support was provided across the service reviews including Sport and Leisure, Events Management and Care and Support.
 - Risk management registers for 60 schools were delivered during the year.
 - There has been a major reduction in the number of formal Partnerships and only 5 of the original 10 identified for support remained. Work has been ongoing to review the Partnership code of practice and supporting emerging Partnerships, including the Health and Wellbeing Board.

Objective 3

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

5.7 Specific activity undertaken in relation to objective 3 included:

- Reviewing and providing guidance on the Corporate Risk Management Framework and detailed guidance.
- Contribution to the review of the Partnership Code of Practice.
- Advice regarding the Risk Management approach to Programmes and Projects.
- Development of an awareness and training programme.
- Provision of information and support to the Annual Governance Review.

5.8 The Corporate Risk Management Framework was aligned to reflect the closer working between risk management and Internal Audit, including the creation of the Corporate Risk and Governance Group. The Risk Management Manual has been reviewed and the intranet site updated. An e-learning training package has been developed to be issued during 2012/13.

6. Conclusions

6.1 This report provides information regarding progress against the planned Internal Audit work for the year and performance targets, and against the Risk Management Plan for the year. Progress and performance has been very strong and positive throughout the year.

6.2 It is pleasing to report a positive audit opinion that throughout the year the Council maintained an adequate system of internal control.

7. Recommendations

7.1 Members are asked to consider the report.

Background Papers

Audit and Counter Fraud Plan 2011/12 – Audit and Governance Committee 25th March 2011

Risk Management Plan 2011/12 – Audit and Governance Committee 25th March 2011

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012			
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	1) All key risk areas covered over a 3 year period	1) Achieved – 96% of planned audits completed
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%	2) Achieved - 93%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 80%	3) Behind target - 74%
	4) Number of sanctions and prosecutions for housing benefit investigations	4) 155 / annum	4) Achieved – 163
	5) Value of overpayments identified during housing benefit investigations	5) £600k / annum	5) Achieved - £746,598

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012

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 - 1.1 to date 2) Non undertaken 3) 28 compliments 2 complaints relating to benefit fraud investigations (one not upheld but improvements identified)

Audit Coverage

Key Risk Area	Planned Audits	Conclusion (audits undertaken 2011/12)	Overall Opinion
Corporate Governance	Annual Corporate Governance Review	Good	Good
Service / Business Planning	Responsive Local Services Facilities Management Reablement at Home - Adults Business Support	Good Satisfactory Satisfactory Satisfactory	Satisfactory
Partnerships	Non Planned	N/A	Satisfactory
Financial Management	Corporate Budget Setting and Management Adoption Allowances Social Care Resource Agency Personal Budgets - Adults Port Governance Arrangements Treasury Management 1 Leisure Centre Accounts Payable Accounts Receivable - Collection Periodic Income - Recovery and Enforcement Cash Receipting - Central System Council Tax - Setting Council Tax - Billing Council Tax - Valuation Council Tax - Recovery Business Rates – Recovery & Enforcement BACS Arrangements Charging for Services - HHA Stroke Care Grant Future Jobs Fund Grant Deprived Areas Fund Grant Unplanned Audit – SIB and Community Chest Grants Unplanned Audit – Future Jobs Fund – final audit certificate Unplanned Audit – SWITCH Modelling	Good Unsatisfactory Good Unsatisfactory Good Good Good Good Good Good Good Good Satisfactory Satisfactory Good Good Satisfactory Satisfactory Satisfactory Satisfactory Cancelled Satisfactory Satisfactory Good Satisfactory Satisfactory	Good

Key Risk Area	Planned Audits	Conclusion (audits undertaken 2011/12)	Overall Opinion
Risk Management	Port Governance Arrangements 1 Leisure Centre Insurance Policies	Good Good Good	Good
Programme and Project Management	Project Management Information Governance (Project Server)	Good	Good
Local Taxation	Council Tax - Setting Council Tax - Billing Council Tax Valuation Council Tax - Recovery Business Rates - Recovery and Enforcement	Satisfactory Satisfactory Good Good Satisfactory	Good
Procurement and Contract Management	Procurement of ICT Equipment Purchasing Card Arrangements Capital Procurement Revenue Procurement	Cancelled Satisfactory Good Satisfactory	Satisfactory
Human Resource Management	Corporate Training and Development Arrangements Personnel Administration Arrangements Management of Employees in SWITCH	Satisfactory Satisfactory Satisfactory	Satisfactory
Asset Management	Asset Management (including Property Asset Database) Asset Register/Capital Accounting Unplanned Audit - Technoforge	Deferred Good Unsatisfactory	Satisfactory
ICT Strategy and Delivery	Implementation of the ICT Strategy ICT Remote Access Threats Information Technology Infrastructure Library	Deferred Satisfactory Good	Satisfactory
Fraud and Corruption	Counter Fraud Testing (including in schools) Access to IT systems - with movement of employees Social Care Resource Agency 1 Leisure Centre Asset Management - ICT Equipment Unplanned Audit – SIB and Community Chest Grants	Good Unsatisfactory Good Good Unsatisfactory Good	Satisfactory

Key Risk Area	Planned Audits	Conclusion (audits undertaken 2011/12)	Overall Opinion
Information Governance	Corporate Information Governance (including procedures for remote working) Email Security Smarter Working - Employees Working Remotely within Children's Services Document Management Unplanned Audit – Corporate Data Protection Arrangements Follow Up – Customer Services Network Info Gov (2010/11)	Satisfactory Good Satisfactory Satisfactory Satisfactory Satisfactory	Satisfactory
Business Continuity and Emergency Planning	Major Incident Planning Business Continuity Planning - Children's Services	Good Satisfactory	Satisfactory
Performance Management	Responsive Local Services Corporate Performance Management Port Governance Arrangements Customer Services Network Reablement at Home - Adults Social Care Resource Agency Follow up – Sunderland Compact	Unsatisfactory Deferred Good Satisfactory Satisfactory Good Satisfactory	Satisfactory
Payroll	Payroll Processing and Payment	Satisfactory	Good
Housing Benefits	Housing Benefit Administration	Satisfactory	Satisfactory
Schools	38 schools audits completed – 35 good, 3 satisfactory	Good	Good

AUDIT AND GOVERNANCE COMMITTEE

29 June 2012

TREASURY MANAGEMENT – REVIEW OF PERFORMANCE 2011/2012

Report of the Executive Director of Commercial and Corporate Services

1 Purpose of the Report

- 1.1 To report on the Treasury Management borrowing and investment performance for 2011/2012.

2 Description of Decision

- 2.1 The committee is requested to note the positive Treasury Management performance for 2011/2012.

3 Introduction

- 3.1 This report sets out the annual borrowing and investment performance for the financial year 2011/2012 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by Council on 2nd March 2011. The Treasury Management Strategy comprises the approved Council strategy for borrowing and its policies for managing its investments, (which give priority to the security and liquidity of those investments).
- 3.2 The Policy Statement and Strategy complies with best practice, including the Department of Communities and Local Government Investment Guidance which came into effect from 1st April 2010 and it incorporates the recommendations included in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The Code of Practice was revised in November 2011 mainly to accommodate the changes to local authority housing finance regulations.

4 Review of Performance 2011/2012

4.1 Summary

The performance of the Council's Treasury Management function continues to contribute significant financial savings that are used to provide funding to support the Council's revenue budget. The average rate of the Council's borrowing at 3.46% is in the top quartile when benchmarked against other authorities as is the rate of return achieved on investments. In 2011/2012 this has meant a saving of almost £1.9 million to the original 2011/2012 investment income budget and a saving on debt charges of over £4.0m for the year.

Borrowing Strategy and Performance – 2011/2012

- 4.2 The basis of the agreed Borrowing Strategy was to:
- continuously monitor prevailing interest rates and forecasts;
 - secure long-term funds to meet the Council's future borrowing requirement when market conditions were favourable;
 - use a benchmark financing rate of 5.50% for long term borrowing (i.e. all borrowing for a period of one year or more);
 - take advantage of debt rescheduling opportunities as appropriate.
- 4.3 The Borrowing Strategy has been reviewed regularly by this committee in June and September 2011 and also in February 2012 and was updated where necessary to reflect changing circumstances. The Borrowing Strategy for 2011/2012 was based upon the views of the Executive Director of Commercial and Corporate Services, supplemented with market data, market information and leading economic forecasts provided by the Council's treasury adviser, Sector Treasury Services.
- 4.4 The view in February 2011, at the time the Treasury Management Policy and Strategy was drafted, was that variable rate borrowing was expected to become more expensive. The Bank Base Rate was expected to increase over the next three financial years from its current level of 0.50% to 0.75% by December 2011, and to 3.25% by March 2014. It was also anticipated that PWLB borrowing rates would steadily increase throughout 2011/2012 across all periods with the 5 years PWLB forecast to be around 3.5% by March 2012, and the 25 year and 50 year PWLB rates to be around 5.3%.

Economists are now forecasting that the first increase in the bank base rate will be in the first quarter of 2014. PWLB rates and bond yields remain extremely unpredictable and there are exceptional levels of volatility which are highly correlated to political developments in the Eurozone and the sovereign debt crisis within a number of Eurozone countries

Interest rate forecasts have altered as a result of two major events:

1. The decision by the MPC to expand quantitative easing by a further £50bn in February 2012. This decision had an immediate effect of depressing (lowering) gilt yields at the long end of the curve. It also clearly underlined how concerned the MPC is about the prospects for UK growth and that recession was a much greater concern than inflation. The prospect of further quantitative easing as a result can not be ruled out.
2. The marked deterioration of growth prospects in the major world economies such as Spain. Even though the UK has moved into a double dip recession this has led to a further increase in safe haven flows into UK gilts which have depressed gilt yields and pushed PWLB rates to even lower levels.

These developments have meant forecasts for PWLB rates were much higher than the actual rates experienced during the year and the expectation of the timing of the eventual start of increases in the bank base rate and PWLB rates are now substantially longer into the future..

The table below shows the average borrowing rates in 2011/2012.

2011/2012	Qtr 1 (Apr - June) %	Qtr 2 (July – Sept) %	Qtr 3 (Oct – Dec) %	Qtr 4 (Jan – Mar) %
7 days notice	0.40	0.38	0.37	0.35
1 year	1.69	1.50	1.39	1.30
5 year	3.29	2.59	2.25	2.05
10 year	4.51	3.82	3.33	3.19
25 year	5.22	4.84	4.22	4.19
50 year	5.16	4.88	4.28	4.24

Reductions in gilt yields to historic lows have led to reductions in PWLB borrowing rates during 2011/2012. However, these reductions should have been greater. The Government's October 2010 Spending Review instructed the PWLB to increase the interest rate on all new loans by an average of 1.00% above the Government's cost of borrowing. This unexpected increase across all PWLB rates of 0.87% made borrowing from this source more expensive overnight and also made debt rescheduling opportunities less likely. In the March 2012 Budget the government announced that PWLB rates may be decreased by 0.2% under certain circumstances and as such the Council is keeping a watching brief on this in order to take advantage of this concession should the opportunity arise. The government has yet to provide detailed guidance on how this reduced rate can be acquired.

- 4.5 The Council borrowed £10.0 million from the PWLB in 2011/2012 as set out in the table below. The interest rate payable on the new loan was 3.99% and well below the 5.50% target rate set for long-term borrowing, representing an ongoing lower cost of borrowing to the Council. The rate achieved is also well below the average rates for 50 year PWLB loans set out in the above table at paragraph 4.4.

Long Term Borrowing 2011/2012						
Date	Lender	Amount £m	Period (Years)	Rate %	Benchmark Rate %	Margin %
20/01/12	PWLB	10.0	50	3.99	5.50	1.51

- 4.6 The Treasury Management Strategy included provision for debt rescheduling should appropriate opportunities arise. However, the October 2010 PWLB borrowing rate increase was not accompanied by an increase in early debt redemption rates. This, and the very low underlying rate of the Council's long-term debt (arising from the proactive approach to debt rescheduling and borrowing taken by the Council in recent years), has meant that rates have not been sufficiently favourable to undertake further debt rescheduling in 2011/2012. Market conditions however will continue to be monitored to identify and take advantage of any such opportunities should they arise.

4.7 The Council's borrowing portfolio position at 31st March 2012 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	148.0		
	Market	24.5		
	Other	0.3	172.8	3.84
Variable Rate Funding	Market	15.0		
	Temporary / Other	29.8	44.8	1.99
Total Borrowing			217.6	3.46
Total Investments *	All managed In-House		231.5	1.62
Net Investments			13.9	

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

Prudential Indicators – 2011/2012

4.8 All external borrowing and investments undertaken in 2011/2012 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other Prudential Indicators as follows:

The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was originally set by the Council for 2011/2012 in total as £382.399m which was detailed as follows:

	£m
Borrowing	331.539
Other Long-Term Liabilities	<u>50.860</u>
Total	<u>382.399</u>

The Operational Boundary for External Debt for 2011/2012 was set at £312.463m as follows:

	£m
Borrowing	261.603
Other Long-Term Liabilities	<u>50.860</u>
Total	<u>312.463</u>

Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Council's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).

The Council's maximum borrowing level in 2011/2012 was £219.424 million (which includes borrowing in respect of other organisations such as Tyne and Wear Fire and Rescue Authority but excludes other long-term liabilities such as PFI and Finance leases which already include borrowing instruments) and is well within the borrowing limits set by both of these indicators.

4.9 The table below shows that all other Treasury Management Prudential Indicators have been complied with during 2011/2012.

Prudential Indicators		2011/2012	
		Limit £'000	Actual £'000
P10	Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	105,000	47,553
P11	Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	60,000	26,173
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%	16.7% 2.4% 7.3% 77.1%
P13	Upper limit for total principal sums invested for over 364 days	100,000	0

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

5. Investment Strategy and Performance – 2011/2012

5.1 The Investment Strategy for 2011/2012 was approved by Council on 2nd March 2011. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

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

The Annual Investment Strategy has been fully complied with in 2011/2012.

- 5.2 At 31st March 2012, the Council had outstanding investments of £231.5 million. The table below shows the return made on the Council's total investments for 2011/2012 as compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	2011/2012 Return %	2011/2012 Benchmark %
In-house Managed Funds	1.62	0.49

This return far exceeded the benchmark set for 2011/2012 and represents a very good achievement especially when short-term investment rates continued to remain very low throughout the year.

- 5.3 All investments placed in 2011/2012 have been made in accordance with the approved Criteria and the Approved Lending List by Council on 2nd March 2011 and to any subsequent revisions approved by Cabinet during the year. Investments placed in 2011/2012 have been made in accordance with the approved investment strategy and comply with the counterparty criteria used to identify financial organisations on the Approved Lending List.

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

Advice also continues that the above guidance is not applicable to institutions considered to be very low risk because of the government holding shares in these organisations (i.e. Lloyds TSB and RBS) or in respect of Money Market Funds which are also AAA rated.

- 5.4 As members will be aware, the regular updating of the Council's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. Changes made during 2011/2012 have already been reported to members previously and the latest Lending List and Criteria are included in the Treasury Management First Quarterly Review 2012/2013 reported to this meeting..

6. **Reasons for Decisions**

6.1 To note the performance for 2011/2012.

7. **Alternative Options**

7.1 No alternatives are submitted for Cabinet consideration.

Background Papers

Sector CityWatch (Monthly) and weekly credit rating list

Sector / Capital Economics / UBS Economic forecasts

Local Government Act 2003

The Prudential Code for Capital Finance

CIPFA Code of Practice on Treasury Management in Local Authorities

The Financial Times

Other financial websites

AUDIT AND GOVERNANCE COMMITTEE

29th June 2012

**ANNUAL REPORT – ANNUAL REVIEW OF CORPORATE GOVERNANCE
ARRANGEMENTS**

Report of Executive Director of Commercial and Corporate Services

1. Introduction

1.1 This report provides details of the 2011/2012 Annual Governance Review and includes a Draft Annual Governance Statement.

2. Background

2.1 The Council has a local code of corporate governance (the Code) in place which sets out a framework which aims to ensure that the Council is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. The framework comprises the systems, processes, cultures and values through which the Council directs and controls its functions, and through which it accounts to, engages with and, where appropriate, leads, supports and empowers communities.

2.2 The framework is based upon the following six core principles:

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

2.3 The Code states that the Council will conduct, at least annually, a review of the effectiveness of the corporate governance framework. The Council is also required to publish an Annual Governance Statement (AGS), which must be supported by a comprehensive assurance gathering process.

3. 2011/2012 Annual Governance Review

- 3.1 The review followed the methodology previously approved by Cabinet and was undertaken by the Corporate Risk and Assurance Group (CRAG), which is made up of senior staff from across all directorates, as well as relevant specialists.
- 3.2 The CRAG obtained and considered assurances provided by Executive Directors and a wide range of senior managers, and then considered whether current governance arrangements were adequate. A small number of improvements were identified to strengthen the arrangements and these are detailed at Appendix 1, and have been agreed by the Executive Management Team. These include a small number of actions to ensure governance arrangements and activity remain proactive and in place regarding emerging alternative service delivery models.
- 3.3 The Improvement Plan also includes a small number of areas that the Council is already addressing but inclusion in the plan will facilitate monitoring to ensure that the planned actions are delivered within a reasonable timeframe bearing in mind the importance / nature of the actions.
- 3.4 The Local Code of Corporate Governance was reviewed and it is considered that the core and supporting principles remain appropriate.

4. Draft Annual Governance Statement

- 4.1 The Annual Governance Statement has been drafted taking into account the findings of the annual governance review and is attached at Appendix 2.

5. Review of Progress in relation to the 2010/2011 Corporate Governance Improvement Plan

- 5.1 The improvement plan agreed following the 2010/2011 Corporate Governance Review included 13 actions. The CRAG reviewed progress on these actions and found that all were either complete or well progressed.

6. Conclusion

- 6.1 The Council continues to have robust and effective corporate governance arrangements in place. The views elicited during the review from Members, senior managers across the Council, and all Chief Officers, demonstrate that the principles of good governance continue to be embedded Council-wide.
- 6.2 Whilst an Improvement Plan has been developed the review has not identified any weaknesses that would need to be highlighted in the Council's Annual Governance Statement.

7. Recommendations

7.1 The Committee is asked to:

- consider and agree the Improvement Plan included at Appendix 1, and recommended it to Cabinet, and
- consider and agree the Draft Annual Governance Statement at Appendix 2.

2011/2012 Annual Review of Corporate Governance Arrangements - Improvement Plan for 2012/2013

Ref	Action	EMT Lead
1.	All appropriate teams should be involved at an early stage in the development of governance arrangements for Alternative Service Delivery Models (e.g. TPPO, legal, procurement, internal audit, risk and assurance, HR), including any external assistance where required.	Executive Director of Commercial and Corporate Services
2.	A corporate toolkit should be developed to assist those leading on the implementation of Alternative Service Delivery Models.	Executive Director of Commercial and Corporate Services
3.	The Partnerships Code of Practice should be updated to include appropriate guidance on Alternative Service Delivery Models.	Assistant Chief Executive
4.	The proposed Accountability Framework should encourage creativity and innovation within a risk aware organisation.	Director of Human Resources and Organisation Development
5.	The Integrated Assurance Framework should be implemented, including review of other assurance activity and the strengthening of managers responsibility for providing assurance.	Executive Director of Commercial and Corporate Services
6.	Clarity should be established regarding the Council's information governance responsibilities in relation to schools.	Executive Director of Commercial and Corporate Services
7.	The information governance risks associated with home working should be identified and assessed and clear guidance issued/implemented to manage the risks.	Executive Director of Commercial and Corporate Services
8.	New arrangements to be introduced in relation to the Members Code of Conduct and investigation / resolution of complaints / breaches.	Executive Director of Commercial and Corporate Services
9.	The services offered / traded with Schools need to be reviewed and co-ordinated to ensure that their design is appropriate and suitable. Alternative delivery models will be explored.	Executive Director of Children's Services
10.	Appropriate Governance arrangement should be put in place relating to the transfer of Public Health.	Assistant Chief Executive

2011/2012 Draft Annual Governance Statement

1. SCOPE OF RESPONSIBILITY

Sunderland City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council has approved and adopted a local Code of Corporate Governance in line with good practice. The Code is on the Council's website [\[here\]](#) or can be obtained from the Executive Director of Commercial and Corporate Services. This Statement explains how the Council has complied with its Code in 2011/12.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with, and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

The governance framework has been in place at the Council for the year ended 31st March 2012 and up to the date of approval of the Annual Report and Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

3.1 There is a clear vision of the authority's purpose and intended outcomes for citizens and service users that is clearly communicated, both within the organisation and to external stakeholders:

- The [Sunderland Strategy 2008-2025](#) provides the framework for members of the [Sunderland Partnership](#), organisations, groups of people and individuals, to work together to improve the quality of life in Sunderland by 2025. It sets out a Vision for the city and its people and how everyone will work together to achieve that Vision:

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

- Underpinning the Sunderland Strategy are a number of groups, including:
 - Non Executive Board
 - Sunderland Innovation and Improvement Group
 - Education Leadership Board.
 - Economic Leadership Board
 - Health and Wellbeing Board
- In 2011 it was considered appropriate that the Sunderland Strategy be refreshed in the light of the new and emerging policy and performance management context being developed by the coalition Government.
- The Corporate Improvement Plan (CIP) for 2009/10 to 2011/12 is the Council's overarching Service Plan containing the plans of all of the Council's Portfolios. A range of service specific plans were in place during the year.

3.2 Arrangements are in place to review the authority's vision and its implications for the authority's governance arrangements:

- The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the authority's vision remains relevant and meets the needs of local communities
- There are annual reviews of the local Sunderland Code of Corporate Governance to ensure that it is up to date and effective.

3.3 Arrangements exist for measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources:

- There are clear and effective performance management arrangements including staff appraisals for Directors and key staff, which address financial responsibilities.
- Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions and person specifications.

3.4 The roles and responsibilities of the executive, non-executive, scrutiny and officer functions are clearly defined and documented, with clear delegation arrangements and protocols for effective communication:

- A [Constitution](#) has been adopted which sets out how the Council operates and how decisions are made, and incorporates a clear delegation scheme. The Constitution indicates responsibilities for functions and sets out how decisions are made.
- During the year a system of scrutiny was in place allowing the scrutiny function to:
 - review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
 - make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
 - consider any matter affecting the area or its inhabitants; and
 - exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees; and
 - consider Local Petitions and Councillor Calls for Action for matters within their terms of reference.
- Directorates have established delegation schemes, although these will require updating in some areas to reflect recent and ongoing organisational changes.

3.5 Codes of Conduct defining the standards of behaviour for members and staff are in place, conform with appropriate ethical standards, and are communicated and embedded across the organisation:

- The following are in place:
 - Members' Codes of Conduct;
 - Employees' Code of Conduct;
 - Protocol on Member/Employee Relations;
 - Protocol for Members in Relation to Development Control Matters;
 - Whistleblowing Policy;
 - Protocol for the use of Civic Cars;

- Protocol for Members in Relation to Licensing Matters;
- Protocol for Members and Voting Co-opted Members – Use of Council Resources and Equipment;
- Guidance for Members in Relation to the Use of Council ICT Facilities;
- Protocol for Use of Member Website;
- Data Protection: Guidance for Councillors;
- Remote Intranet/Internet Access for Members;
- Protocol in Relation to Members' Dealings with the Council;
- Registers of Interests, Gifts and Hospitality.

3.6 Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks:

- The Executive Director of Commercial and Corporate Services is the designated Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972 and is responsible for ensuring lawfulness and financial prudence of decision making, and for the proper administration of the Council's financial affairs.
- The Head of Law and Governance is the Council's Monitoring Officer who has maintained an up to date version of the Constitution and has ensured lawfulness of decision making.
- The Council has in place up to date Procurement Procedure Rules and Financial Procedure Rules, which are subject to regular review.
- Written procedures are in place covering financial and administrative matters, as well as HR policies and procedures. These include:
 - Whistle Blowing Policy;
 - Anti Fraud and Corruption Policy;
 - Codes of Conduct;
 - Corporate Health and Safety Policy;
 - Corporate Complaints Policy;
 - Corporate Procurement Strategy;
 - Code of Practice for Partnerships;
 - Treasury Management Strategy;
 - Directorate / department budget management schemes.
- There are robust and well embedded risk management processes in place, including;
 - Member Risk Champion;
 - Risk Management Policy and Strategy;
 - Nominated Head of Service lead for Risk Management;
 - Corporate Risk Profile;
 - Corporate Risk and Assurance Group;
 - Risk Profiles for major projects and significant partnerships.

- There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts.
- Business Continuity Plans are in place, which are subject to ongoing review.
- There are clearly defined capital expenditure guidelines in place.
- Appropriate project management disciplines are utilised.
- The Council participates in the National Fraud Initiative.
- The Council has adopted and implemented the requirements of the Department for Work and Pensions Security Manual for the administration of Council Tax and Housing Benefit.
- Procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

3.7 The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Executive Director of Commercial and Corporate Services fulfils this role through the following:

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

3.8 The core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*, are undertaken by members.

The Council has an Audit and Governance Committee which, as well as approving the Authority's Statement of Accounts, undertakes an assurance and advisory role to:

- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- receive and consider (but not direct) internal audit's strategy, plan and monitor performance;
- receive and consider the external audit plan;
- review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
- receive and consider the annual report of internal audit;
- consider the reports of external audit and inspection agencies, including the Annual Audit Letter;
- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
- review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit; and
- make recommendations to Cabinet or Council as appropriate.

3.9 Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All Cabinet Reports are considered for legal issues before submission to members:

- The Head of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities.
- The Council maintains an internal audit service. An independent review of its effectiveness has been undertaken which concluded that the service operates in accordance with professional standards.

3.10 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are in place and are well publicised:

- The Council is committed to establishing and maintaining effective reporting arrangements to ensure that, where an individual, whether an employee of the Council, a Councillor, or any member of the public, has concerns regarding the conduct of any aspect of the Council's business, they can do so through a variety of avenues, promptly and in a straight forward way.
- The framework in place to ensure the aims of this Policy are met are set out in two 'Whistle Blowing Policy Arrangements' documents, one for Council workers and one for members of the public.
- Monitoring records held by the Head of Law and Governance reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

3.11 Arrangements exist for identifying the development needs of members and senior officers in relation to their strategic roles:

- The Community Leadership Programme has continued to support elected Members to fulfil their community leadership role, including the introduction of Account Managers for all Members.
- The Council has a HR Strategy that identifies that the need to enable and support the organisation in managing the performance of all of its employees through effective policies, procedures and working practices is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation and includes the extent to which an employee understands and supports the values of the Council.

3.12 Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

- The Council has a Community Consultation Strategy which aims to ensure that consultation activity is effectively co-ordinated across the Council and with partner agencies, impacts on service delivery, and is delivered to a high standard.

3.13 Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships, and are reflected in the authority's overall governance arrangements:

- The Council has published a Code of Practice for Partnerships which includes a template for Partnership Agreements and a range of checklists to ensure key risk areas are considered and addressed. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and officers to review existing arrangements.
- A Register of Partnerships is maintained. The significance of partnerships is identified using an assessment scorecard recommended by CIPFA.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by feedback from Members and the work of all senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates. The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:

- The role of the Council:
 - Members have participated in the annual review of the Council's Corporate Governance arrangements;
 - The Leader of the Council, the Chief Executive and the Executive Director of Commercial and Corporate Services have overseen the review and signed the Annual Governance Statement.
- The role of the executive:
 - The findings of the Annual Governance Review have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.
- The role of the Audit and Governance Committee:
 - The findings of the Annual Governance Review have been reported to the Audit and Governance Committee. Under their Terms of Reference the Audit and Governance Committee have satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it.

- There is a system of scrutiny which allows Review Committees to:
 - review decisions made or actions taken in connection with the discharge of any of the Council's functions;
 - make reports and recommendations to the full Council, the executive, or any joint or area committee in connection with the discharge of any functions;
 - consider any matter affecting the area or its inhabitants; and
 - exercise the right to call-in, for reconsideration, decisions made but not yet implemented.

- The role of the Council's Standards Committee includes the following:
 - promoting and maintaining high standards of conduct by councillors, co-opted members and church and parent governor representatives;
 - monitoring the operation of the Members' Code of Conduct;
 - monitoring the operation of the Council's Anti-Fraud and Corruption Policy so far as it relates to the actions of Members of the Council;
 - considering reports and complaints relating to the conduct of Members of the Council;
 - supporting the Monitoring Officer in her role.

- The Executive Director of Commercial and Corporate Services (the Chief Financial Officer) has directed, co-ordinated and overseen the review.

- All Heads of Service have participated in the annual governance review through carrying out self-assessments relating to their areas of responsibility.

- All Chief Officers have provided Controls Assurance Statements relating to their area of responsibility, having considered the detailed self-assessments from their Heads of Service.

- Controls Assurance Statements have also been provided by senior officers responsible for relevant specialist areas.

- Internal audit planning processes include consultation with all Chief Officers and reviews of the Corporate Risk Profile. Audit work is risk based and includes risks in relation to the achievement of service objectives. Internal Audit Services carries out regular systematic auditing of key financial and non-financial systems. The Audit Commission have conducted a review of the effectiveness of Internal Audit Services and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.

- The Audit Commission's Annual Audit Letter for 2010/11 is very positive and provides an unqualified opinion on the financial statements and an unqualified VFM conclusion. The report confirms that the Council:
 - Has proper arrangements in place to ensure its financial resilience.
 - Has a history of good financial management, robust systems of corporate governance and internal control, and a strong record in the delivery of budgets.
 - Had prepared for the economic challenges facing public services through the Sunderland Way of Working.

- Is committed to improvements in service delivery and outcomes, and has also identified significant savings.
- Findings of external inspectorates are used to support continuous service improvement.
- The Council was awarded a ‘Good’ rating (for both quality of service and capacity for improvement) in the 2011/12 Ofsted Inspection of Safeguarding and Looked After Children services. A multi agency action plan has been developed to address the formal and informal areas for improvement.

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

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

Paul Watson
Leader of the Council

Dave Smith
Chief Executive

Malcolm Page
Executive Director of
Commercial and Corporate
Services

Dated

AUDIT AND GOVERNANCE COMMITTEE

29 June 2012

ANNUAL REPORT ON THE WORK OF THE COMMITTEE 2011/12

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 This report provides a summary of the work undertaken by the Audit and Governance Committee during 2011/12 and the outcome of this work. The purpose of this report is to demonstrate how the Committee has fulfilled its role and will be presented to Council once agreed by this committee.

2. Role of the Committee

- 2.1 The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its role is to:

- approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be);
- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- receive, consider and monitor reports on treasury management policy, strategy and practices.

- 2.2 To enable the Committee to fulfil its role effectively awareness / update sessions have been held to provide members of the Committee with information on relevant issues. Sessions provided include the following:

- Statement of Accounts and International Financial Reporting Standards.
- Update on changes resulting from the Council's improvement programmes.

3. Matters Considered

- 3.1 The Committee has met eight times during the course of the year to consider a range of issues. Appropriate officers of the Council have been in attendance at the meetings to present reports and provide additional information in order to clarify issues and respond to questions from members of the Committee. Regular attendees at the meetings are the Executive Director of Commercial and Corporate Services, Head of Audit, Risk and Procurement, Head of Law and Governance and the Council's External Auditors.
- 3.2 To enable the Committee to fulfil its role as set out in paragraph 2.1, a range of reports were considered, as follows:
- a) The Committee endorsed the Audit and Counter Fraud Plan, which sets out the operational plan for the year for the Council and to associated bodies and the performance indicators that the service will be measured against. The Committee was also given the opportunity to identify any areas of work to be considered for the Internal Audit Plan for 2011/2012.
 - b) A progress report in relation to the Audit and Counter Fraud Plan was presented to six of the eight committee meetings during the year. These provided details of the service's performance in relation to the agreed performance indicators and to provide members of the Committee with an opinion on the overall internal control environment within the Council. Specific key issues were highlighted within the reports for members to consider further, specifically in relation to the safeguarding of vulnerable adults and the rate of implementation of recommendations by directorates. It is pleasing to note that the Internal Audit Plan was delivered with the majority of the Key Performance Indicators being met. The head of internal audit's opinion on the Council's internal control environment was positive.
 - c) An annual review of the effectiveness of Internal Audit is carried out and the results of this review were reported to members to provide assurance that the arrangements in place are sound. The review, undertaken by the Audit Commission is very positive, and concluded that the internal audit function continues to meet all relevant professional standards.
 - d) External Auditors provided reports detailing their Annual Opinion Audit Plan, their fees, the Annual Audit Letter, Annual Governance Report, and the Annual Grants report. These reports provided a very positive opinion regarding the Council's performance, governance, financial management and value for money arrangements. The External Auditor was also able to confirm that the objection to the accounts which had prevented previous years statement of accounts being signed off, had been resolved

- e) Reports were presented in relation to the Corporate Risk Profile and the risk management arrangements within the Council, to provide assurance to members that key risks are being identified, assessed and effectively managed. An effective risk management framework is in place and good progress made in relation to actions identified to mitigate strategic and corporate risks.
- f) The results of the Annual Governance Review for 2010/11 were presented, which summarises the overall governance arrangements in place within the Council, and makes recommendations for further improvement. The resultant draft Annual Governance Statement highlighted the good corporate governance arrangements in place and was approved by the Committee and included within the Council's Statement of Accounts.
- g) The annual Statement of Accounts 2010/11 (subject to audit) was presented for members to challenge and approve before they were made available for public inspection and to the external auditors. Once the external auditor had completed the audit, any amendments were submitted back to the Committee for approval. The Committee also received information regarding the new International Financial Reporting Standards. The External Auditor commented positively on the arrangements the Council has in place with regard to the production of the Accounts.
- h) The Committee received reports in relation to the Council's Treasury Management arrangements to receive assurance that they are appropriate and approved amendments to the Treasury Management Policy and Strategy. The Committee noted the good performance in this area, specifically with regard to security and level of return.
- i) The Committee also received regular reports in relation to the consultation on the arrangements to provide external audit in the public sector following the Government's abolition of the Audit Commission, and the subsequent procurement exercise.
- j) Specific reports for information were received in relation to the oversight of financial management in Local Authority maintained schools, and the proposed new arrangements for a corporate approach to providing assurance on how the Council manages its risks. The Committee agreed this approach and a report setting out the arrangements in detail was presented in March 2012.

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

- *Implementation of Agreed Internal Audit Recommendations* – The Internal Audit Annual Report for 2010/11 reported that the rate of implementation of agreed medium risk recommendations was not as expected for Health, Housing and Adult Services. The committee asked for regular updates from the Directorate in relation to this, and a significant improvement has now been achieved.
- *Abolition of the Audit Commission* – During a number of meetings throughout the year the Committee was updated and asked questions about the position of the Audit Commission and the subsequent potential impact on the Council.
- *Treasury Management* – The committee has taken a keen interest in the policies applied in relation to Treasury Management activities, asking detailed questions about the ongoing arrangements and proposed changes before providing their approval.
- *Corporate Risk Profile* – The Committee have received updates regarding the Council's Corporate Risk Profile.
- *Integrated Assurance Framework* – The Committee received a detailed presentation regarding the proposed arrangements for the new integrated assurance framework, and asked various questions to satisfy themselves that the approach was appropriate.

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

4. Recommendation

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

AUDIT AND GOVERNANCE COMMITTEE

29 June 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 comment on the updated Corporate Assurance 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 Members will recall that the assurance position in relation to the corporate risk areas was either Amber or Green in all cases, and that this was a positive position given the significant amount of change ongoing within the Council, with a significant movement of staff and changes to procedures and ways of working. The Map showed that although there were improvements needed in a number of areas there has not been any significant breakdown in control during this period of unprecedented change.
- 3.3 The Map, at that time, 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.
- 3.4 A key feature of the new integrated assurance framework was to co-ordinate assurance that could be provided by other functions within the Council and

consider if there are any gaps or duplication in the assurance provided from all sources.

4. Updated Corporate Assurance Map

- 4.1 The updated Corporate Assurance Map, as at 31st May 2012, is shown overleaf. This has been updated based on the work to date of the Internal Audit, and Risk and Assurance Teams and assurance from external sources.
- 4.2 The top section of the Map relates to the management of strategic risks identified in the Corporate Risk Profile. The current status of the profile is that risks were agreed by the Committee in March 2012 and detailed mitigating actions have been developed and agreed with risk owners to manage those risks. A summary of the action areas that have been agreed are shown in Appendix 1. Work will continue in relation to providing assurance regarding the controls already in place and the implementation of the key mitigating actions as the year continues and will be reported through the update of the Corporate Assurance Map.
- 4.3 The rest of the Map considers the Council's corporate risk areas. Assurance in respect of these comes from a number of sources which are identified on the Map. Assurance from any source is identified separately with some following commentary.
- 4.4 The detailed results of Internal Audit work are shown at Appendix 2, with the summary outcomes shown on the Map.
- 4.5 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.
- 4.6 Work is ongoing to gather assurance from other assurance sources within the Council, and from management. The results of this work will be reported through the updated Corporate Assurance Map in future Committee Meetings.

Corporate Assurance Map

Assurance Position (as at 31 st May 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	
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**

- 4.7 From the Map shown above Members can see the areas where work has resulted in assurance being provided. Internal Audit have completed a number of audits, the results of which are provided in Appendix 2 with the summary shown on the Map above. All work completed by Internal Audit so far has provided either Full or Substantial assurance. Results from the recent work investigating the data matches from the National Fraud Initiative have identified a very low level of discrepancies, resulting in a Substantial level of assurance being provided in relation to this area of work.
- 4.8 As mentioned previously, the Risk and Assurance Team are involved in supporting clients right across the Council. Specific work which has resulted in assurance being provided relates to the project to implement the Local Authority Controlled Company, Care and Support Sunderland Ltd. It can be seen that the results of work in this area have provided a moderate level of assurance. This is due to the company still establishing its systems and dealing with problems which were inherited from the previous provider of the service. A significant amount of work is ongoing to deal with these.
- 4.9 The Risk and Assurance Team have also provided support to 12 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.
- 4.10 The Map shows four 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. The results of the inspection gave an overall rating of 'Good' and specific ratings in relation to relevant Corporate Risk areas are shown.
- 4.11 The overall level of assurance for all corporate risk areas has not changed, and remains positive. During the course of the year, as more work is undertaken and assurance gathered from other internal sources, it is expected that the Assurance Position (i.e. levels of assurance) shall improve (i.e. more Green).

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 3 areas, as follows:
- Internal Audit have so far issued audit reports in relation to five planned audits and two unplanned audits. Performance in relation to the timeliness of issuing draft audit reports and completing audits by the target date is currently behind target. This is due to one audit report being delayed and it is expected that performance for both of these targets will improve during the year.
 - The percentage of medium risk recommendations implemented currently

stands at 89% (excluding schools) against a target of 90%. This is a 2% increase since the end of the previous financial year.

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

Directorate / Body	Implementation Rate – Mar	Implementation Rate – May
Children’s Services (non schools)	88%	88%
City Services	94%	94%
Office of the Chief Executive	85%	91%
Commercial and Corporate Services	93%	93%
Health, Housing & Adult Services	74%	74%
Implementation Rate (exc. Schools)	87%	89%
Schools	86%	86%
Total Implementation Rate	86%	87%

As reported in the Annual Report for 2011/12, Health, Housing and Adult Services had improved their rate significantly by the end of the year. The new monitoring arrangements are proving to be effective and Internal Audit officers have also given a presentation to many Managers within the Directorate to allow discussion of this issue. It is expected that performance will continue to improve as the year moves on.

6. Summary of the work of the Risk and Assurance Team

- 6.1 Appendix 3 shows that the Risk and Assurance Team are involved in many of the major areas of work/change that are ongoing in the Council to provide support, guidance and challenge in respect of managing risks.

7. Conclusions

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

8. Recommendations

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

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	3 Likely	4 Critical	12 High	<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					

RISK 2

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
REDUCED RESOURCES	Further significant budget cuts	Malcolm Page, ED of Commercial and Corporate Services	3 Likely	4 Critical	12 High	<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
Context	The budget settlements, Local Government Resource Review and localisation of business rates may significantly impact on the council's financial position.					

RISK 3

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
COMMUNITY NEEDS	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	Keith Moore, ED of Children's Services & Neil Revely, ED of Health Housing & Adult Services DCX	2 Possible	4 Critical	8 Medium	<ul style="list-style-type: none"> • Analysis of the Joint Strategic Needs Assessment • Corporate 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
Context	The Council's has a community leadership role to identify and respond to changing community needs such as unemployment, health and housing.					

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	2 Possible	3 Significant	6 Medium	<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	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.					

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.						

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
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.						

RISK 7

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
SOCIAL BREAKDOWN	If the City becomes unattractive to residents, businesses and visitors, this would adversely impact upon the ability to build lasting neighbourhoods	Ron Odunaiya, ED of City Services	2 Possible	3 Significant	6 Medium	<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
Context						
Economic conditions make it more difficult to attract investors and developers. Reduction in public sector budgets will adversely impact on investment.						

RISK 8

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
PARTNERSHIPS	Inadequate engagement with partners may lead to missed opportunities to co-design services and to share or transfer responsibilities for delivering successful outcomes	Sarah Reed, Assistant Chief Executive	2 Possible	3 Significant	6 Medium	<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 Review public sector finances across the City Integrate family focus approach with Partners
Context						
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.						

RISK 9

Risk Area	Proposed Risk Description	Risk Owner	Likelihood	Impact	Rating	Action Areas
PLANNING AND RESPONSIVENESS	Unable to be responsive to changes in government policy direction and broader external environment in a timely way	Janet Johnson, Deputy Chief Executive	2 Possible	2 Moderate	4 Medium	<ul style="list-style-type: none"> Horizon scanning Simplify and join up the major Council strategies Peer review
Context						
New government introducing a number of different policies in a short period of time.						

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	Ongoing Ongoing	Moderate
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		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	Moderate
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 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 Full Full	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) Operating Model – Realisation of Benefits	Substantial	Moderate

Corporate Risk Area	Audits Planned 2012/13	Assurance Provided (audits in 2012/13)	IA Overall Opinion (Assurance)
Asset Management	None Planned – to be covered by the Risk and Assurance Team		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		Moderate
Risk Management (service delivery)	Non Planned – to be covered by the Risk and Assurance Team		Substantial
Housing Benefits	Housing Benefit transactions checks		Moderate
Schools	4 school audits completed	1 - Full 2 - Substantial 0 - Moderate 1 - Limited 0 - No assurance	Substantial

Risk and Assurance Activity

Area of activity	Work ongoing
Corporate Risk Profile	Mitigating actions agreed, assurance plans to be developed in relation to current controls and agreed mitigating actions
Supporting Executive Directors and Heads of Service to manage risks	Activity is ongoing in all Directorates to aid the managing of risks through service planning, programmes and key projects and partnerships
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 • Care and Support Services – Adults • Events Management • New arrangements for Design and Print • Transfer of Public Health • Customer Service Network • Transport and Fleet Management • Facilities Management • ICT – Corporate Computing Model • ICT – Cloud development and strategic direction • Economic Master Plan • Workforce Development • Welfare Reform • Customer Relationship Management system replacement • Safeguarding – Childrens • Personalisation – Adults
Support to Schools	Support has been provided to 12 schools so far in relation to managing their risks
Partnerships	Support is being provided to the following specific Partnerships:

Area of activity	Work ongoing
	<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	Three 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	1) All key risk areas covered over a 3 year period	1) On target
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%	2) Behind target - 83%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 70%	3) Behind target - 67%
Quality			
Objectives	KPI's	Targets	Actual Performance
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion	1) Achieved
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant. 90% for medium risk	2) On target – significant 100% Behind target - Medium 87% (excluding schools)

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2012/13

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 - 1.1 to date 2) Non undertaken 3) 2 compliments 0 complaints

AUDIT AND GOVERNANCE COMMITTEE

29 June 2012

TREASURY MANAGEMENT – FIRST 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 first quarter of 2012/2013.

2. Description of Decision

- 2.1 The Committee is requested to note the Treasury Management performance during Quarter 1 of 2012/2013,
- 2.2 To note amendments to the Lending List set out in Appendix C.

3. Introduction

- 3.1 The report sets out the Treasury Management performance to date for the first 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 the Treasury Management Performance for 2012/2013 – Quarter 1

- 4.1 The Council's treasury management function continues to look at ways of maximising financial savings and increase investment return to the revenue budget. One option to make savings is through debt rescheduling, however no rescheduling has been undertaken in 2012/2013 as rates have not been considered sufficiently favourable. It should noted the Council's interest rate on borrowing is very low, currently anticipated to average 3.50%, and as such the Council continues to benefit from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises.
- 4.2 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its Treasury Management Prudential Indicators.
- 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 31st May 2012, the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.66% compared with the benchmark rate (i.e. the 7 day rate) of 0.45%. 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 with to reflect this.

Background Papers

Sector CityWatch (Monthly) and weekly credit rating list

Sector / Capital Economics / UBS Economic forecasts

Local Government Act 2003

Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)

Detailed Treasury Management Performance Quarter 1 - 2012/2013

A1. Borrowing Strategy and Performance - 2012/2013

A1.1 The Borrowing Strategy for 2012/2013 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, at the time the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until June 2013 before steadily increasing to 1.25% by March 2014 and that PWLB borrowing rates would steadily increase throughout 2012/2013 across all periods.

As noted in the Treasury Management – Review of Performance 2011/2012, economists are now forecasting the Bank Base Rate will increase in the first quarter of 2014. PWLB rates and bond yields remain extremely unpredictable and there are 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, beginning April 2012 to date.

2012/2013	Qtr 1 (Apr- June) %
7 days notice	0.50
1 year	1.26
5 year	1.96
10 year	3.01
25 year	4.18
50 year	4.27

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 31st May 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 debt redemption if appropriate opportunities arise. Any rescheduling undertaken will be reported to Cabinet in line with the current Treasury Management reporting procedures.

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

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	147.9		
	Market	24.5		
	Other	0.3	172.7	3.90
Variable Rate Funding	PWLB	0.0		
	Market	15.0		
	Temporary/			
	Other	29.8	44.8	1.99
Total Borrowing			217.5	3.50

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 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 2012/2013 (to 31st May 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 31/05/2012)	
	Limit £'000	Actual £'000
P10 Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	130,000	71,892
P11 Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	60,000	29,767
P12 Maturity Pattern	Upper Limit	
Under 12 months	50%	16.0%
12 months and within 24 months	60%	2.3%
24 months and within 5 years	80%	4.7%
5 years plus	100%	77.0%
A lower limit of 0% for all periods		
P13 Upper limit for total principal sums invested for over 364 days	75,000	20,000

A2.4 The Council is currently within the limits set for all of its TM Prudential Indicators.

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 31st May 2012 the funds managed by the Council's in-house team amounted to £260.864 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 31/05/2012 %	2012/2013 Benchmark to 31/05/2012 %
Return on investments (to 31 st May 2012)	1.66	0.45

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 However the investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the benefit of the Council. There are no changes to report.

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 euro zone, advice from our Treasury Management advisers (which we are in agreement with) is to continue to restrict investments to 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 the proposed changes outlined above.

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	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	70	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)					70	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £50 million with a maximum of £30 million in any one fund.					50	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:

Counterparty Criteria

Appendix B (continued)

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> <u>£m</u>	<u>Maximum Duration</u>
AAA	F1+	A1+	Aaa	P-1	70	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)					70	5 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £50 million with a maximum of £30 million in any one fund.					50	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.

Appendix B Continued

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 £300 million 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	300
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	300
Local Government	300
UK Banks	300
UK Building Societies	150
Money Market Funds	50
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.

Current group limits are set out in Appendix C

Approved Lending List

Appendix C

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term		
UK	AAA	F1+			Aaa			AAA		300	2 years
Lloyds Banking Group (see Note 1)										Group Limit 70	
Lloyds Banking Group plc	A	F1	bbb	1	A2	-	-	A-	A-2	70	2 years
Lloyds TSB Bank Plc	A	F1	bbb	1	A1	P-1	C-	A	A-1	70	2 years
Bank of Scotland Plc	A	F1	-	1	A1	P-1	D+	A	A-1	70	2 years
Royal Bank of Scotland Group (See Note 1)										Group Limit 70	
Royal Bank of Scotland Group plc	A	F1	bbb	1	A3	P-2	-	A-	A-2	70	2 years
The Royal Bank of Scotland Plc	A	F1	bbb	1	A2	P-1	C-	A	A-1	70	2 years
National Westminster Bank Plc	A	F1	-	1	A2	P-1	C-	A	A-1	70	2 years
Ulster Bank Ltd	A-	F1	ccc	1	Baa1	P-2	D-	BBB+	A-2	70	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	A+	F1	a+	1	A2	P-1	C-	A	A-1	40	364 days
Barclays Bank plc *	A	F1	a	1	Aa3	P-1	C	A+	A-1	40	364 days
HSBC Bank plc *	AA	F1+	aa-	1	Aa2	P-1	C+	AA	A-1+	40	364 days

Appendix C(continued)											
	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term	Limit £m	Max Deposit Period
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	A-	F2	a-	3	A3	P-2	C-	-	-	5	6 months
Northern Rock ***	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

Appendix C(continued)											
	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term		
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	Aa1	P-1	B	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										50	Liquid
Prime Rate Stirling Liquidity	AAA							AAA		30	Liquid
Insight Liquidity Fund					AAA			AAA		30	Liquid
Ignis Sterling Liquidity	AAA							AAA		30	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 £70 million.

*

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

The counterparties in this section will have a 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

29 June 2012

Member Training and Development

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 The purpose of this report is to provide members of the Committee with the opportunity to identify areas for which they require any further training / refresher / awareness sessions to be arranged.

2. Training / Development Requirements

- 2.1 The agreed forward plan of reports that are to be presented to the Committee throughout the year is attached for information at Appendix 1. This may provide members with a reference for any areas for which they would like to receive further training / awareness sessions. Due to the changes that are currently ongoing within the Council it is proposed that an update session on the Council's improvement programmes be provided.

3. Recommendations

- 3.1 Members are asked to consider the areas for which they would like to receive training or awareness sessions, and:
- Agree the proposed session highlighted in paragraph 2.1.
 - Suggest further areas for training sessions required.

Background Papers

Audit and Governance Committee – Proposed Forward Plan of Reports for 2012/2013 –
23rd March 2012

**Forward Plan of Reports
Audit and Governance Committee 2012/2013**

Month	Brief Description	Report of
September 2012	Corporate Assurance Map - update	Head of Corporate Assurance and Procurement
	Treasury Management – First Quarterly Review for 2012/2013	Executive Director of Commercial and Corporate Services
	Annual Governance Report 2011/12	District Auditor
	Audited Statement of Accounts 2011/12	Executive Director of Commercial and Corporate Services
December 2012	Treasury Management – Second Quarterly Review for 2012/2013	Executive Director of Commercial and Corporate Services
	Corporate Assurance Map - update	Head of Corporate Assurance and Procurement
	Internal Audit Plan 2013/2014 - Consultation	Head of Corporate Assurance and Procurement
	Corporate Risk Profile - update	Executive Director of Commercial and Corporate Services
	Annual Audit Letter 2011/12	District Auditor
	Annual Grants Report 2011/12	District Auditor
February 2013	Treasury Management – Third Quarterly Review for 2012/2013	Executive Director of Commercial and Corporate Services
	Treasury Management Strategy and Policy for 2013/2014 including Treasury Management Prudential Indicators for 2013/2014 to 2015/2016	Executive Director of Commercial and Corporate Services
March 2013	Corporate Assurance Map - update	Head of Corporate Assurance and Procurement
	Corporate Risk Profile	Executive Director of Commercial and Corporate Services
	Corporate Assurance Map – 2013/14 (including Internal Audit Plan, and Risk and Assurance team plan)	Head of Corporate Assurance and Procurement
	Proposed Forward Plan of Reports 2013/2014	Executive Director of Commercial and Corporate Services

AUDIT AND GOVERNANCE COMMITTEE

29 June 2012

NATIONAL FRAUD INITIATIVE

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 The purpose of this report is to provide members of the Committee with an overview of the Council's participation in the National Fraud Initiative (NFI).

2. Background

- 2.1 Since 1996 the Audit Commission has run exercises that match electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.
- 2.2 NFI 2010/11 helped to trace almost £229 million in fraud, error and overpayments nationally.
- 2.3 The use of data for NFI purposes is controlled to ensure compliance with data protection and human rights legislation.

3. Council Participation in NFI

- 3.1 The Council has participated in NFI since its inception. A variety of data has been submitted for matching, including that related to Housing and Council Tax Benefits, Council Tax Single Person Discounts, student loans, blue badge parking permits, residential care home payments, insurance claims, licensing and creditor payments.
- 3.2 The Audit Commission compare the data submitted with that provided by other participating bodies, to identify potential cases for investigation to see if fraud is present.
- 3.3 In respect of Sunderland, the potential matches received in February 2011, resulted in:
- 22 housing benefit overpayments of £149,163.26, which is now in the process of being recovered. Six further cases are also ongoing.
 - Nine duplicate creditor payments were found totalling £20,683.78, and the resulting overpayments have all been recovered.

- No other concerns were highlighted in the other areas reviewed.
- 3.4 Work on the Council Tax Single Person Discounts has only recently commenced. Work in this area was initially put on hold because the Council has contracted with a company called Datatank which carries out similar matching but also investigates the matches on the Council's behalf. The Audit Commission matches are to be examined on a sample basis to determine whether any matches have not been investigated by Datatank and, if so, whether it is worth investing resources in investigating the matches internally.
- 3.5 The Audit Commission has recently published a Briefing for Members to outline the benefits of participating in NFI (see Appendix 1). The Briefing includes a checklist with a series of questions, the responses to which will help Members identify whether the benefits of participation are being maximised. The completed checklist is attached at Appendix 2.
- 3.6 It is considered that the arrangements and level of resource currently directed at NFI are appropriate.

4. Recommendations

- 4.1 Members are asked to note the above and to agree the Council's continued participation in NFI in line with the existing arrangements.

Appendix 2 – Completed NFI Checklist

Question	Response
What is the role/post of the senior responsible officer accountable for the NFI in our council?	Executive Director of Commercial and Corporate Services
Do we have a lead elected member for counter-fraud activity, including the NFI?	The Cabinet Secretary is the lead member for Resources. It is also considered that the role of the Audit and Governance Committee fulfils this requirement.
What role does our audit committee play?	Receives updates on progress / outcome of NFI data matching
How are other elected members or non-executive members kept informed of the NFI?	The role of the Audit and Governance Committee covers counter-fraud activity. It is not considered necessary or appropriate to inform all other members of the results.
What governance arrangements do we have in place to ensure the organisation achieves the best possible outcomes from the NFI?	All activity is coordinated by Audit, Risk and Assurance, including recording and reporting of outcomes.
Who decides and monitors this approach?	Head of Corporate Assurance and Procurement
How is the NFI reflected in the governance training and development provided for officers and board/elected members?	<p>Officers whose areas are subject to matches are advised as to their responsibilities by internal audit.</p> <p>The role of the Audit and Governance Committee covers counter-fraud activity. It is not considered necessary or appropriate to train all other members in this regard. Officers whose areas are subject to matches are advised as to their responsibilities by internal audit.</p>
What resources do we invest in the NFI?	Sufficient Internal Audit, Benefit Investigation and other relevant staff time is invested to investigate matches where sample testing indicates that fraud is likely.
What were our outcomes from the most recent NFI?	22 Housing Benefit overpayments of £149,163.26 were highlighted. Six further cases are also ongoing. Nine duplicate creditor payments were found totalling £20,683.78 which has all been recovered.

Question	Response
Are we ensuring we maximise the benefits of the NFI – for example, following up data matches promptly, recovering funds and prosecuting where possible?	Yes
What assurances have we drawn about the effectiveness of internal controls and the risks faced by the organisation?	The very low level of fraud identified through NFI gives assurance that the system of control is effective.
What changes have we made as a result?	N/A
Do those responsible for the NFI in the council feel they get appropriate support from other managers in the council when investigating matches?	Yes
Are we taking advantage of the opportunity to suggest and participate in NFI pilot data matching?	Not considered necessary given low level of positive matches
Have we considered how we could use the new flexible batch and real-time matching services?	This will be considered in the year ahead
What is our strategy/policy for data security?	The Council has an Information Security Management System in place, in accord with good practice.
Is there any specific reference to the NFI data security in the strategy	It is not considered necessary to specifically mention NFI as the System covers all types of sensitive information.
How does the NFI influence the focus of our counter-fraud work?	It influences our counter fraud work in that we would avoid duplication. NFI is viewed as complementary to other counter fraud work. If a high level of positive matches were identified more internal audit work would be scheduled in that area.
Does our counter-fraud policy include reference to the council's participation in the NFI?	Yes (included in Operational Arrangements document)
Do we publicise the outcomes from the NFI?	The low level of outcomes are not significant enough to justify a publicity campaign.
How does the NFI influence how and what we communicate to the public about our approach to counter-fraud?	See above
Are the outcomes from the NFI used to inform our wider decision making – for example, internal audit risk assessments, data quality improvement work or anti-fraud and corruption policy?	If a high level of positive matches were identified more internal audit work would be scheduled in that area.

AUDIT AND GOVERNANCE COMMITTEE

29 June 2012

SINGLE FRAUD INVESTIGATION SERVICE – HIGH LEVEL PROPOSALS

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 To advise the Committee of the high level proposals by central Government to create a Single Fraud Investigation Service which is being developed to investigate benefit fraud across the country.

2. Description of Decision

- 2.1 The Audit and Governance Committee are asked to note the report.

3. Introduction

- 3.1 The creation of the Single Fraud Investigation Service (SFIS) with effect from 1st April 2013, will bring together into a single service the combined expertise of the Welfare Benefit Fraud investigation work currently undertaken by Department for Work and Pensions (DWP) Fraud Investigation Service (FIS), Local Authority (LA) Benefit Fraud Investigators and HMRC in relation to Tax Credits.
- 3.2 The SFIS project aims to rationalise existing investigations and prosecution policies in order to create a more coherent investigation service.
- 3.3 The high level business design for delivery of the service has been developed following the decision that LA Benefit Fraud Investigators will remain employed by their LA as an interim solution from 2013 onwards as this provides the most flexibility.
- 3.4 At the point of going live all LA and DWP fraud staff, including managers and support staff, will become part of the SFIS.

4. Timescales

- 4.1 The creation, structure and development of the Single Fraud Investigation Service will be delivered over a period of years, in 3 phases.
- 4.2 Phase 1 is up to 31st March 2013 and covers the preparation of the Single Fraud Investigation Service. Following LA/DWP/HMRC

workshops planned pilot activity will be undertaken to assess and evaluate two organisational models being considered and new legal powers created in the Welfare Reform Act.

- 4.3 The transition and transformation of the Single Fraud Investigation Service, Phase 2, commences on 1st April 2013. All DWP and LA fraud investigators and a small number of HRMC staff will become SFIS. It is proposed that current structures remain but with some re-alignment of teams where this is required. SFIS investigators will have the ability to investigate and prosecute both Welfare Benefits and Tax Credits fraud. Certain frauds will remain out of the scope in 2013 such as Child Maintenance and Enforcement Commission investigations, Council Tax benefit replacement scheme fraud and LA Corporate Fraud.
- 4.4 From 2015, consideration will be given to whether all of the staff employed by LA's and HMRC should transfer to the DWP. This will be informed by the work of the pilots from 2013.
- 4.5 Phase 3 runs from 2017 where the Government will consider widening the scope of SFIS and for it to become a cross Government service.

5. Models

- 5.1 Following the decision in November 2011 that LA staff joining SFIS will remain employed by their LA and remain in their estate, two interim team structures are being considered.
- 5.2 Model 1 is the least disruptive organisational model and would simply involve the harmonisation of working practices across the 3 separate organisations. This would also leave existing line management arrangements for LA staff unchanged. A SFIS Management Board will be established made up of representatives from the three organisations.
- 5.3 Recent national/regional workshops provided considerable support for a more integrated team structure which would deliver a single management chain and would promote closer working across the new organisation. Model 2 would provide this. Staff would remain with their current employer but allocation of work could be by a manager from another organisation.
- 5.4 Both models will be included in the pilot activity and are a starting point for SFIS. Firm decisions about the long term organisational model for SFIS have not been made at this stage.

6. Implications for staff

- 6.1 The coordination and management of staff within SFIS will be vital to the success of the new service. At this stage it is not known whether

the local DWP office will seek to maintain 2 separate teams or seek to integrate staff from the Council.

- 6.2 The principles relating to staff job roles in the interim period from 2013 include maximising the flexibility on the range of all Welfare Benefits and Tax Credits an investigator can undertake, and that case management and investigation should be undertaken end to end by one investigator.
- 6.3 Appropriate training will be undertaken to ensure that the business objectives of the new SFIS organisation are met. It is expected that this will be provided by the DWP Fraud and Security Learning and Development Team.
- 6.4 Staff and trade unions shall continue to be updated as to developments.

7. Implications for Legal Activity

- 7.1 Currently, the DWP use the Crown Prosecution Service (CPS) but the majority of Local Authorities use their own solicitors, including Sunderland. The SFIS High Level Business Design recognises that LA's have different prosecuting practices and this will be looked at in the detailed design. There is the risk that the work currently undertaken by our own legal staff may move to the CPS.

8. Recommendations

- 8.1 Members are asked to note the report.

AUDIT AND GOVERNANCE COMMITTEE

29 June 2012

AUDIT COMMISSION - INTERIM OPINION REPORT 2011/12

Report of Executive Director of Commercial and Corporate Services

1.0 Purpose of the report

- 1.1 This report details the Audit Commission's (AC) Interim Opinion Report on the work carried out to date which will inform the audit opinion for 2011/2012.

2.0 Interim Opinion Report 2011/2012

- 2.1 The attached document advises of the main findings of their audit work to date and observes International Standards on auditing United Kingdom and Ireland.
- 2.2 The report is very positive and the areas covered include:
- Interim Financial Systems Work
 - Review of Internal Audit
 - IT Risk Assessment
- 2.3 **Interim Financial Systems Work**
The findings are set out in the Auditors report at pages 5 with the main conclusion that in general the key controls within the Council's main financial systems are operating as designed.
- 2.4 **Review of Internal Audit**
The review concluded that the Internal Audit continues to meet its professional and statutory duties and also comments positively on the Council's new and innovative approach to integrated assurance.
- 2.5 **IT Risk Assessment**
The review found that the IT arrangements for the key financial systems present a low risk of material error in the 2011/2012 accounts.
- 2.6 An officer from the Audit Commission will be in attendance to outline the content of the Report and to answer member questions.

3.0 Description of Decision

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

Interim Opinion Report

Sunderland City Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Introduction	2
Background	3
Audit approach.....	4
Main conclusions and findings.....	5
Interim Systems Work.....	5
Review of Internal Audit.....	5
IT risk assessment.....	5

Introduction

1 This report sets out the results of our interim opinion audit work for 2011/12.

2 The Code of Audit Practice requires review and reporting on the Council's financial statements and the Annual Governance Statement. The work at the interim stage informs the opinion process.

3 The requirements of the International Standards on Auditing United Kingdom and Ireland (ISA UK&I) require auditors to gain an understanding and test the systems which inform the material entries in the financial statements.

Background

4 External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

5 The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

6 Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Audit approach

7 The work we have completed to satisfy the requirements set out in the Introduction consists of the following.

- Mapping the financial and information systems that provide material figures in the financial statements. The material financial and information systems identified are as follows.
 - General ledger.
 - Bank reconciliation.
 - Loans.
 - Investments.
 - Accounts payable (Creditors).
 - Accounts receivable (Debtors).
 - Payroll.
 - Social care payment system (SWIFT).
 - National Non-Domestic Rates (NNDR)
 - Council Tax.
 - Housing and Council Tax Benefits.
 - Cash receipting.
 - Capital accounting.
 - Periodic income
 - Building maintenance.
- Documenting the processes and controls in place within each system and undertaking walkthrough tests (these follow a transaction through each part of the system) to ensure the system is operating as stated.
- Testing key controls within the systems to ensure that they are operating effectively (these are detailed sample tests covering the full financial year). We have a three-year cyclical programme for testing system controls where we seek to place reliance on controls for our opinion audit. This year we carried out controls testing on the following systems:
 - General ledger.
 - Cash receipting.

8 In addition to the interim financial systems work, we have also completed an IT risk assessment and a review of Internal Audit. All three of these areas of work are briefly summarised in this report.

Main conclusions and findings

Interim Systems Work

9 We report to Members if there are any significant issues arising from our work. Other issues are discussed and taken forward with officers.

10 We have concluded that, in general, the key controls within the Council's main financial systems are operating as designed. We have not identified any significant issues that need to be brought to the attention of Members.

11 At the time of drafting this report we have not completed our interim work on the National Non-Domestic Rates (NNDR) system. We do not expect any significant issues to arise, but if they do, we will report these to Members in our Annual Governance Report in September 2012.

Review of Internal Audit

12 We completed a review of Internal Audit against the CIPFA Code of Practice for Internal Audit in Local Government, and this included a detailed review of audit files.

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

14 We note that in 2012/13 the Council is to adopt an innovative integrated organisation-wide approach to assurance. This will be a more efficient and effective approach and will result in a smaller Internal Audit team which will focus on planned audit work.

15 A separate report was agreed with officers.

IT risk assessment

16 As part of our work to support the opinion that we give on your accounts, we undertake an annual Information Technology Risk Assessment (ITRA) of your arrangements.

17 The scope of our review was to complete an ITRA that included testing some general IT controls surrounding the operation of the main financial systems and associated infrastructure.

18 Overall, we concluded that the IT arrangements for the key financial systems present a low risk of material error in the 2011/12 accounts.

19 At the time of drafting this report we have not completed our follow up of last year's report on the ITRA, as we are awaiting an update from officers on the current position against the action plan. We do not expect any significant issues to arise from this process, but if they do, we will report these to Members in our Annual Governance Report in September 2012.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



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June 2012

AUDIT AND GOVERNANCE COMMITTEE

29 June 2012

Annual Audit Fee 2012/2013 – Update

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of the Report

- 1.1 Following an outsourcing of its own in house audit practice, the Audit Commission is expected to confirm shortly the appointment of Mazars as the Council’s auditor for the next 5 years commencing with the 2012/2013 audit. This appointment will run from 1st September 2012. The District Auditor will however remain the Council’s auditor for the conclusion of the 2011/12 audit.
- 1.2 The Audit Commission has set out the work they expect each firm to complete and the applicable fee for that work and have recently released the proposed fees for the new financial year (2012/2013). This report updates members of the latest information available for information and comment.

2. Proposed Annual Audit Fee for 2012/2013

- 2.1 Appendix 1 to this report shows the information provided by the Audit Commission which details the audit work that they expect to be undertaken for the financial year 2012/2013 and the scale fees for that work.
- 2.2 The details are set out in the table below shows the applicable planned fees for 2012/2013 and how these compare to the previous year which we understand are also being reviewed.

Audit Activity	Proposed fee 2012/2013 £	Planned fee 2011/2012 £	Amended fee 2011/2012 £
Proposed Audit Fee	179,562	299,270	275,328
Composite Certification Fee (Grants and Returns)	16,050	42,910	42,910
Total Indicative Fees	195,612	342,180	318,238

- 2.4 The Council’s Scale fee for 2011/12 is expected to be reduced by an 8% rebate which will, if confirmed, reduce the audit fees by £23,942 from £299,270 to £275,328. This reflects the Audit Commission’s drive to further reduce audit fees to local authorities in the light of the current economic position. This reduction is subject to confirmation but if agreed is welcomed by the Council.
- 2.5 The Council’s Scale fee for 2012/13 is also to be significantly reduced, by £119,708 from the scale fee for 2011/12 of £299,270, to £179,562 which reflects the Audit Commission’s promise to radically reduce audit fees to local authorities by 40% as

part of their recent tender exercise in awarding new contracts for the auditing of public bodies. The much reduced audit fees are also welcomed by the Council.

- 2.6 The cost of the grant certification work carried out continues to reduce year on year as the number of grants requiring full audit certification reduces and more reliance can be placed on the Council's systems and control environment. The fee set out by the Audit Commission for 2012/2013 is £16,050 which is a composite rate for all grant certification work that needs to be carried out which reflects the planned reduction in costs and the hourly rates set out in the Audit Commission's fee proposals document.
- 2.7 The current District Auditor and his audit team will transfer to Mazars from 1st November 2012 and our current understanding is that there are no proposed changes to key personnel involved on the Council's audit. As such a representative of the current audit team will be present to respond to any comments or questions members may have on this report.

3. Recommendation

3.1 The Committee is recommended to:

- Note the contents of this report
- Note the confirmed reduced audit fees for 2012/2013 based on the Audit Commissions revised scale fees following their new procurement exercise.

Background Papers

Audit Commission: Work Programme and Scales of Fees 2012/13 (Local government)

Work programme and scales of fees 2012/13

Local government

April 2012

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we appoint currently are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Introduction	2
Scales of fees from 2012/13	2
Work programme 2012/13	4
Audit.....	4
Auditors' local value for money work	4
Certification work	5
Assessment and inspection work	5
National reports	5
Scales of fees for 2012/13	6
Scales of audit fees for local government, police and fire and rescue bodies	6
Pension fund audits	6
Certification work	7
Inspection and assessment	7
Value added tax.....	7

Introduction

1 This document sets out the work the Audit Commission plans to undertake at local government and police audited bodies during 2012/13, with the associated scales of audit fees. Separate documents cover the Commission's work in the [NHS](#) and at [small bodies](#). The document does not cover probation trusts, which from 2012/13 come within the remit of the National Audit Office.

2 The work of the Commission and its appointed auditors is carried out under the Audit Commission Act 1998 and the Code of Audit Practice 2010 (the Code). Copies of [the Code](#) and the associated [Statement of Responsibilities of Auditors and Audited Bodies](#) are on the Commission's website. Responsibility for the conduct of the audit remains, always, that of the appointed auditor.

3 Under section 7 of the Audit Commission Act 1998, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing any scales of fees, we consult audited bodies in local government, their representative associations, the Department for Communities and Local Government and the accountancy profession.

4 Fees are the principal way the Commission finances its activities. In law, audit fees are not a fee for audit services, but a levy to fund the costs of the Commission, out of which it meets the costs of audits and its other statutory functions. It has a statutory duty to cover its costs, taking one year with another. The Commission is reducing significantly in size and cost, and this is reflected in the scale of reductions we are making in audit fees.

5 The Commission publishes the [scale fees for individual bodies](#) each year on its website, to support transparency and to help audited bodies compare their fees with those of similar bodies. A [fee comparator tool](#) is also available on the website.

6 Section 28 of the Audit Commission Act 1998 requires the Commission to charge fees for certification work that cover the full cost of the work we undertake.

Scales of fees from 2012/13

7 The Commission consulted on proposals for 2012/13 scales of fees for local government bodies in September 2011, and for police bodies in January 2012. These proposals were for a reduction of 10 per cent in the audit fees applicable in 2011/12, subject to the outcome of the procurement exercise to outsource the work of the Commission's in-house audit practice. We said then that we hoped the procurement exercise would realise further

reductions in the cost of audit, which we can pass on to audited bodies in the form of even lower fees.

8 The consultation comments we received, and the Commission's response, are set out in separate documents for local government and police bodies, and are available from our [website](#).

9 In March 2012, the Commission concluded the procurement exercise to outsource the work of the audit practice, awarding five-year contracts to four private sector firms.

10 Through the Commission's unique bulk purchasing power, we have been able to secure significant reductions in the cost of audit services. Together with further savings achieved through the Commission's own internal efficiencies, the Commission will now pass on reductions of up to 40 per cent in audit fees for local public bodies.

11 When we consulted on proposed fees for police bodies, we had expected their fees to increase by 17 per cent. This reflected the fact that there will be a volume increase in audit work from 2012/13 because of changes introduced by the Police Reform and Social Responsibility Act 2011. The changes require auditors to undertake audits of two statutory bodies in a police area from 2012/13, rather than one. Because of the savings we have achieved, scales of fees for police bodies overall will now be reduced by a net 13 per cent.

12 We are also reducing certification fees from 2012/13 by 40 per cent, replacing the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee is based on the latest actual certification fees for 2010/11.

13 The fee reductions apply to all local government and police bodies from 2012/13, for the length of the contracts. Local government and police bodies are expected to save an expected £165 million over five years.

14 The Commission is consulting all audited bodies in April 2012 about the appointment of their auditor for the audit of the 2012/13 and future years' accounts. The appointments will start on 1 September 2012. As an auditor must be in place at the start of the financial year, the Commission is making interim audit appointments from 1 April 2012. The statutory terms of interim auditors' appointment limit their role to keeping a watching brief. We do not expect the interim auditor will need to undertake any substantive audit work relating to 2012/13. Provided this is the case, the Commission will meet any costs incurred by the interim auditor.

15 Where, exceptionally, an issue arises that requires the interim auditor to do substantive audit work, for example to exercise their statutory reporting powers, the interim auditor will immediately tell both the audited body and the Commission. Where appropriate the Commission will determine a variation to the scale audit fee to reflect the costs of the work. The additional fee will then become payable by the audited body.

Work programme 2012/13

Audit

16 Auditors tailor their work to reflect local circumstances and their assessment of audit risk. They do this by assessing the significant financial and operational risks facing the body, and the arrangements it has put in place to manage those risks.

17 Under the Code, the Commission may specify additional audit work to supplement the local risk-based approach to planning the audit. For 2012/13, the Commission has specified work on Whole of Government Accounts (WGA).

Auditors' local value for money work

18 Under the Audit Commission Act 1998, auditors must satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

19 Auditors of single-tier, county and district councils, fire and rescue authorities and police bodies will apply a focused approach resulting in a positive conclusion – the value for money (VFM) conclusion – on the bodies' arrangements. This approach is based on two criteria, specified by the Commission, about audited bodies' arrangements for:

- securing financial resilience; and
- prioritising resources.

20 Auditors will apply a light-touch approach to their VFM work at other local government bodies designated as larger relevant bodies in the Accounts and Audit (England) Regulations 2011 (the Regulations). These bodies include: national parks authorities; waste disposal authorities; integrated transport authorities; passenger transport executives; pension fund authorities and larger joint committees. The light-touch approach is based primarily on a review of the annual governance statement. Auditors are required to conclude whether or not there are any matters arising from their VFM work that they need to report. This is included in their formal audit report issued at the end of the audit.

21 Auditors of smaller relevant bodies, as defined by the Regulations, which opt to prepare accounts as if they were a larger relevant body will apply the VFM approach for other local government bodies designated as larger relevant bodies.

Certification work

22 As well as their work under the Code, appointed auditors, as agents of the Commission, must certify grant claims and returns.

23 For 2012/13, we are replacing the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee is based on actual certification fees for 2010/11 adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40 per cent reduction.

24 In 2012/13, we will not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors will undertake only limited tests will remain at £500,000. Above this threshold, certification work takes account of the audited body's overall control environment for preparing the claim or return.

Assessment and inspection work

25 Following the cessation of CAA in May 2010, there is no longer a programme of mandatory inspection work. We do not envisage carrying out any inspections in 2012/13, unless specifically directed to do so.

National reports

26 The Commission will publish a small number of national reports on the results of audit, analysis and related work at local government and police bodies, under its statutory powers under section 33 of the Audit Commission Act 1998.

27 In particular, the Commission will again publish a series of reports naming those bodies that received a qualified opinion or VFM conclusion, or whose audited accounts have not been published by 30 September 2013.

28 The reports will cover local authorities, fire and rescue authorities, local police bodies, and other local government bodies.

Scales of fees for 2012/13

Scales of audit fees for local government, police and fire and rescue bodies

29 The scales of fees for 2012/13 reflect the cost of the work programme outlined above. The [scale fee for individual audited bodies](#) is available on our website.

30 The Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. The scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

31 It is a matter for the auditor to decide the work necessary to complete the audit and, subject to approval by the Commission, to seek to agree a variation to the scale fee with the audited body.

32 As the 2012/13 scale fees for individual bodies are based on the fee for 2011/12, they already reflect the auditor's assessment of audit risk and complexity. Therefore, we expect variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the 2011/12 fee.

33 The Commission will get final fee information from appointed auditors, and explanations for any proposed variations from the scale fee, after they have completed the 2012/13 audit. The Commission will consider the reasonableness of the explanations provided by auditors before determining the fee.

34 The Commission will charge fees to cover the costs of considering objections, from the point at which auditors accept an objection as valid, as a variation to the scale fee. This also applies to costs incurred on any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Pension fund audits

35 Table 1 sets out the scales of fees for pension fund audits for 2012/13.

Table 1: Pension fund proposed scales of audit fees

Local government pension funds	Fixed element (£)	Plus a percentage of 2010/11 net audited assets
Multi-employer funds	20,000	0.00033
Single-employer funds	21,000	n/a

Source: Audit Commission

Certification work

36 The indicative fee for certification work at [individual audited bodies](#) is available on our website.

37 The indicative fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

38 It is a matter for the auditor to decide the work necessary to certify the claim or return and to seek to agree any proposed variation to the indicative fee with the audited body.

39 As the 2012/13 scale fees for individual bodies are based on the latest actual certification fees for 2010/11, they already reflect the auditor's assessment of the work required. Therefore, we expect variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the actual 2010/11 fee.

40 The Commission will get final fee information from appointed auditors, and explanations for any proposed variations from the indicative fee, after they have completed their 2012/13 certification work programme. The Commission will consider the reasonableness of the explanations provided by auditors before determining the fee.

Inspection and assessment

41 The Commission will charge fees for any risk-based inspections we are specifically directed to undertake at a level that covers the full cost of the work we undertake.

Value added tax

42 All the 2012/13 fee scales exclude value added tax, which will be charged at the prevailing rate of 20 per cent on all work done.

AUDIT AND GOVERNANCE COMMITTEE

29 June 2012

STATEMENT OF ACCOUNTS 2011/2012 (SUBJECT TO AUDIT)

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of the Report

- 1.1 To provide members with the certified copy of the Council's Statement of Accounts 2011/2012 (Subject to Audit) as at 30th June 2012.

2. Description of Decision

- 2.1 The Committee is requested to note the Statement of Accounts 2011/2012 (Subject to Audit).

3. Introduction

- 3.1 The Council has implemented the new financial reporting requirements set out in the Accounts and Audit Regulations 2011 whereby the Accounts subject to audit need only be certified by the Relevant Finance Officer by 30th June of each year. The Accounts once audited however, still need to be approved by members of this Committee at its planned meeting in September, as the audited Accounts of the Council must be formally approved before 30th September of each year.

- 3.2 The Accounts comply with International Financial Reporting Standards (IFRS), as they did for the first time for the 2010/2011 accounts. In an attempt to help make the accounts more meaningful to members a Summary paper (Appendix 1) and Handout (Appendix 2) are attached for information.

4. Statement of Accounts 2011/2012 (Subject to Audit)

- 4.1 The financial statements for 2011/2012 subject to audit are attached in Appendix 3 for information and have been certified as at 29th June by the Executive Director of Commercial and Corporate Services in accordance with the regulations.

- 4.2 Members should note that the Foreword by the Executive Director of Commercial and Corporate Services on pages 6 to 16 of the Accounts provides a helpful summary of the main financial issues for 2011/2012 for the Council and is there to help put the Accounts, which are necessarily very complex in nature, into context.

4.3 Members should they wish, are also able to ask questions on the Accounts at this stage, before the audit has been completed, although they will have a further opportunity in September when the audited Accounts are to be formally considered for approval.

5. Reasons for Decision

5.1 To note the Statement of Accounts 2011/2012 (subject to audit).

6. Alternative Options

6.1 No alternatives are submitted for Members consideration.

Background Papers

Statement of Accounts 2010/2011

Accounts and Audit Regulations 2011

Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012