

AUDIT AND GOVERNANCE COMMITTEE
Friday 28 March 2014

Present:

Mr G N Cook

Councillors Farthing, Forbes, T Wright and Mr M Knowles.

In Attendance:

Paul Davies (Head of Assurance, Procurement and Projects), Dennis Napier (Assistant Head of Financial Resources), Sarah Reed (Assistant Chief Executive), Tracy Davis (Audit, Risk and Assurance Manager), Mark Kirkham (Mazars), Gavin Barker (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

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

Minutes

32. RESOLVED that the minutes of the meeting of the Committee held on 7 February 2014 be confirmed and signed by the Chair as a correct record.

Corporate Assurance Map 2013/2014 – Update

The Head of Assurance, Procurement and Projects presented the updated Corporate Assurance Map which had been reviewed based on the 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.

Members were directed to the map itself and were informed that the overall view in relation to Strategic and Corporate risk areas had remained the same. The Head of Assurance, Procurement and Projects drew attention to the area of ICT Strategy and Delivery which had been rated as red by the Risk and Assurance team. The assurance work had considered risks in relation to ten of the key business objectives

of the ICT service and found that two objectives were green, three were amber and five were red. The Committee were informed that Sarah Reed, the Executive Management Team lead for ICT was in attendance at the meeting to comment on the increased risk which had been highlighted in relation to ICT Strategy and Delivery.

The Head of Assurance, Procurement and Projects informed the Committee that Internal Audit work had identified an issue of significant risk in relation the management of ICT equipment, specifically desktop and laptop computers. A previous audit in 2011/2012 had identified backlogs in the system for recording and tracking ICT assets and this backlog had been found to have increased at the latest audit. In 2011/2012, 18 recommendations had been made and it had been found that 17 of these had not been implemented.

The report also highlighted the range of work being carried out by the Risk and Assurance Team including support to the development of alternative service delivery vehicles, providing assurance on the delivery of the Transformation Programme and supporting the delivery of the Workforce Planning project.

With regard to Internal Audit, all of the Key Performance Indicators were on target apart from the percentage of medium risk recommendations implemented which stood at 82% against a target of 90%.

Sarah Reed, Assistant Chief Executive, informed the Committee that she had taken responsibility for ICT in January 2014 and had been working closely with the Head of Assurance, Procurement and Projects to identify how things could be improved as work moved forward. There would be a greater focus on managing issues through the Executive Management Team, who would also receive regular progress reports.

Over the next year or so, issues such as the Cloud, internet and alternative models of service delivery would impact on how ICT was delivered. Work was also being undertaken to look at the potential of ICT in the transformation programme. The Assistant Chief Executive stated that she would be happy to come to the Committee at regular intervals to update Members on the progress against audit recommendations. She also advised that ICT had been added to the second line of assurance activity on the Corporate Assurance Map for 2014/2015.

The Chair confirmed that the Committee would like the Assistant Chief Executive to attend future meetings and would ideally like the 17 outstanding recommendations to be completed as soon as was possible. He queried if there was the capacity within the management of the ICT service to address these issues and emphasised the need to deal with these quickly to ensure the future success of ICT within the Council.

Councillor Wright echoed the comments about capacity within ICT and stated that it was important for elected Members as employers to be aware of pressure which was being put on staff to do more when there were less people in the service. He referred to the 17 recommendations which had not been delivered and that this was a situation he could not recall happening before and was quite unprecedented.

Councillor Farthing commented that she would find it useful to have a knowledge of what the audit recommendations were.

The Head of Assurance, Procurement and Projects stated that in future, further detail would be included or appended to the main report when significant issues had been highlighted.

Turning to the business objectives for the ICT service, the five which were rated as red related to the roll out of VDI technology. Part of this work was aimed at saving money with it being easier to support the same versions of equipment and to improve information governance. Part of the benefit of the iCloud had been the ability to trade, however there were now issues about capacity to do this. The Head of Assurance, Procurement and Projects added that there had been two near misses at Moorside due to overheating and this could have affected the servers of other users which were located in the data centre. There was some money within the Capital Programme to address ICT infrastructure issues and it was noted that delays due to ICT would be manifested in a range of projects which the Council was involved in.

Councillor Forbes commented that these were colossal issues and asked if there had been a masterplan at the beginning of the reorganisation and had the starting position been good enough. She also asked if the acting manager was in place and when it was expected that a permanent appointment would be made.

The Assistant Chief Executive reported that there were key issues around the roll out of VDIs across the organisation and there had also been issues due to the Head of ICT leaving the authority. The acting Head of ICT had worked tirelessly to try and deal with the situation. Through the management team, a programme had been established and was being monitored and new cooling machines were being procured as a matter of urgency.

The Committee were informed that the Council was reviewing all of its heads of service posts and would be looking at the organisation of ICT as part of this. Consideration would be given to bringing in someone with external expertise to provide both capability and capacity. Management would be cautious in looking at the core back office systems as it was necessary to understand where things would be best placed.

The Assistant Chief Executive highlighted that there was a working group which looked at ICT needs for elected Members and a fortnightly meeting was held with the Head of Transformational Change Programmes and the Head of Customer Service and Development to ensure that they were receiving adequate ICT support. The service was also talking to external organisations about their views and how the Council could use its reputation to drive development across the city.

Councillor Forbes asked if the Committee could say that it supported the prioritisation of ICT and a rapid rectification of the problem. The Chair stated that he was pleased to see that the Assistant Chief Executive was directing the process, that Members viewed it as a top priority and had requested regular updates on the position.

Mark Kirkham highlighted that at the next meeting of the Committee, Members would have the opportunity to consider the draft Annual Governance Statement and would be able to look more closely at governance issues at this point. Mr Knowles supported this and commented that short term issues would be business critical for the Council.

Following a detailed discussion on the report, the Committee: -

33. RESOLVED that the updated Corporate Assurance Map 2013/2014 be noted.

Corporate Assurance Map 2014/2015

The Head of Assurance, Procurement and Projects submitted a report presenting the proposed Corporate Assurance Map and the supporting plans for the Internal Audit and Risk and Assurance teams for 2014/2015. The report also covered the key performance measures for Internal Audit but did not include the work undertaken for the associated bodies for which the Council has a lead responsibility.

The report presented the Corporate Assurance Map for 2014/2015 and highlighted those areas that assurance would be provided on, where assurance would be expected to be obtained from and the current assurance level based on work undertaken previously. The Head of Assurance, Procurement and Projects explained to Members that an additional column had been added for ICT to be able to feed their views into the map. He also stated that consideration would be given to adding other areas to the map, including Procurement and Contract Management and Corporate Health and Safety. The views on the Strategic Risk Areas would be refreshed soon as the Executive Management Team would shortly be completing their review of the Corporate Plan.

Members' attention was drawn to the appendices to the report which outlined the planned work for Internal Audit and the Risk and Assurance team and it was noted that a monthly report is presented to the Executive Management Team to provide opinions on key transformation projects. The Key Performance Indicators and Targets were the same as those for the 2013/2014 Map apart from the target for the percentage of audits completed by the target date which had been increased from 70 to 80%. The Committee would continue to receive quarterly updates on the Corporate Assurance Map throughout 2014/2015.

Councillor Wright referred to the Corporate Risk Areas and noted that Change Management was no longer included within the Map. He also highlighted that the Combined Authority would come into being during 2014/2015 and asked what the role of the authority's Internal Audit section would be in this.

With regard to Change Management, the Head of Assurance, Procurement and Projects stated that in 2013/2014, it had been a struggle to get a view about the specific risk area as it overlapped with many other areas and underpinned all of the other key risk areas. It was felt that Change Management would manifest itself in other risk areas and there was confidence that it would not be missed.

It was highlighted that it was unclear at this stage exactly what the Combined Authority would do and how it would do it. The legal order was to be laid by the end of May 2014 but it was at a very early stage and a watching brief would be kept. Newcastle City Council would be responsible for preparing the Annual Governance Statement for the Combined Authority but Sunderland would carry out audit work for the Local Enterprise Partnership for 2014/2015 and feed that through to Newcastle. The Assistant Head of Financial Resources added that the Combined Authority would be considered as an authority in its own right with its own governance arrangements, identity and accountabilities.

Councillor Farthing accepted that the Combined Authority was in its nascent period but stated that she would want assurance that the Council would gain the expected benefits from it. She also queried the abbreviations 'ASDM' and 'PPRs' within the report and the Head of Assurance, Procurement and Projects undertook to produce a glossary of terms for Members.

Mr Knowles asked if audit follow up was reflected within the plan. The Head of Assurance, Procurement and Projects advised that only medium and high risk recommendations were followed up and for practicality, the latest target date for recommendations was taken and follow up scheduled for after that date. The implementation rate for medium risk recommendations was calculated by looking at the last 100 recommendations made for each Directorate to assess the management attitude towards implementation.

Councillor Forbes asked about what the communication mechanism was in place between the Combined Authority and local authorities to ensure that the potential risks to councils were understood. The Assistant Head of Financial Resources explained that the leaders of the LA7 councils would sit on the Combined Authority and there would be mechanisms for each local authority to feed in. The Combined Authority would also set budgets for each of its workstreams on an annual basis.

34. RESOLVED that the Corporate Assurance Map and the plans of work for the Internal Audit and Risk and Assurance teams for 2014/2015 be noted.

Proposed Forward Plan of Reports 2014/2015

The Head of Assurance, Procurement and Projects presented the proposed Forward Plan of reports for 2014/2015.

During the year, the Committee would have four quarterly meetings plus an additional meeting in February to consider the Treasury Management Policy and Strategy. The forward plan was a flexible document which represented the minimum which would be brought to each meeting.

35. RESOLVED that the proposed Forward Plan of reports for 2014/2015 be approved.

Member Training and Development

The Head of Assurance, Procurement and Projects submitted a report to provide members of the Committee with the opportunity to identify areas for where they required further training or awareness sessions to be arranged.

It was proposed that an update be provided to the Committee members at the next meeting on the significant changes which were currently ongoing and being considered across the Council. The Chair welcomed this and asked that the Committee be made aware of any big issues which were developing.

Councillor Farthing said that she would like to receive further information with regard to materiality, revenue recognition and expenditure recognition in relation to the audit of the accounts. It was suggested that the Assistant Head of Financial Resources could discuss this with Councillor Farthing.

Accordingly the Committee: -

36. RESOLVED that: -

- (i) an update on significant changes taking place or being proposed by Council be received at the next meeting; and
- (ii) the Head of Assurance, Procurement and Projects be advised of any further areas to be the subject of future training sessions.

External Auditor – Audit Strategy Memorandum 2013/2014

The Head of Financial Resources submitted a report which presented the Audit Plan from the Council's external auditors, Mazars.

Mark Kirkham, Director and Engagement Lead from Mazars, informed the Committee that the Audit Strategy Memorandum set out the audit plan for the current financial year, the scope of the audit, responsibilities, timetable and the expectations of the Council. He referred Members to section three of the report – Significant risks and key judgement areas – and explained that these were the areas which would receive particular attention in the audit of the Statement of Accounts.

The first three significant risks were management override of controls, revenue recognition and expenditure recognition and could be classed as inherent risks as they could exist within any organisation.

In respect of other significant risks, there was an inherent volatility in relation to pension entries and the auditors would evaluate the management controls in place to assess the figures provide by the actuary and would also consider the reasonableness of the actuary's output.

Group financial statements would be prepared for the first time this year in order to consolidate the transactions of the Council with its alternative service delivery

models. Due to this being a new process, there was a risk of material misstatement. There continued to be a significant risk attached to equal pay settlements due to the inherent unpredictability of the situation.

The report also set out how the auditors would reach a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources and the significant risks which would be addressed through this process.

Details of the fees for audit and other services were also presented and it was welcomed that the audit fees were being held at £179,562 for 2013/2014, which was the same as 2012/2013 and represented a 40% reduction from 2011/2012.

Mark Kirkham outlined the auditor's judgements in respect of materiality and explained that the benchmark for materiality had been set at 1% of the Council's gross revenue expenditure and this was the level at which the Director of Local Audit had operated. The triviality threshold had been set at £231,000, below which identified errors would not usually be reported.

Mark also explained the way in which they assessed materiality for the Council and the benchmarks they used in determining the levels he had set out, and he invited the views of those charged with governance on the assessment of materiality and whether they had a different idea of what should be used. The Assistant Head of Financial Resources accepted that the assessed levels and criteria set out seemed reasonable.

Referring to the production of group accounts, Councillor Forbes commented that when this had been discussed previously, the Council had not felt that these would be necessary. The Assistant Head of Financial Resources explained due to the level of transactions between the newly established local authority trading companies, (Sunderland Care and Support Limited and Sunderland Live Limited) and the Council, these would be material to the Accounts so it was felt to be appropriate to introduce group accounting at this stage. The external auditors had also supported this move to group financial statements.

37. RESOLVED that the Audit Strategy Memorandum 2013/2014 be noted.

External Auditor – Audit Progress Report

The Head of Financial Resources introduced the Audit Progress Report from the Council's external auditors, covering the period up to March 2014.

Gavin Barker, Senior Engagement Manager, informed the Committee that the audit planning had now been completed and detailed work had begun.

Turning to emerging issues, the Committee had previously been informed of the consultation on bringing forward the local authority accounts production timetable. The results of the consultation had been published and it was clear that only a small number of local authorities had been in favour of an advance of the timetable. As yet, there was no confirmation that the timetable would not change but there had been no

arguments presented for it happening. Twelve months notice would be given before any change was implemented.

The Local Audit and Accountability Act 2014 had received Royal Assent on 31 January 2014. The Act set out fundamental reforms to the local audit regime including the arrangements for local public bodies to appoint their own auditors. Authorities would be required to establish an Independent Audit Panel to appoint auditors and this would allow for the collective procurement of auditors for a number of authorities.

Councillor Wright asked if auditors would have to be appointed at the annual meeting of the Council. The Head of Assurance, Procurement and Projects advised that auditors were appointed by the Audit Commission at the present time, this responsibility would then transfer to a residuary body following the closure of the Commission in March 2015. It was possible that the appointment could be made by a sub-committee of the Council in the future but this was still some time off.

It was also highlighted that the Independent Audit Panel would have a role in the contract management of auditors and it was felt that authorities would want to look at this collectively at the appropriate time.

38. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK
Chair